

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

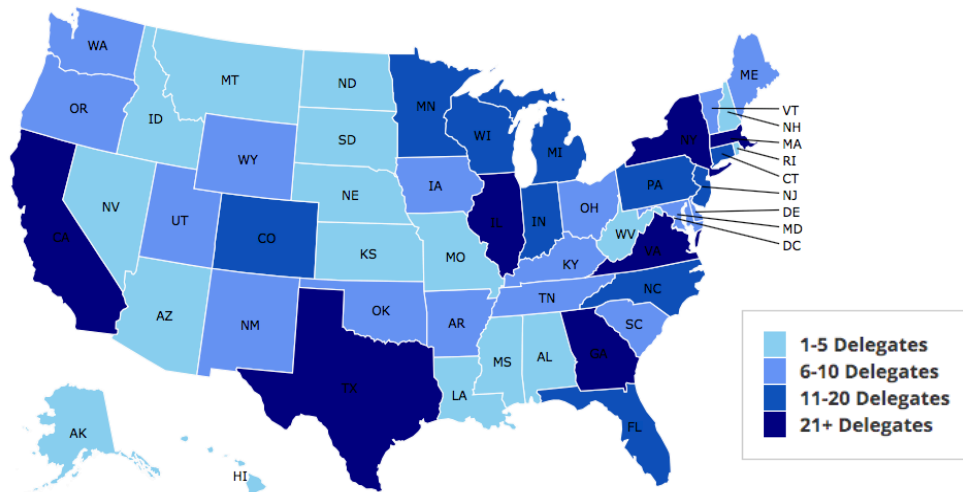
- **Global Partners: 44 Ph.D. Economists**

- Aid in slide deck development



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Where Are We?



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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**
 - racial impacts
- **Economist's perspective**



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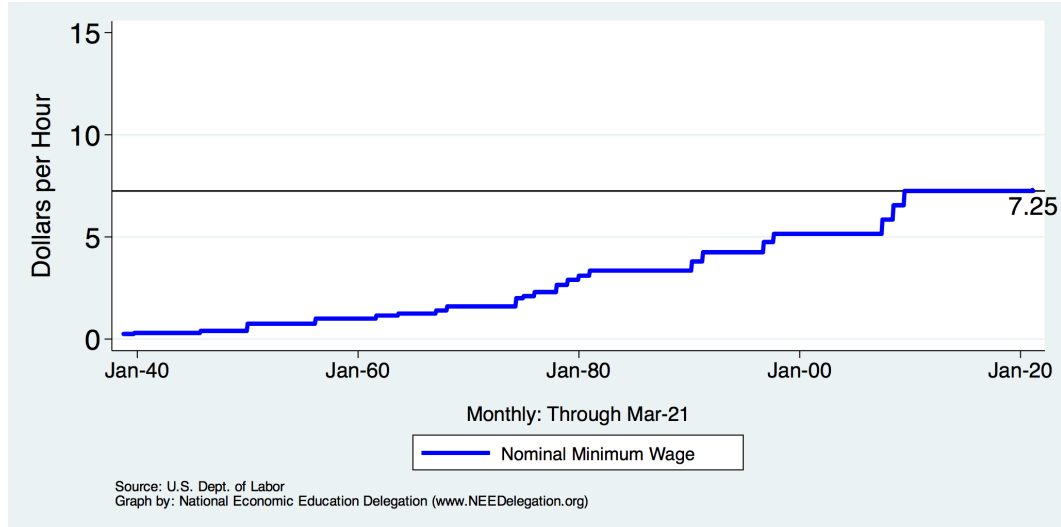
What Is The Minimum Wage?

- **The minimum wage is an example of a price control and 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.**
- **Minimum wage of \$2.13 for tipped workers with the expectation that wages plus tips total no less than \$7.25 per hour. The employer must pay the difference if total income does not add up to \$7.25 per hour.**



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Nominal Minimum Wage Over Time



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Correcting Variables for Inflation: Comparing Dollar Figures from Different Times

- Inflation makes it harder to compare dollar amounts from different times.
- **Example: the minimum wage**
 - \$1.15 in December 1964
 - \$7.25 in April 2021
- Did min wage have more purchasing power in December 1964 or May 2021?
- To compare, use CPI to convert 1964 figure into "today's dollars"...
- CPI is Consumer Price Index: a measure of the overall cost of the goods and service bought by a typical consumer



