



## Who Are We?

- **Honorary Board: 53 members**

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
  - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
  - o Akerlof, Smith, Maskin

- **Delegates: 585+ members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 44 Ph.D. Economists**

- Aid in slide deck development

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## Available NEED Topics Include:

- **Coronavirus Economics**
- **US Economy**
- **Climate Change**
- **Economic Inequality**
- **Economic Mobility**
- **Trade and Globalization**
- **Trade Wars**
- **Immigration Economics**
- **Housing Policy**
- **Federal Budgets**
- **Federal Debt**
- **Black-White Wealth Gap**
- **Autonomous Vehicles**
- **US Social Policy**

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## Credits and Disclaimer

- **This slide deck was authored by:**
  - Jon Haveman, NEED
- **Disclaimer**
  - NEED presentations are designed to be nonpartisan.
  - It is, however, inevitable that the presenter will be asked for and will provide their own views.
  - Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).

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## Outline

- **What is the minimum wage?**
- **Origin story**
- **Limitations**
  - Excluded occupations/sectors
  - Different mins for diff occupations
- **Effects of increasing**
- **Economist's perspective**

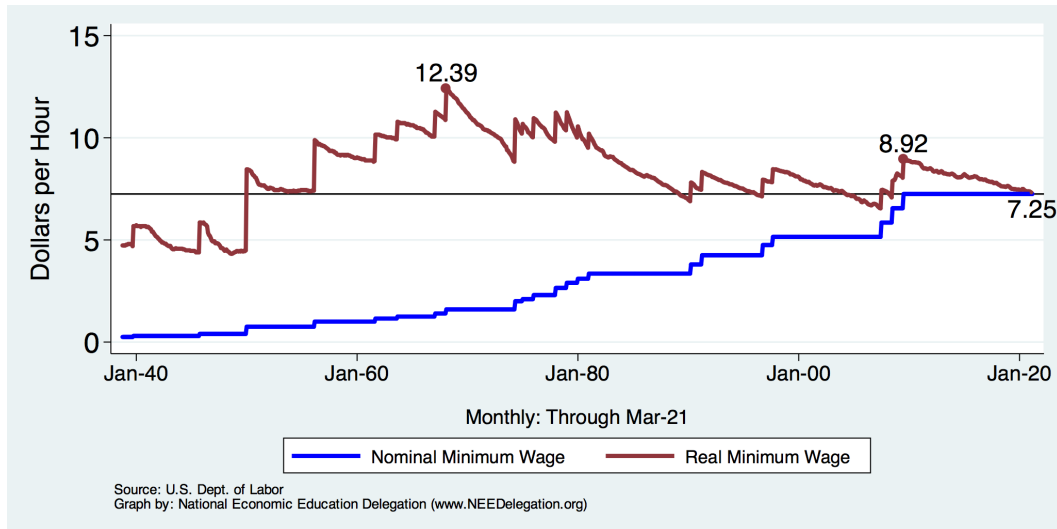
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# What Is The Minimum Wage?

- **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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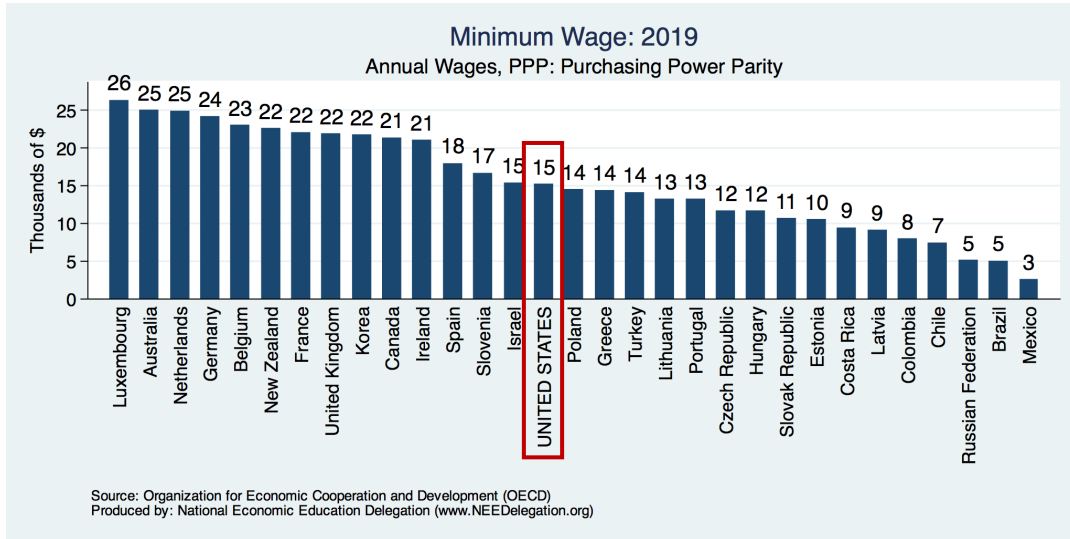
# History of the Minimum Wage



