



Minimum Wage

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National Economic Education Delegation

- **Vision**
 - One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.
- **Mission**
 - NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.
- **NEED Presentations**
 - Are **nonpartisan** and intended to reflect the consensus of the economics profession.



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Who Are We?

- **Honorary Board: 54 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: 590+ 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**
- **Minimum Wage**
- **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**
- **Effects of increasing**
- **Economist's perspective**
- **Big (Unanswered) Questions**



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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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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.

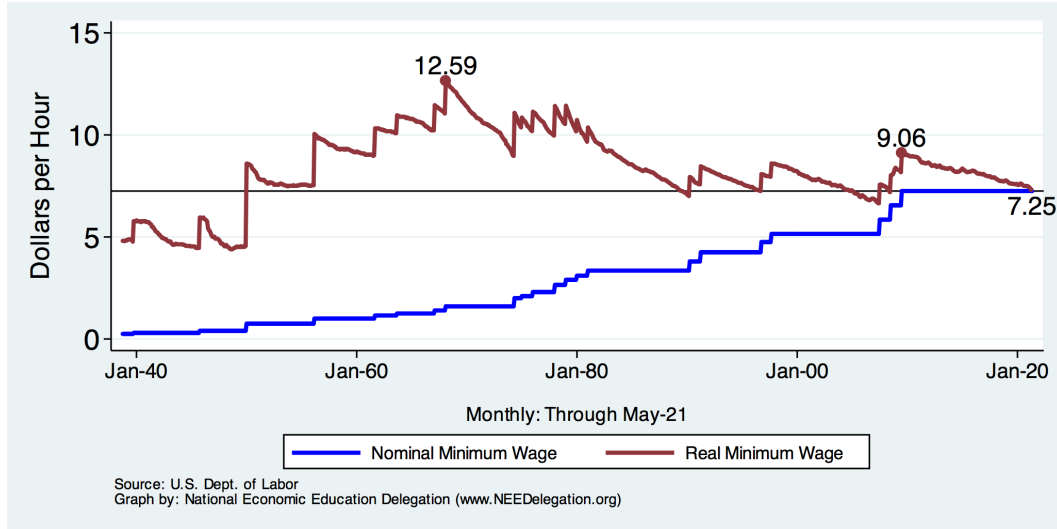


Fair Labor Standards Act of 1938

- **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.



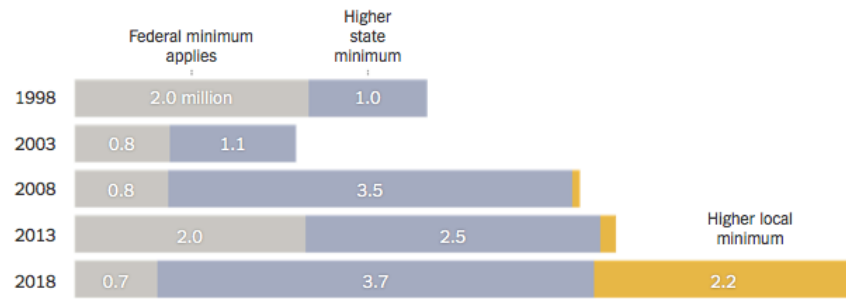
History of the Minimum Wage



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

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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 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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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.



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.



Big (Unanswered) Questions

- **Are the deleterious employment effects worth it?**
 - How much unemployment?
 - Wages up, but prices rise as well.
 - Impacts on work environment.

- **Should employers be burdened with social policy?**

- **Are there better ways of achieving the same outcome?**
 - Earned Income Tax Credit (EITC)
 - Guaranteed minimum income



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Thank you!

Any Questions?

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Minimum Wages

- **1960s – great equalizer - MW increased in real terms 37% (9.05 to 12.59)**
 - 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 42% (12.59 to 7.25)**
 - Or, in 1968, was 74% higher than it is today.
 - Exacerbating the Black-White wage gap.



