

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: 595+ 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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Credits and Disclaimer

- **This slide deck was authored by:**

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- **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.

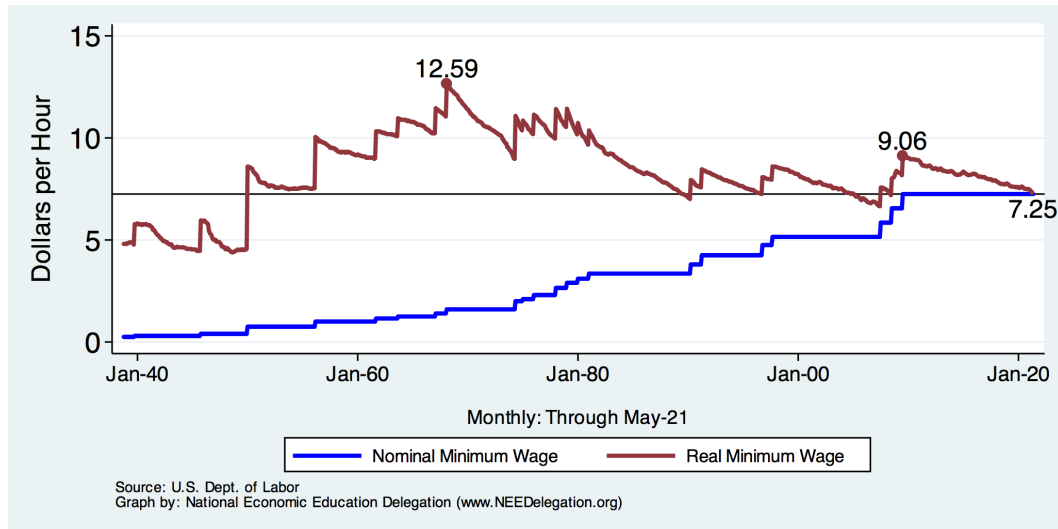


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Fair Labor Standards Act of 1938

- **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.

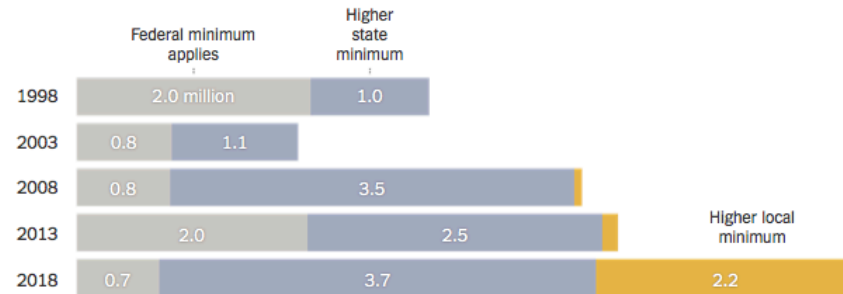
History of the Minimum Wage



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

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:
 - 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.
 - 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.



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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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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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Available NEED Topics Include:

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- US Economy
- Climate Change
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- 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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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.



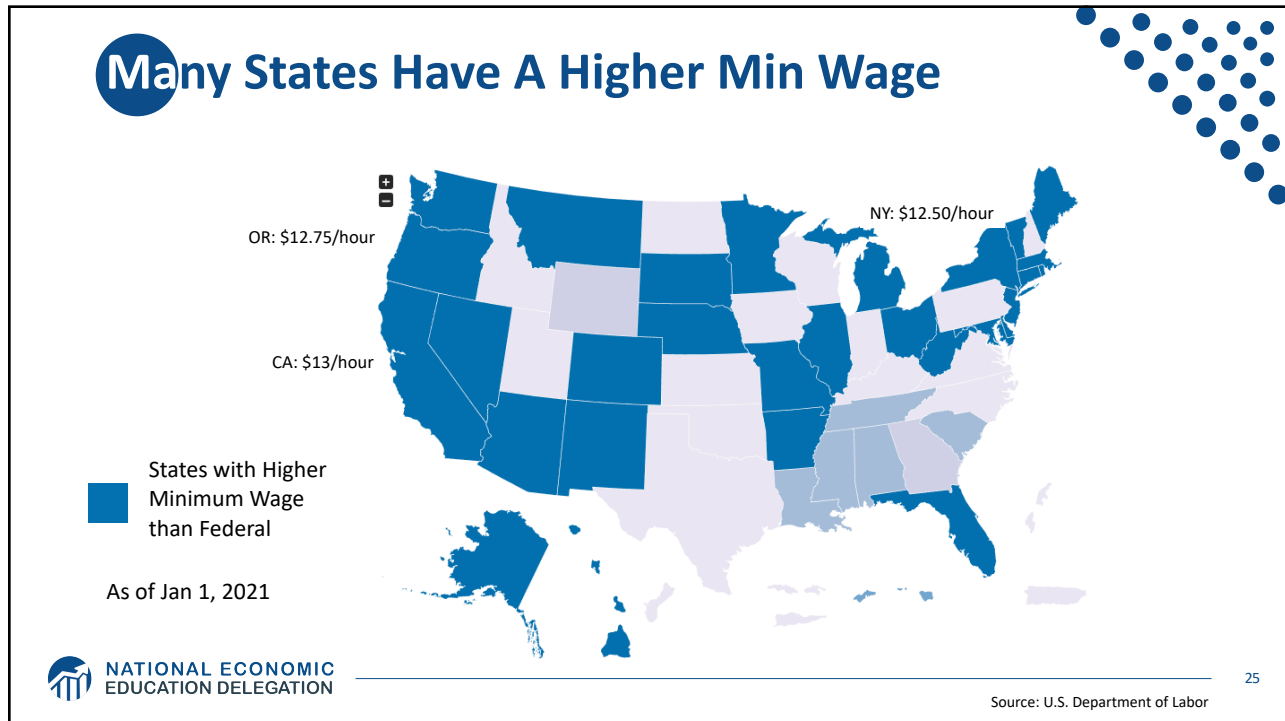
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Should There be A Federal Minimum Wage?