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Correcting Variables for Inflation: Comparing Dollar Figures from Different Times

$$\frac{\text{Amount in today's dollars}}{\text{Amount in year } T \text{ dollars}} = \frac{\text{CPI today}}{\text{CPI in year } T}$$

CPI is Consumer Price Index: a measure of the overall cost of the goods and service bought by a typical consumer

- **In our example,**
 - “year T ” is December 1964, “today” April 2021
 - Min wage was \$1.15 in year T
 - CPI = 31.3 in year T , CPI = 266.8 today

The minimum wage in 1964 was \$9.80 in today's (2021) dollars.

$$\$9.80 = \$1.15 \times \frac{266.8}{31.3}$$

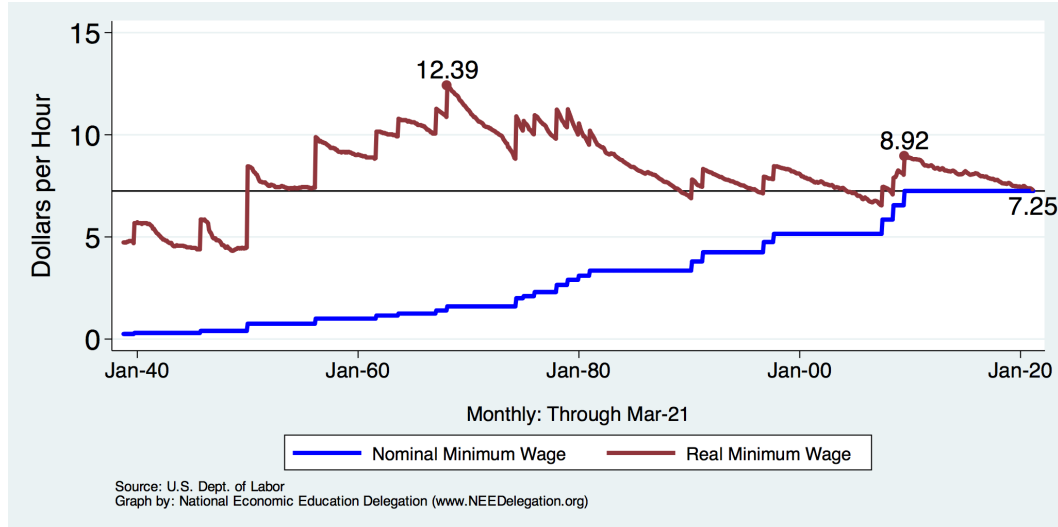


Correcting Variables for Inflation: Comparing Dollar Figures from Different Times

- Researchers, business analysts, and policymakers often use this technique to convert a time series of current-dollar (nominal) figures into constant-dollar (real) figures.
- They can then see how a variable has changed over time after correcting for inflation.
- Example: the minimum wage, from Jan 1960 to 2021...



History of the Minimum Wage



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- Real Annual Minimum Wage in 1968 was
 $\$12.39 \times 40 \text{ hours per week} \times 52 \text{ weeks} = \$20,771$
- Real Annual Minimum Wage today is
 $\$7.25 \times 40 \text{ hours per week} \times 52 \text{ weeks} = \$15,080$

