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**National Economic Education Delegation**

**<subject matter> Narrative**

Date: August 27, 2021

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Slides:

1. **Opening slide**

<brief summary and opening>

1. DO NOT DELETE: National Economic Education Delegation
	1. Brief discussion of what NEED is and NEED does
	2. Use your judgement for what should be said.
2. Who we are?
	1. 49 honorary board – 3 Nobel prize winners, 6 former chairs of council, and 2 former Chairs of the Federal Reserve.
	2. 500+ delegates, one in each state.
	3. 42 Global Partners
3. Where are we?
4. Available NEED Topics
5. DO NOT DELETE: Credits and Disclaimer
6. Outline:
7. **What is the Federal Minimum Wage?**

The minimum wage is a price floor for labor. The Federal minimum wage was first implemented as a part of the New Deal. The Fair Labor Standards Act (1938) first established a minimum wage of $0.25/hour. Though that doesn’t sound like a lot, adjusting for inflation, that would be $4.46 per hour today.

The current minimum wage is just $7.25, almost three dollars more than when it was first imposed. It is about the same as it was in the late 1950s, but is significantly less than it was in the 1960s.

As we will see, it peaked at a little over $12/hour in the 1960s.

It is worth pointing out that there are two issues here. First is the concept of the minimum wage…and what happens in labor markets when you impose a minimum wage. Second is the issue of the FEDERAL minimum wage – this is ultimately a political question.

1. **Nominal Minimum Wage Over Time**

The main point here is to show how often it has been changed. But also bring up the topic of nominal vs. real and how looking at the nominal prices and wages can be misleading. By simply looking at the nominal wage, one incorrectly concludes that it has been on a steady increase.

1. **Correcting Variables for Inflation**

This is supposed to be a motivational slide. It will be shown how lower nominal wages can be in fact higher when adjusted for rate of inflation. This exercise is important, not only for the minimum wage, but the concepts for adjusting prices for inflation is one of the most important concepts a general audience should really learn about economics.

The numbers here are picked with an intention to be provocative and shocking.

1. **Correcting Variables for Inflation**

How the sausage is made. This is how economists adjust for inflation. A lot of people know that this should be done, but not many understand how this is done and what it actually means.

For wages it doesn’t matter so much how much money (nominal wage) you have you pocket but rather what you can buy (real wage) with that money. People also intuitively understand that, even if your nominal wage stay the same, but general prices are increasing, you can afford less and less each year. In order for your wage “to stay the same” it must keep up with inflation.

1. **Correcting Variables for Inflation**

Final emphasis on the importance of adjusting for inflation – and not just the adjustment of the minimum wage.

1. **History of the Federal Minimum Wage**

This graph illustrates the minimum wage both at its statutory level. It has only ever increased, but at intervals that are sometimes quite lengthy. It start out at $.25 and has been raised 22 times.

Here we have both the statutory, or nominal level of the minimum wage – in blue – and the real, inflation adjusted terms level in maroon.

It is clear that although the minimum wage has only increased in statutory terms, it has been quite volatile in real terms. It nearly tripled between 1938 and 1968, and has fallen by about two-fifths since then. Also clear is that it has fallen over the course of the last 10 years.

1. **From Hourly to Approximated Annual Minimum Age**

The point here is to show that even small changes (small dollar amounts per hour) can lead to a substantial amount of money over time.

For example, the difference in real annual min wage between the peak in 1968 of $20,771 to today ($15,080) is over $5,500 per year.

To be clear, many people who work for the minimum wage do not actually work 40 hours per week, 52 weeks per year. The purpose here is just to server as an estimate to show that these small changes matter over time.

1. **How Many are Paid At or Below Min. Wage?**

It is actually a surprisingly small share of workers in the United States that are paid at or below the federal minimum wage. In 2019, it was just 1.9% of workers. This is down from 15% in 1980.

This drop is a result of several factors. First, the real, inflation adjusted minimum wage in 1980 was about 46% higher than it was in 2019. As wages generally rise and the minimum wage falls, a smaller proportion of worker’s wages will be influenced by the minimum wage. Time and inflation erode the effectiveness of any given minimum wage.

Second, because individual states and cities have started imposing minimum wages that are higher than the Federal Minimum Wage. Accordingly, the Federal minimum wage has simply become less and less relevant around the country.

1. **Fewer Min Wage Workers are Bound by Federal Minimum**

That states and cities are setting minimum wages means that fewer and fewer workers are being paid the federal minimum wage.

1. **Many States Have A Higher Minimum Wage**

It is also true that the Federal minimum wage is not nearly as binding as it once was. In particular, some 29 states have enacted a minimum wage in excess of the Federal minimum wage. Some cities have also set higher minimum wages. E.g., San Francisco, which has a minimum wage at just over $16/hour.

22 states currently have minimum wages above $10/hour. The highest are in Washington, DC at $15.00 and California (in 2021) at $14/hour. California’s will increase to $15 in 2022.

MA was the first to set a min wage in 1912, before the US as a whole.

