

# Minimum Wage

**ExtraFood.org**  
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## Outline

- **What is the Federal minimum wage?**
- **Origin story**
- **Limitations**
- **Effects of increasing**
- **Economist's perspective**



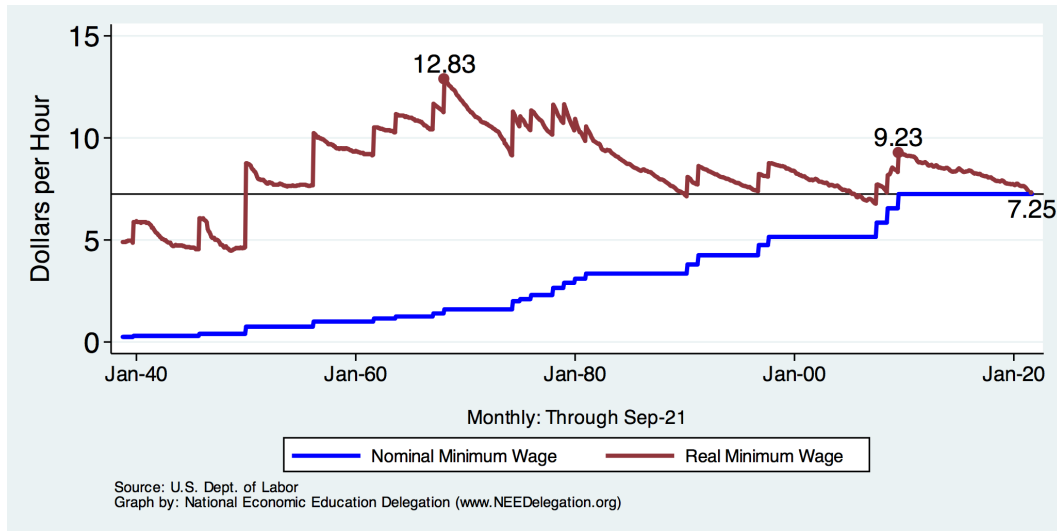
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# What Is The Minimum Wage?

- **The minimum wage sets a wage floor.**
  - It is unlawful for businesses in covered industries to pay a wage below the minimum.
- **The Federal minimum wage is currently \$7.25.**
  - This is the highest that it has ever been.
  - Adjusting for inflation:
    - It is no higher than it was in the late 1950s.
    - It is nearly **\$5.00 lower** than it was in the late 1960s.

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# History of the Federal Minimum Wage



Source: U.S. Dept. of Labor  
 Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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## From Hourly to Approx. Annual Minimum Wage

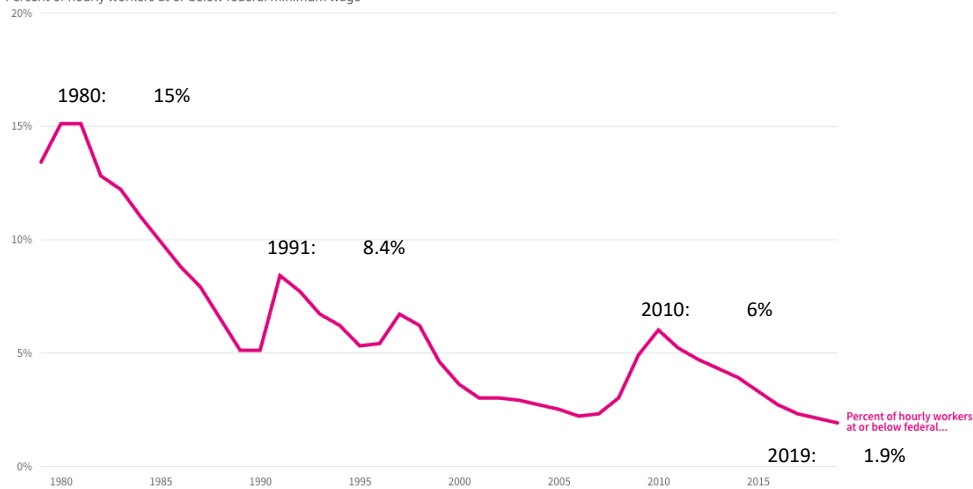
- Real Annual Minimum Wage in **1968** was  
 $\$12.80 \times 40 \text{ hours per week} \times 52 \text{ weeks} = \$26,624$
- Real Annual Minimum Wage **today** is  
 $\$7.25 \times 40 \text{ hours per week} \times 52 \text{ weeks} = \$15,080$

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## How Many are Paid At or Below Min. Wage?