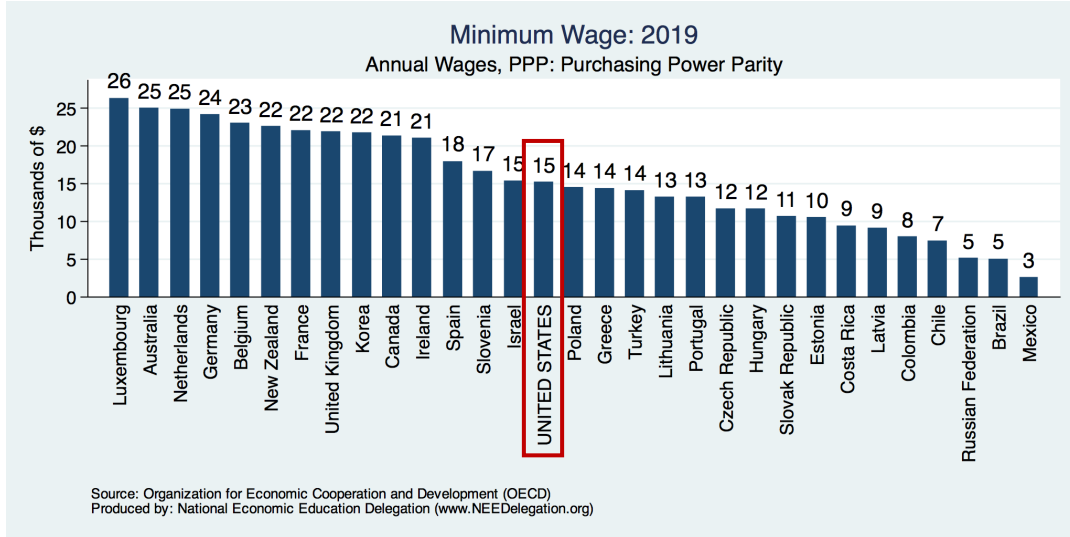


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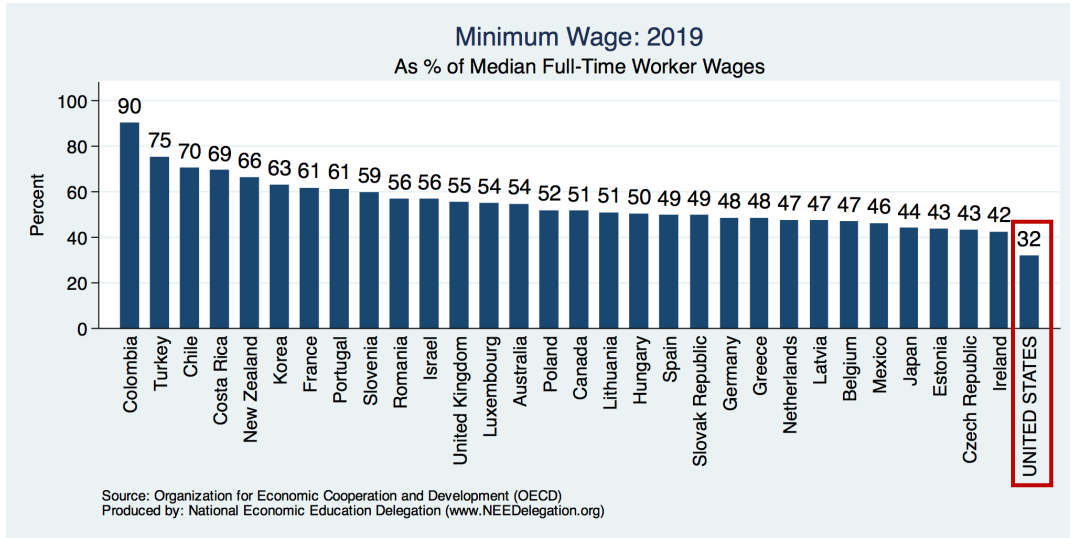
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U.S. Minimum Wage in Global Context



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U.S. Minimum Wage in Global Context



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U.S. Minimum Wage in Global Context

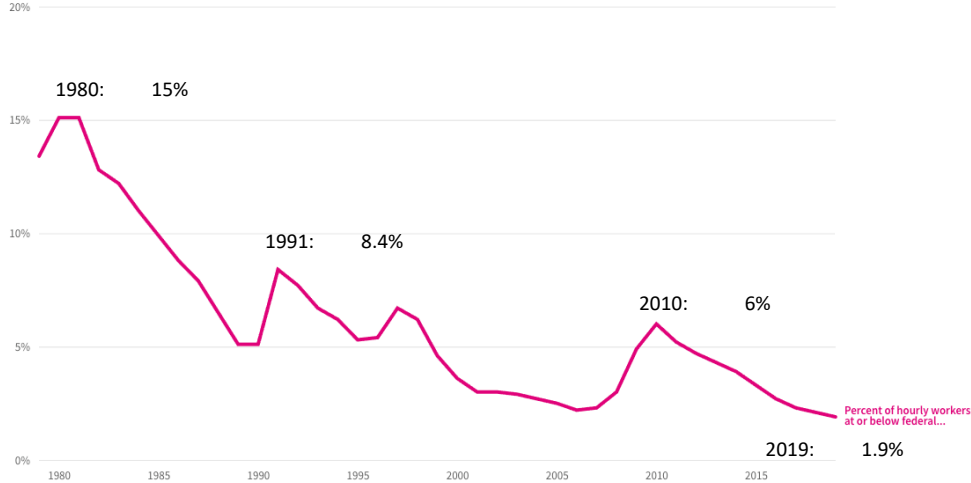


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How Many are Paid At or Below Min. Wage?