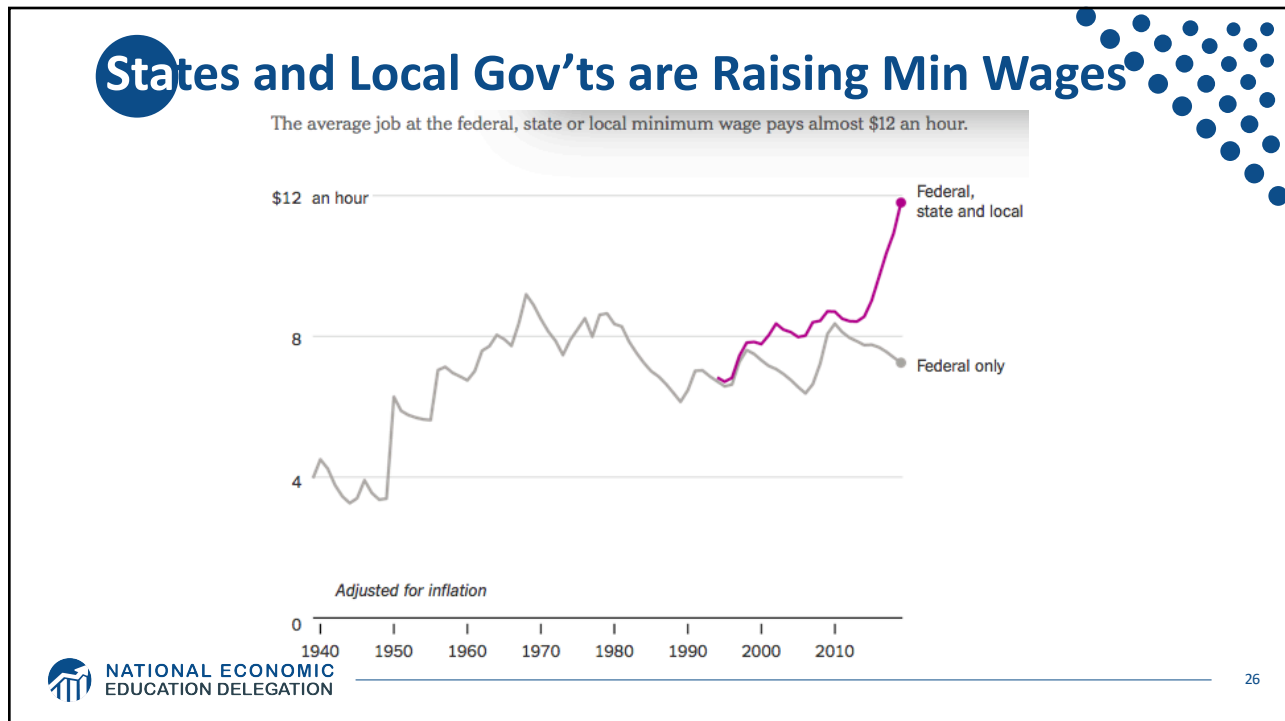
- **Abolish a Federal minimum wage?**
 - **Argument in favor:**
 - Cost of living differs across states.
 - **Arguments against:**
 - Could result in very different living standards across states.
 - Racial differences are a particular concern.
- **30% of labor force will already be under a \$15 min 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).