The share of hourly workers at or below federal minimum wage peaked in the early 1980s.

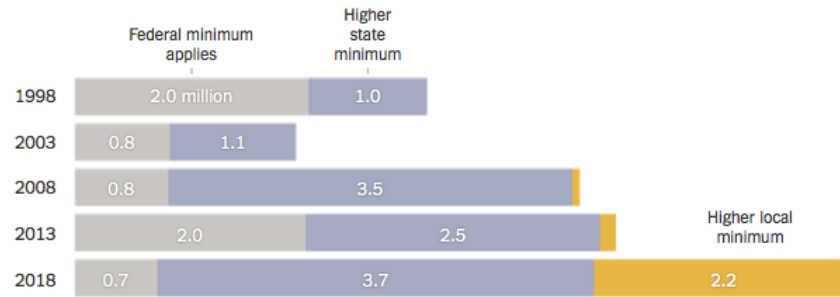
Percent of hourly workers at or below federal minimum wage



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## Most Minimum Wage Workers Aren't Bound by the Federal Minimum Anymore

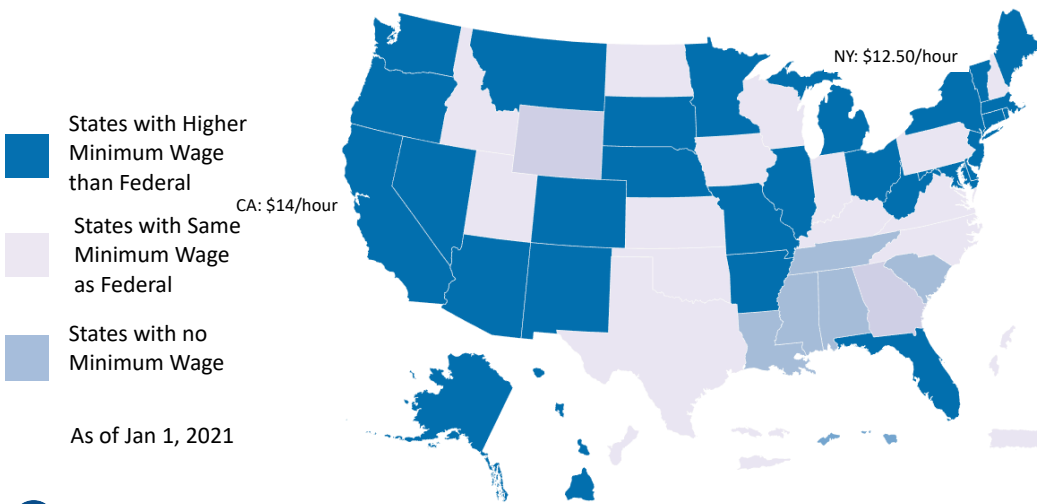
Millions of workers:



Includes farm workers and tipped incomes

Source: Author's analysis of Current Population Survey; data from the Berkeley Center for Labor Research and Education, as well as Kavya Vaghul and Ben Zipperer (2016).

## Many States Have A Higher Min Wage



## Example: Minimum Wage in California

- California's minimum wage rate is currently is \$14.00/hour.
- Significant increases imposed beginning in 2017.
- Employers must use the following hourly minimum wage schedule for **ALL** employees:

Date	Firms with <= 25 Employees	Firms with > 25 Employees
January 1, 2017	\$10.00/hour	\$10.50/hour
January 1, 2018	\$10.50/hour	\$11.00/hour
January 1, 2019	\$11.00/hour	\$12.00/hour
January 1, 2020	\$12.00/hour	\$13.00/hour
January 1, 2021	\$13.00/hour	\$14.00/hour
January 1, 2022	\$14.00/hour	\$15.00/hour
January 1, 2023	\$15.00/hour	



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## Important Questions:

- What is the purpose of a minimum wage?
- What is the purpose of a FEDERAL minimum wage?
- Why do we have one?
- What are the implications of having one?
- Should we have one?
- How high should it be?