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

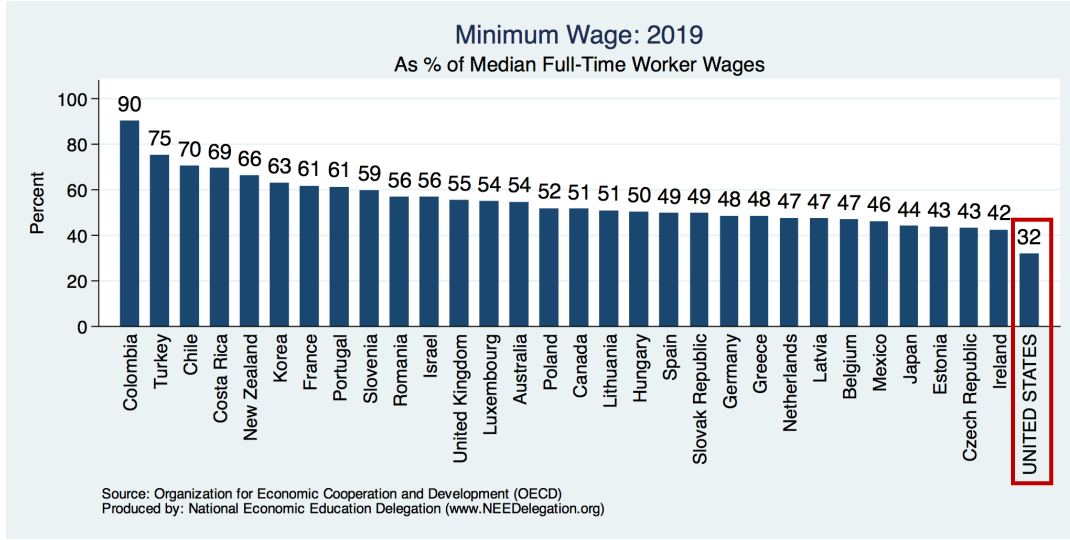
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# U.S. Minimum Wage in Global Context



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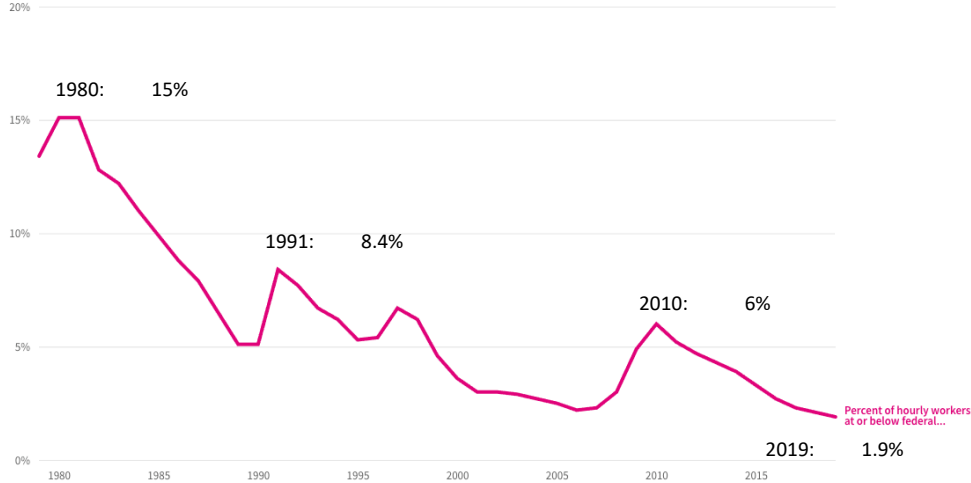


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# How Many are Paid At or Below Min. Wage?