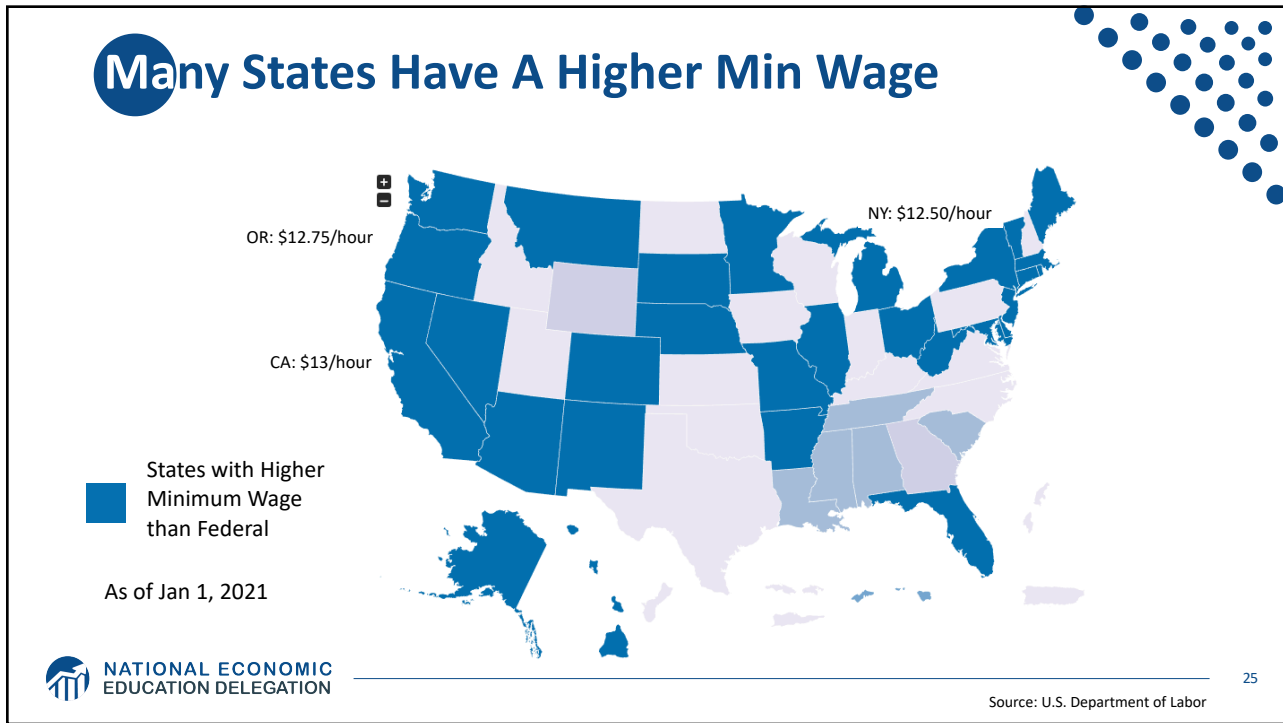
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Should There be A Federal Minimum Wage?

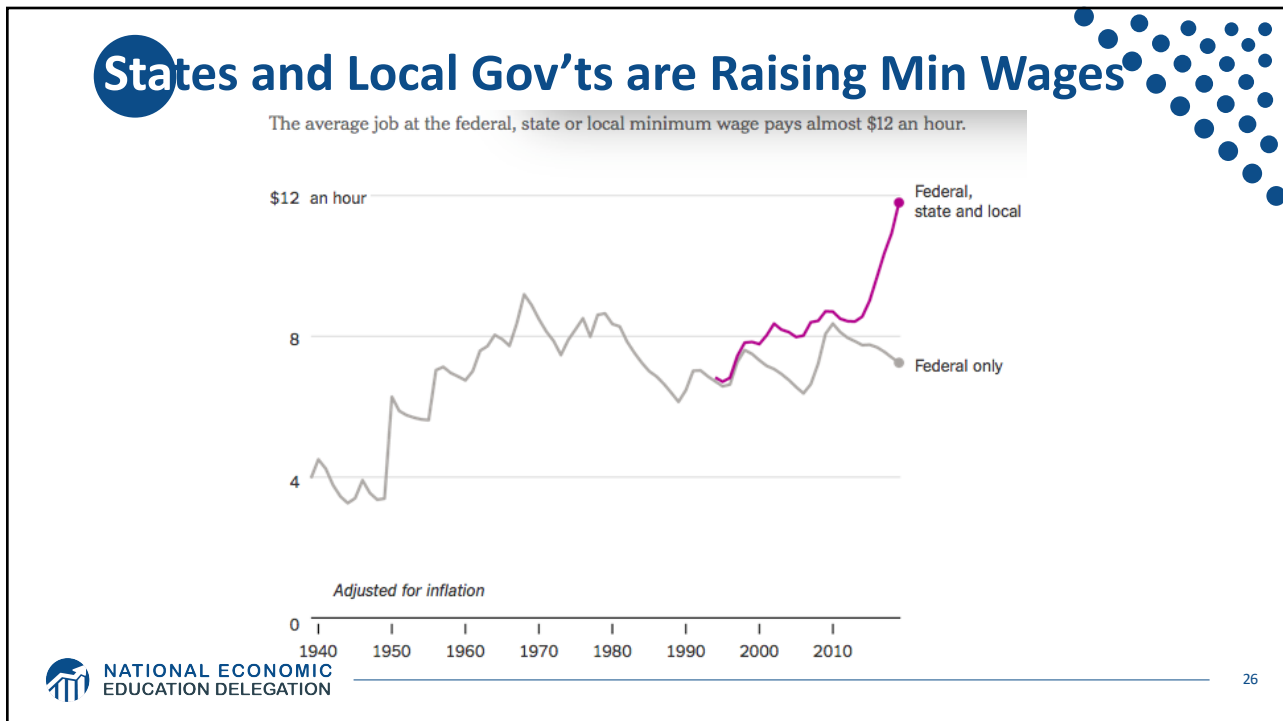
- **Abolish a Federal minimum wage?**
 - **Argument in favor:**
 - Cost of living differs across states.
 - **Arguments against:**
 - Could result in very different living standards across states.
 - Racial differences are a particular concern.
- **30% of labor force will already be under a \$15 min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



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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.**
 - Its 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 and local governments are stepping in.
- **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).