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## Minimum Wage: Purpose

- **International Labor Organization:**

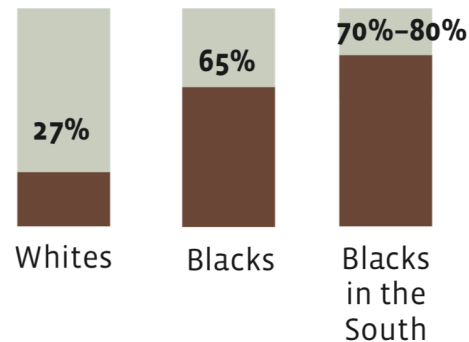
- The purpose of minimum wages is to **protect workers against unduly low pay**. They help **ensure a just and equitable share** of the fruits of progress to all, and a minimum **living wage** to all who are employed and in need of such protection.
- Minimum wages can also be one element of a policy to **overcome poverty** and **reduce inequality**, including those between men and women, by promoting the right to equal remuneration for work of equal value.

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## Origin Story: The New Deal

- **Minimum wages**
- **Social Security**
- **Unemployment**

INELIGIBLE FOR SOCIAL SECURITY IN 1935



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## Fair Labor Standards Act of 1938

- **Minimum wage: \$0.25 – raised 22 times**
- **“Covered” only about 23% of workers at the time.**
  - The law did not apply universally.
  - 11 million out of 48 million gainful workers were covered.
  - The provisions of the Act affect employees who are engaged in (interstate) commerce or the production of goods for (interstate) commerce.
  - Not covered were:
    - Farm labor, retail trade, domestic and personal service, governmental service, or the self-employed.

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## Should There be A Federal Minimum Wage?

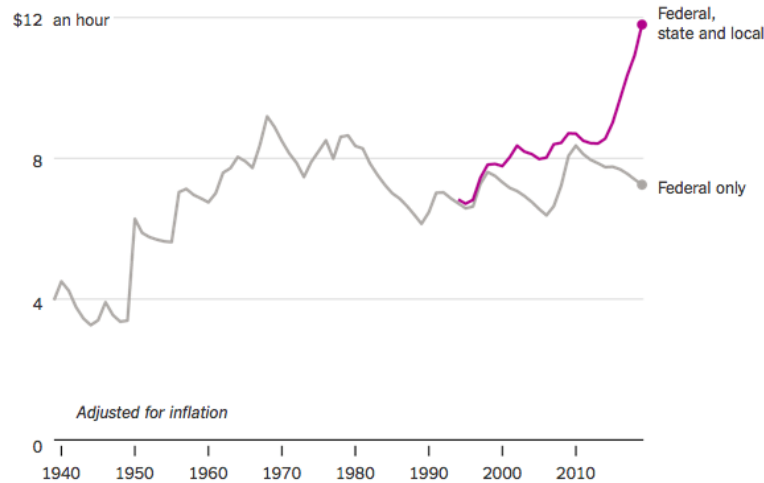
- **Abolish a FEDERAL minimum wage?**
  - **Argument in favor of abolishing:**
    - Cost of living differs across states.
  - **Arguments against abolishing:**
    - Could result in very different living standards across states.
    - Racial differences are a particular concern.
- **30% of labor force will already be under a \$15 min wage by 2025.**
  - California, Connecticut, Illinois, Maryland, Massachusetts, New Jersey, New York

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## States and Local Gov'ts are Raising Min Wages

The average job at the federal, state or local minimum wage pays almost \$12 an hour.



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## Common View of Minimum Wage

- Wages go up.
- Labor costs go up.
- Employment falls and Unemployment increases.
- Bottom line: are the increased wages worth the drop in employment?
- This is a very SIMPLE view of the minimum wage.
  - Economics is complicated.



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## Simple Views are Incomplete

- **A minimum wage need not reduce employment.**
- **An increase in the minimum wage can hurt its intended beneficiaries - even with no employment effect.**
- **This incompleteness comes from potential firm responses:**
  - Output prices
  - Nonwage compensation
  - Other job attributes:
    - Effort requirements, safety measures, quality of working environment.
- **Because business settings vary, the responses across these areas will differ across industries and between firms within an industry.**
  - No single answer is possible.



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## Responses by Employer

- **Reduce employment of low wage workers.**
  - Produce less.
  - Reduce dependence on low skilled labor
    - Using more capital or more of labor with higher skills.
- **Raise prices to consumers.**
  - Offsets the increase in labor costs, blunting the drop in employment.
  - However, it also erodes the income gains of min wage increase.
- **Reduce nonwage compensation.**
  - Health care, paid leave, etc.
- **Alter other job attributes.**
  - Effort requirements, safety, general quality of the work environment, flexibility of schedules.
- **Offshore production.**
- **Experience lower profits.**
- **Close down.**



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## Responses by Employee

- **Increase their supply of labor.**
  - Growing the labor force.
- **Value the job more highly.**
  - Increased effort.
  - Reduced job search.
- **Use the increased income to:**
  - Better the lives of their family.
  - Invest in training and education.