Note:

A paradigm with different levels of the minimum wage across states can allow racial inequities to creep back in – as we will see, the original version of the federal minimum wage was very discriminatory in its effect.

Every state that lacks a minimum wage features a heavy concentration of Black Americans.

|  |  |
| --- | --- |
|  | **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% |

1. **Example: Minimum Wage in Florida**

Here is an example, how voters decided to increase the state minimum wage and how the increases will take place over time. It is important to note, that any increases in the minimum wage should be implemented gradually over time with enough forewarning in order decreased the amount of possible disruptions.

1. **Important Questions**

When thinking about the minimum wage, it is worthwhile not just pondering whether or not it should be raised, but it is important to think about the following questions:

* 1. What is the purpose of a minimum wage?
	2. What is the purpose of a FEDERAL minimum wage?
		1. There is an important distinction between just studying what are the effects of minimum wages on the labor market and the issue of should we have a FEDERAL minimum wage (as opposed to State or local).
		2. The topic of a FEDERAL minimum wage is more political, while the issue of what does the min wage do – is more about economics.
	3. Why do we have one?
		1. We will talk about the origin story in just a minute.
	4. What are the implications of having one?
	5. Should we have one?
	6. How high should it be?
		1. What level of minimum wage accomplishes the goals that are inherent in having a minimum wage?

This isn’t going to be particularly satisfying, but I really won’t have much to say about the last two questions. They are questions with really subjective answers. That is, your answer to them will depend on your preferences over a wide variety of things: in particular, whether, how and how much to help low-wage workers.

Obviously, there is no and never will be consensus in the economics profession surrounding these issues.

1. **Minimum Wage: Purpose**

The way most people think about a minimum wage is that it raises the wages of low skilled workers, thereby imposing a cost on businesses who employ such workers.

Another way of thinking about it, and we will see that this was important in the origin story of the minimum wage in the United States is that it protects workers against unduly low pay. It also helps to ensure that as living standards in the United States rise, so, too do those at the bottom end of the income distribution – potentially reducing poverty and overall income inequality.

1. **Origin Story: The New Deal**

A group of programs enacted during the Great Depression are often lumped together and termed The New Deal. The programs listed here are not an exhaustive list. Excluded are programs such as the Civilian Conservation Corps and the FHA.

But these 3 programs have at least one thing in common. They were not comprehensive. At they time, they all omitted farm workers, domestic help, restaurant workers, and some other categories. Workers in these categories were, at the time, much more likely to be Black. These exclusions were made largely at the request of Southern Democrats who were not interested in increasing the standard of living of their Black populations.

The Social Security program, for instance, exempted these categories of workers, which excluded many Black workers, but also meant that some Whites were ineligible; however, it was just 27% of White workers and 65% of Black workers. Chipping away at these exclusions began in the 1950s. The vast majority of workers today are covered by the minimum wage. Currently, the self- employed, private household, and agricultural workers remain excluded.

1. **Fair Labor Standards Act of 1938**

The minimum wage came into being with the passage of the FLSA of 1938. At the time, the minimum wage was just $0.25 per hour. In inflation adjusted terms that is just under $5.

The minimum wage is not indexed for inflation. That is, every year that it is not increased, it is effectively being lowered. As we will see on the next slide, episodes of falling minimum wages are not uncommon.

As was just discussed, many workers were excluded. Only about 23% of all workers at the time were covered by the minimum wage, or about 11 million out of the 48 million workers in 1938.

It was only those engaged in interstate commerce or the production of goods that were for interstate commerce that were actually covered.

Here is a broader list of occupations that were excluded.

1. **Minimum Wages**

When originally put in place, it did not apply as widely as it does today. In particular, it did not apply to farm workers or to domestic help. Occupations heavily overrepresented with Black workers. It only applied to:

"employees engaged in interstate commerce or in the production of goods for interstate commerce,"

Coverage was expanded considerably in the 1960s. It also increased significantly. It reached its peak in 1968 and has fallen – because of inflation – by more than 40%. Put another way, it was 68% higher then than it is today.

As a higher proportion of Black workers are affected by the minimum wage, this decline in the wage potentially exacerbates the existing Black-White wage gap. (Although in 2018, just 2.6% of Black workers were at or below minimum and 2.0% of White workers – I wonder how much state minimums affected this.)

1. **Should There be A Federal Minimum Wage?**

The question of the existence of a Federal minimum wage can be posed in two different ways. First, should there be a minimum wage at all? This tends to be more of a philosophical question, centering around the freedom of the market to establish wages as it sees fit for low skilled workers, and whether or not the government should be providing assistance to those workers and whether or not the minimum wage is the most efficient mechanism. Alternatives to providing support do exist: a guaranteed minimum income, the Earned Income Tax Credit (EITC), and other social support programs.

Second, having resolved the first question in favor of a minimum wage is the question of whether or not there should be a Federal minimum wage or if it should be left up to the states. As we have seen, many states have a minimum wage in excess of the Federal level and by 2025, nearly one-third of the labor force will be under a $15/hour minimum wage.

