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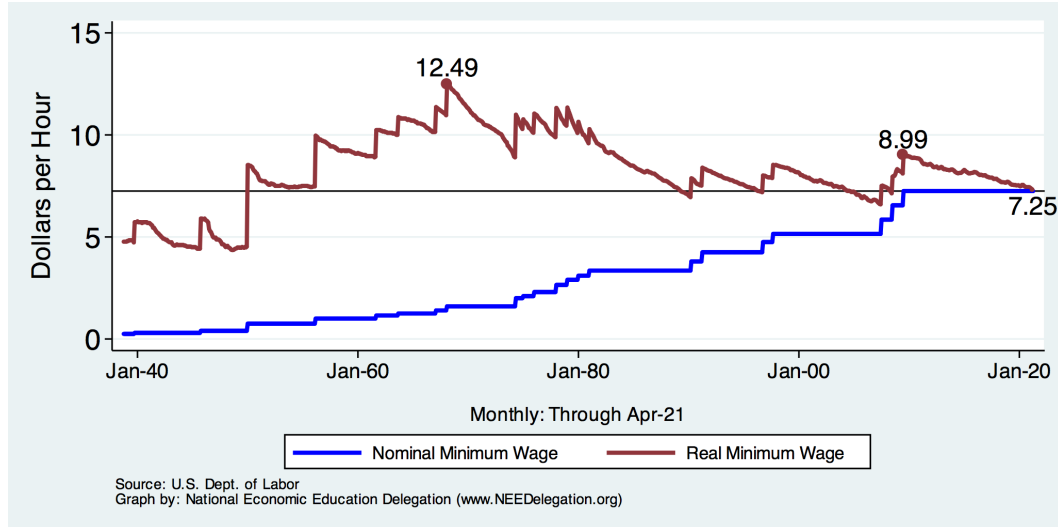
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History of the Minimum Wage



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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.



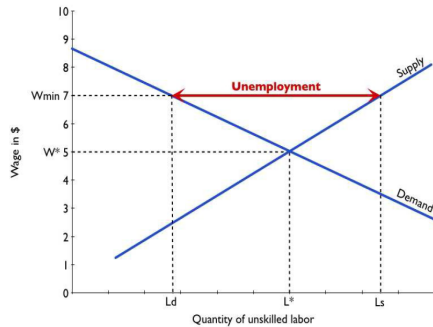
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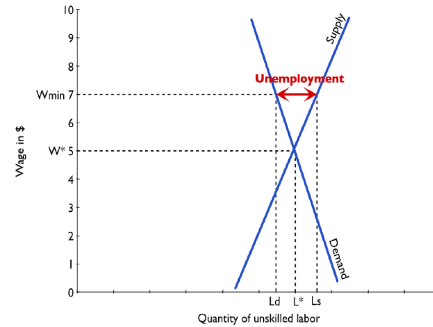
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How Much Unemployment will the MW Create?

Very Elastic Supply and Demand



Very Inelastic Supply and Demand



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Empirical Evidence

- Belman and Wolfson perform **meta-analysis** combining results from 23 different studies that present their results in the same units (employment or hours of employment) and that report estimates for elasticities and their standard errors, and obtain 439 point estimates.
- They find that once a correction for the publication bias and article-specific effects are incorporated, overall elasticities for the United States are statistically insignificant or are very close to zero and hence not economically meaningful. This result is true even when restricting the focus to teenagers and young adults.
- More precisely, they find that **a 10 percent increase in the minimum wage is associated with a reduction in employment or hours of employment between -0.0 and -2.6 percent but less than half of the estimates are statistically significant.**
- Of those estimates that are statistically significant, the range is between -0.1 percent and -0.03 percent.



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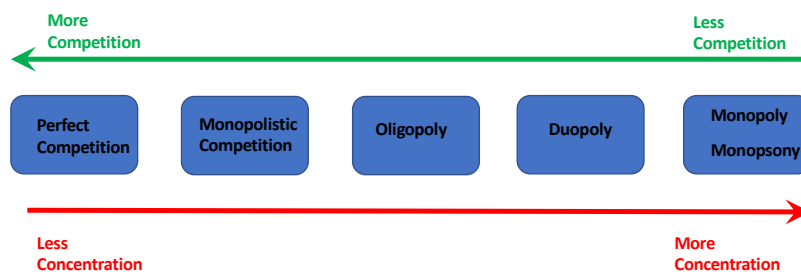
Market Structure

- **The previous graphs and analysis using Supply and Demand assumes perfectly competitive labor market.**
 - Numerous employers
 - Numerous workers
 - Each behaving as price taker and with no market power
- **Data shows that labor markets are very monopsonistic**
 - Monopsony is when there is only one buyer or a single buyer that dominates the market.
 - Similar to monopoly, where there is only one seller.
 - Both monopoly and monopsony are an example of a market failure and provide inefficient market allocations.