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## Arguments FOR a Minimum Wage

- **Basic:**
  - It **raises the standard of living** for minimum wage workers.
    - In 2019, CBO projected increases for 17 million people with an increase to \$15/hour by 2025.
- **Secondary - Less consensus:**
  - **Improved employee morale.**
    - Less turnover, greater productivity.
  - **Economic growth potential.**
    - Increased purchasing power among low wage workers may increase aggregate demand.
  - **Reduce gender disparities in wages.**
    - A greater proportion of female workers are paid the minimum wage.
    - Proportions across race and ethnicity do not differ significantly.

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## Arguments AGAINST a Minimum Wage Hike

- **Basic:**

- Increased labor costs **lowers employment** among low wage workers.
  - Particular effect on:
    - Small businesses.
    - Labor intensive industries.

- **Secondary:**

- Increases the cost of living – inflation.
  - Producers may raise prices to offset the increase in labor costs.
- May change the nature of the workplace environment.



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Source: <https://www.investopedia.com/articles/markets-economy/090516/what-are-pros-and-cons-raising-minimum-wage.asp>

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## Who Wins? No Clear Answer

- **Minimum wage is more likely to be beneficial at lower wages and with smallish changes.**
- **The spillover effects of an increase in the minimum wage are not well understood:**
  - Increased effort and employee retention.
  - Increase in prices/inflation.
  - Reduction of nonmonetary compensation.
  - Less attractive work environment.
    - E.g., more variable work schedules, fewer safety measures.
- **“Conservative/Liberal” divide in the profession**
  - Conservatives – emphasize job losses
  - Liberals – minimize job losses
  - Both are incomplete.....



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## Consensus of Employment Effects?

- **Short answer: No!**
- **Longer answer:**
  - Trend in the literature is toward finding progressively smaller NEGATIVE employment effects.
  - Most analyses indicate negative employment effects.
  - Some confirmation that the negative implications for employment, or hours, translates into negative implications for compensation.



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## Raise the Wage Act 2021 (RWA)

- **Raise the federal minimum wage from \$7.25 to \$15 by 2025;**
- **Index the federal minimum wage to median wage growth;**
- **Eliminate multiple minimum wages:**
  - End tipped workers lower minimum wage;
  - End teen worker lower minimum wage;
  - End subminimum wage certificates for workers with disabilities.



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## Scheduled Min Wage Increases Under RWA

Year	Minimum Wage	Tipped Wage	Youth Wage	14(c) Wage
Current	\$7.25	\$2.13	\$4.25	Subminimum Wages
2021	\$9.50	\$4.95	\$6.00	\$5.00
2022	\$11.00	\$6.95	\$7.75	\$7.50
2023	\$12.50	\$8.95	\$9.50	\$10.00
2024	\$14.00	\$10.95	\$11.25	\$12.50
2025	\$15.00	\$12.95	\$13.00	\$15.00
2026	Index to Median Wages	\$14.95	\$14.75	Equal to Standard Minimum Wage
2027		Equal to Standard Minimum Wage	Equal to Standard Minimum Wage	

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## Economic Consensus on \$15/hour? NO

- **Increases are well outside the range of previous experience.**
- **Ambiguous impact on affected worker’s living standards:**
  - Negative: unemployment, lower on the job amenities, inflation
  - Positive: higher wages
- **Likely NOT an improvement for business owners.**
  - Unless it induces implausibly high levels of increased worker effort.
- **Implications for broader society are unclear.**
  - But the minimum wage is implemented as an efficiency tradeoff for equity.
  - It is a policy that reflects society’s values regarding the welfare of workers.

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## CBO Analysis

### • Effects of increase to \$15 – summary:

- **Increased wages** for 27 million people in 2025.
  - 17 million who would be below \$15/hour.
  - 10 million who would have earned just above \$15/hour.
  - Increased labor compensation of \$333 billion between 2021 and 2031.
    - \$509B in increased pay.
    - \$175B less because of job losses.
- Put 1.4 million **out of work** (0.9% of workers).
  - Primarily young, less educated workers.
- Lift 900,000 out of **poverty**.
  - 2019: 34 million people lived in poverty.