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

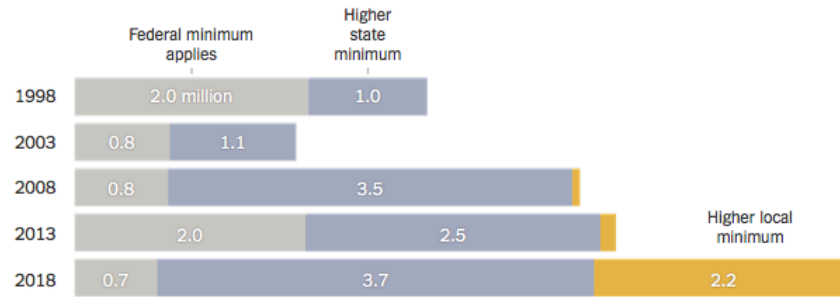
Percent of hourly workers at or below federal minimum wage



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

Millions of workers:

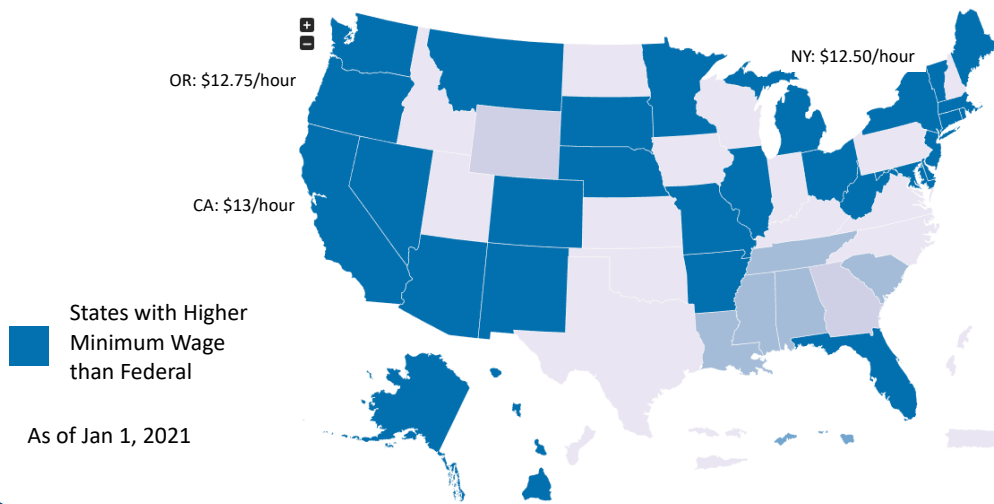


Includes farm workers and tipped incomes

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).

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## Many States Have A Higher Min Wage



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## States WITHOUT Minimum Wage Laws

	Share of Population That is Black
Alabama	26.6%
Louisiana	32.2%
Mississippi	37.7%
South Carolina	27.0%
Tennessee	16.7%
United States	13.4%

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## Important Questions:

- What is the purpose of a 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

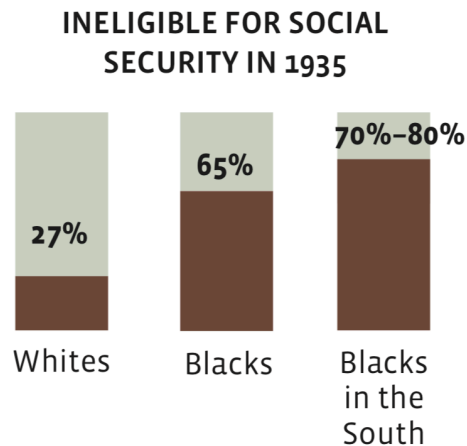
- **International Labor Organization:**

- 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**



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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.

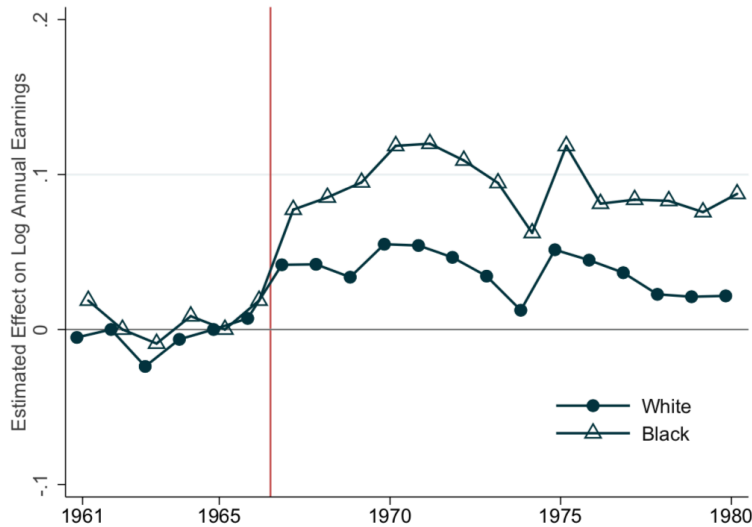
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## Minimum Wages