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What types of markets are there?



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Monopsony in the Labor Market and MW

- Coal mine owner in town where coal mining is the primary source of employment.
- The government in the employment of civil servants, nurses, police and army officers.
- Walmart, Amazon, Uber
- Universities
- Hospitals
- Even if a firm is not a pure monopsony, it may have a degree of monopsony power, due to geographical and occupational immobilities, which make it difficult for workers to switch jobs and find alternative employment.



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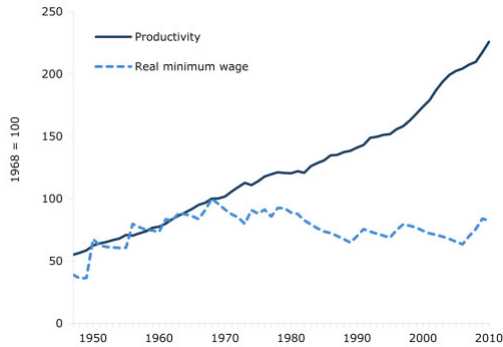
Monopsony in the Labor Market and MW

- Higher, well chosen minimum wage can raise employment in a labor market where firms enjoy monopsony power.
- Seminal paper by Stigler (1946)



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Real Minimum Wage and Productivity



If minimum wage would keep up with productivity increases and keep up with inflation it would be over \$24 per hour.

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Disconnect between productivity and a typical worker's compensation, 1948-2014

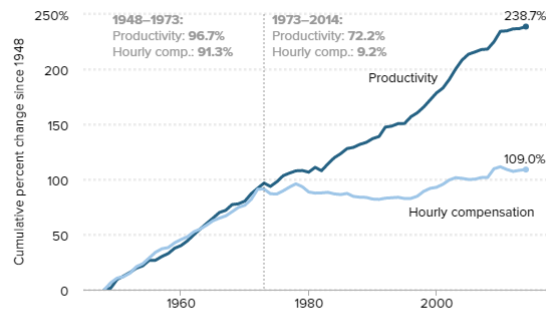


Chart Data

Note: Data are for average hourly compensation of production/nonsupervisory workers in the private sector and net productivity of the total economy. "Net productivity" is the growth of output of goods and services minus depreciation per hour worked.

Source: EPI analysis of data from the BEA and BLS (see technical appendix for more detailed information)

Economic Policy Institute

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CEO pay is up 997% since 1978

Percent change in CEO compensation, stock prices, and typical worker compensation, 1978-2014



Source: Economic Policy Institute analysis of data from Compustat's ExecuComp database, Federal Reserve Economic Data (FRED) from the Federal Reserve Bank of St. Louis, the Current Employment Statistics program, and the Bureau of Economic Analysis NIPA tables, as seen in *Top CEOs Make 300 Times More than Typical Workers*.

Economic Policy Institute

CEO compensation has grown 940% since 1978

Typical worker compensation has risen only 10.9% during that time

CEOs now earn 320 times as much as a typical worker. Until 1975, this number was around 50.

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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
 - o 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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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.
- **“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;**
- **Eliminate multiple minimum wages:**
 - End tipped workers lower minimum wage;
 - End teen worker lower minimum wage;
 - End subminimum wage certificates for workers with disabilities.



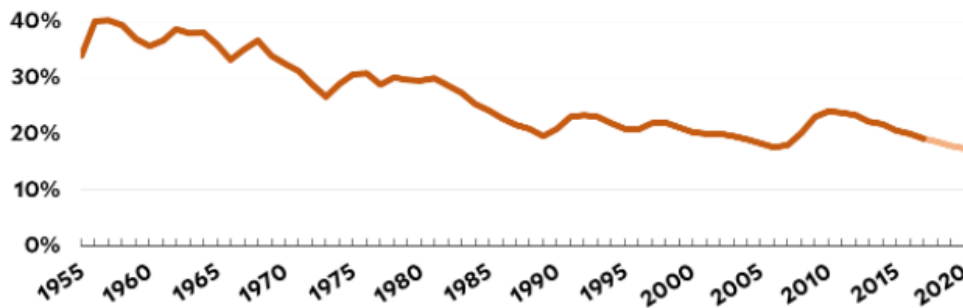
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Scheduled Min Wage Increases Under RWA

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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Federal Minimum Wage As % of Median Family Earnings



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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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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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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.
 - o 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?



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).



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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Thank you!

Any Questions?

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