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## What to make of the CBO results?

### • Primary Results

- Increased wages for 27 million people.
- 1.4 million fewer low wage jobs.
- 900,000 lifted out of poverty.

### • Reasonable people can, and do, disagree about whether or not the tradeoff is worth it.

### • Important question: Is there a better policy instrument?

- Up for consideration: expanding the Earned Income Tax Credit.
  - Also raises the incomes of low wage workers, but puts taxpayers on the hook instead of businesses.
    - *Again, reasonable people can, and do disagree about whether this is better.*
- Up for consideration: Can trade unions do a better job in wage negotiation?

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## Other Options?

- **Why Federal MW and not simply State or Local?**
- **Why not rely more on the use of collective bargaining agreements and unions**
- **Earned Income Tax Credit (EITC):** provides an income subsidy (in the form of a tax credit) to low-income working families. The tax credit benefits are phased out slowly so that workers are not penalized as they earn more income.



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## EITC superior on many grounds

- **MW**
  - May costs some jobs (or hours worked).
  - Does not target benefits on the poor.
  - Does not redistribute from the richest.
- **EITC**
  - Targets the poor effectively.
  - Encourages work.
    - Better long-term effects.
  - Financed by taxes (hence can decrease inequality).
  - We can make it more generous.



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## But Both Might Be Better Together

- **EITC – encourages more people to work, lowering wages.**
  - Reduces the amount of the EITC that goes to workers. Some goes to employers.
- **Minimum wage – can reduce the extent to which wages fall with the EITC.**
  - Minimum wage shifts EITC back to workers and away from employers.
- **Minimum wage can dilute the wage reducing effects of the EITC.**
  - Workers keep more of their EITC payments.



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## Summary

- **The minimum wage has been around since 1938.**
  - The comprehensiveness of its coverage has steadily increased.
- **The Federal minimum wage is currently \$7.25/hour.**
  - It's level has fluctuated, both up and down in inflation adjusted terms.
    - o It is currently 41% below it's peak in the 1960s.
- **There are perfectly valid arguments for and against it.**
  - Economics is not currently able to provide a definitive answer.
  - Depends on the tradeoff between higher wages and employment.
- **The textbook exposition (price up -> quantity down) is a gross simplification.**
  - The reality of its evaluation is much more complicated.
- **The FEDERAL minimum wage is waning in importance.**
  - States take up the mantel.
- **Economists do not have a clear position or anything like consensus on the issue.**
  - But the research is trending in the direction toward benefits (improved living standards) and away from direct costs (unemployment).



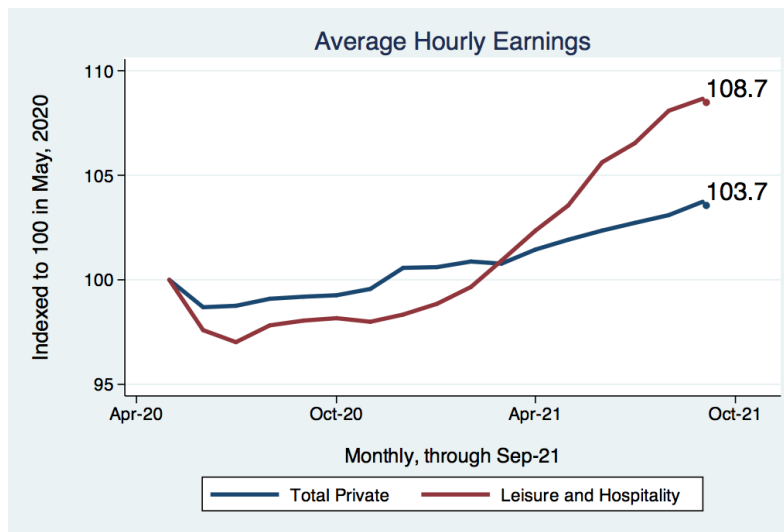
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## Most Important Point: It's Complicated

- Minimum wage helps some (many?) workers, but has negative consequences.
- Little or no evidence of net benefits for low-income families.
- There are winners and losers from a higher minimum wage.
- Policymakers and the public then have to decide if enough of the gains are going to those they want to help, to offset the losses for others.
- There are other policies that likely work better.

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## Is The Market Taking Care of it?



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**Thank you!**

# Any Questions?

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