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

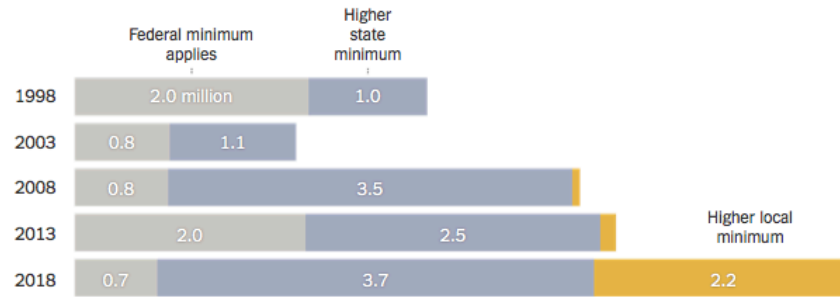
Percent of hourly workers at or below federal minimum wage



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

Millions of workers:

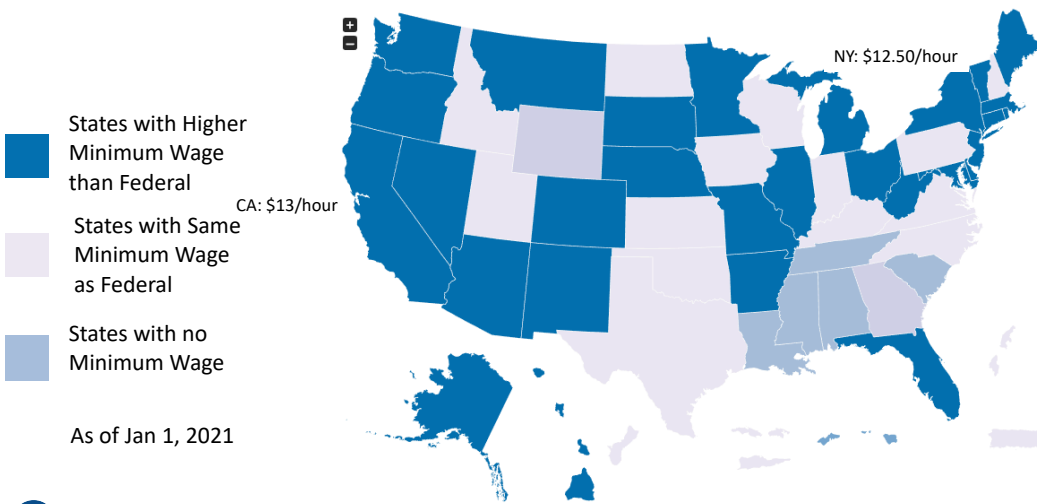


Includes farm workers and tipped incomes

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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Minimum Wage in Florida

- Florida’s minimum wage rate is currently is \$8.56.
- On November 3, 2020, over 60 percent of Floridian voters approved Amendment 2, which increases the minimum wage and amends Florida’s Constitution.
- Employers must use the following hourly minimum wage schedule for non-tipped employees:
 - Through December 31, 2020 – \$8.56
 - January 1, 2021 – \$8.65
 - September 30, 2021 – \$10.00
 - September 30, 2022 – \$11.00
 - September 30, 2023 – \$12.00
 - September 30, 2024 – \$13.00
 - September 30, 2025 – \$14.00
 - September 30, 2026 – \$15.00

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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.

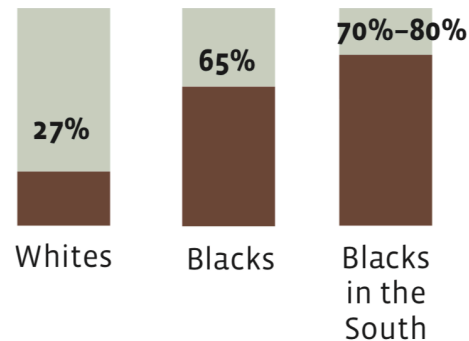


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Origin Story: The New Deal

- Minimum wages
- Social Security
- Unemployment

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.