- **1960s – great equalizer - MW increased in real terms 37% (8.9 to 12.24)**
  - The **1966 Fair Labor Standards Act** extended federal minimum wage coverage to agriculture, restaurants, nursing homes, and other services which were previously uncovered and where nearly a third of black workers were employed.
- **Since 1968 – has fallen 41% (12.18 to 7.25)**
  - Or, in 1968, was 69% higher than it is today.
  - Exacerbating the Black-White wage gap.

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## Effects of 1966 Increase in Min Wage Coverage



Added coverage for agriculture restaurants, nursing homes, and other services.

These industries employed 1/3 of Black workers at the time.

Graph is the effect on wages within these industries.

This explains 20% of reduced Black-White wage gap during the Civil Rights Era.

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## Should There be A Federal Minimum Wage?

### • Abolish a Federal minimum wage?

#### - Argument in favor:

- Cost of living differs across states.

#### - Arguments against:

- Could result in very different living standards across states.
- Racial differences are a particular concern.

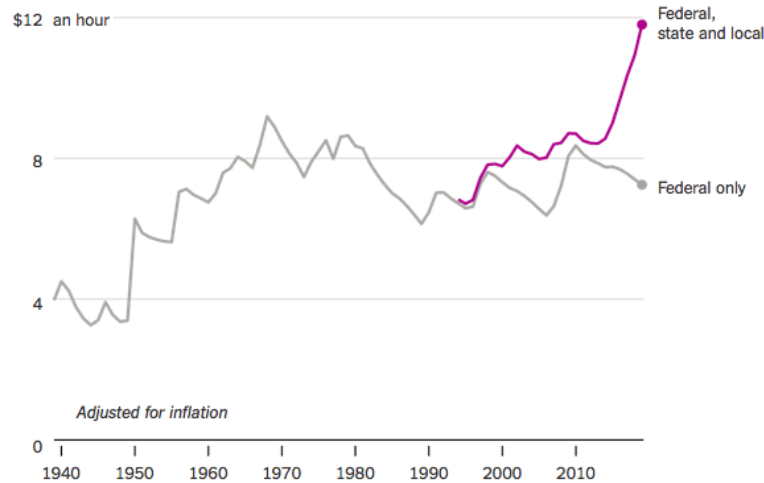
### • 30% of labor force will already be under a \$15 min wage by 2025.

- 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.
- 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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## 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.
  - o Particular effect on:
    - Small businesses.
    - Labor intensive industries.

- **Secondary:**

- Increases the cost of living – inflation.
  - o 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 small 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.
- **“Conservative/Liberal” divide in the profession**
  - Conservatives – emphasize job losses
  - Liberals – minimize job losses
  - Both are incomplete.....



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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;
- End tipped worker 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
<b>Current</b>	\$7.25	\$2.13	\$4.25	Subminimum Wages
<b>2021</b>	\$9.50	\$4.95	\$6.00	\$5.00
<b>2022</b>	\$11.00	\$6.95	\$7.75	\$7.50
<b>2023</b>	\$12.50	\$8.95	\$9.50	\$10.00
<b>2024</b>	\$14.00	\$10.95	\$11.25	\$12.50
<b>2025</b>	\$15.00	\$12.95	\$13.00	\$15.00
<b>2026</b>	Index to Median Wages	\$14.95	\$14.75	Equal to Standard Minimum Wage
<b>2027</b>		Equal to Standard Minimum Wage	Equal to Standard Minimum Wage	

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

- **Ambiguous impact on affected worker's living standards:**
  - Negative: unemployment, lower on the job amenities, inflation
  - Positive: higher wages
    - The positive likely outweighs the negative for those employed.
    - But how should the benefits to those employed be weighed against the job losses.
  
- **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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## CBC 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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<https://www.cbo.gov/system/files/2021-02/56975-Minimum-Wage.pdf>

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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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## Thank you!

# Any Questions?

[www.NEEDelegation.org](http://www.NEEDelegation.org)

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