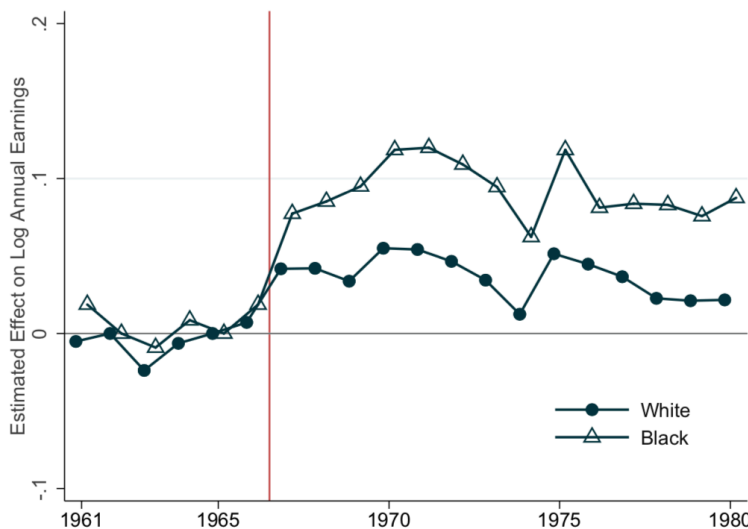
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Minimum Wages

- **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:**

- o Cost of living differs across states.

- **Arguments against:**

- o Could result in very different living standards across states.
- o Racial differences are a particular concern.
- o Monopsony in the labor market.

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

- California, Connecticut, Illinois, Maryland, Massachusetts, New Jersey, New York



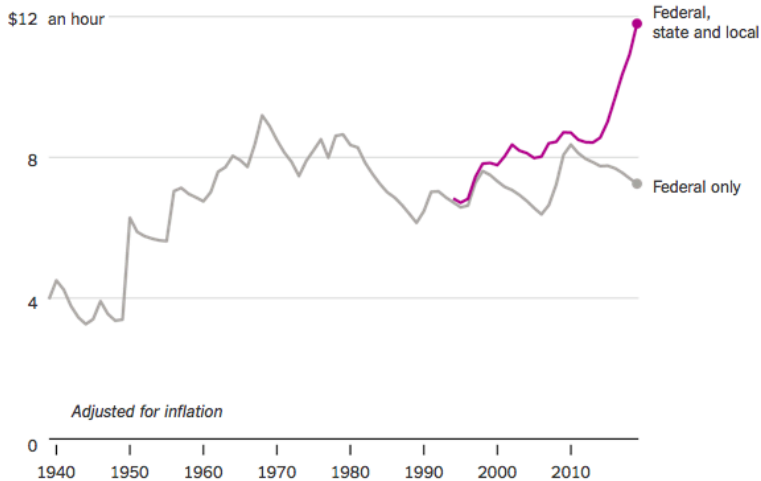
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States and Local Gov'ts are Raising Min Wages

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



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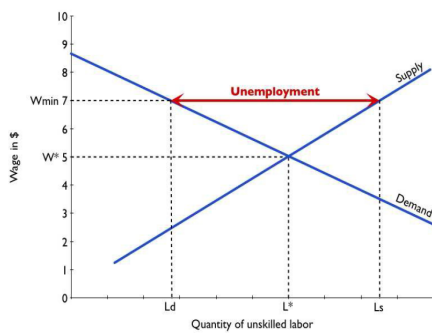
Common View of Minimum Wage

- 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.

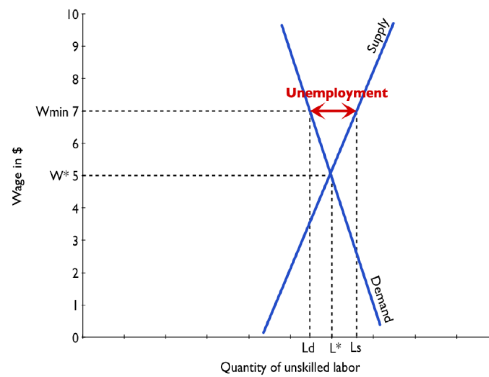
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How Much Unemployment will the MW Create?

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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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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