Given this activity at the state level, should there really be a Federal minimum wage? On the one hand, the cost of living differs significantly across states, so it seems reasonable that the minimum wage should also differ. At the same time, because of differences in local politics, this could lead to dramatically different standards of living in different parts of the country.

The right answer to this question is one that really centers more on equity rather than efficiency and is very difficult for economics to answer.

1. **States and Local Governments Are Raising Minimum Wages**

I have mentioned several times that states and local governments are imposing their own minimum wages. Accordingly, the average job is subject to a minimum wage of nearly $12/hour already, a figure that has increased dramatically relative to the Federal Minimum wage since the late 1990s, with most of the relative increase coming in just the last 5 years.

1. **Common View of Minimum Wage**

The most common narrative around the question of the minimum wage, having one or raising it, is born out of the most simple of economic models: supply and demand. I’m not going to go through the model, but it comes to the intuitive conclusion that when the price of something goes up, the amount purchased (hired) goes down.

Applying this to the minimum wage, the conversation is: the minimum wage raises wages – the price of labor. This raises costs to employers which results in fewer people – low wage workers, in particular - having jobs.

The bottom line in the conversation is then whether or not the tradeoff is worth it: higher wages for some workers and job losses for other workers.

One quick element of the conversation that is often overlooked is that the reduced employment dramatically overstates the numbers of low wage workers that will actually lose a job with an increase in the minimum wage. The more likely outcome is that employers won’t hire or that they will reduce their employment through attrition. In other words, if an increase in the minimum wage projects a loss of 1,000 low wage jobs, far fewer than 1,000 workers actually lose their jobs.

As mentioned, this is a very simple way of thinking about the minimum wage. Let’s consider some implications that tend to be ignored.

1. **How much unemployment will the MW create?**

This is the most typical example used in nearly all introductory microeconomics textbooks. The point here is first to show that when you put in a binding minimum wage (one above the equilibrium wage) you will create unemployment. As a result of higher min wage, the demand for labor will decrease and the supply of labor will increase. The difference between the two can be interpreted as unemployment.

But one thing that can be asked is how much unemployment will be created. Obviously, the higher the min wage is above the equilibrium, the bigger the impact. But even for the same level of min wage there are different possible answers.

In the first graph, the labor supply and demand are very flat (very elastic). Meaning that both employers and employees are very wage sensitive. This means that if wages go up, even for a bit, employers will react quite strongly decreasing their demand for workers, while employees will also react strongly

Now if we look at the second graph, where labor supply and demand are very vertical, the same amount of min wage will do a lot less harm in terms of unemployment. It is still the case, that higher min wage causes unemployment but it’s quite small – especially compared to the benefits (higher wages) to everyone else, that kept their jobs.

It is hard to argue in favor of the minimum wage when labor supply and demand are very elastic. But an argument could be made for the second case. Which one is correct?

Here the theory doesn’t provide any answers – we need to look at the data!

1. **Empirical Evidence**

This might be one of more important slides to discuss. It shows the difficulties in doing empirical research in economics.

The main thing that economists would like to estimate is the elasticity of labor demand and supply. However, doing so it’s quite challenging. Some of the issues with estimating the employment effect of the minimum wage are: 1) the timing of the minimum wage increase. For example, suppose that the minimum wage is increased and employment goes up. Does this mean that the min wage increases employment? Consider the min wage being increased in 2002 – at the beginning of the long expansion. The min wage might have had a negative effect, but it went undetected, because of all the other factors that affect employment. Similarly, imagine that the min wage goes up and there is a massive unemployment a year after. Well, this could be because the economy went into a recession and not because of the min wage.
Similarly, imagine that the min wage goes up from $7.25 to $13 and there is no effect on employment. What do we conclude? Well this could be because $13 min wage is non-binding and has no impact on employment.

These examples show how difficult it is to effectively measure some pretty obvious concepts in economics. As a result, economists are tying to look at various historical events and use different statistical methods to try to evaluate the min wage on employment. Measuring and empirically estimating seemingly obvious concepts is not that straightforward and easy to do; empirical work in social sciences is not as “easy” as in natural sciences, since we don’t have a lab to experiment in.

To summarize what the current empirical literature says on this topic we can look at meta-analysis. A meta-analysis is a statistical analysis that combines the results of multiple [scientific studies](https://en.wikipedia.org/wiki/Randomized_controlled_trial). Meta-analysis can be performed when there are multiple scientific studies addressing the same question, with each individual study reporting measurements that are expected to have some degree of error. The aim then is to use approaches from [statistics](https://en.wikipedia.org/wiki/Statistics) to derive a pooled estimate closest to the unknown common truth based on how this error is perceived.

The most current and up-to date meta-analysis has been conducted by Belman and Wolfson (2010).

* 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.

An alternative summary of the literature is performed by Neumark and Shirely (2021). They look at about 70 studies and they use somewhat unconventional methods. They identified the core or “preferred” estimates that reflect the conclusions from each study of employment effects in the United States, in most cases relying on responses from the researchers who wrote these papers. They do not use the usual meta-analysis approach of capturing all estimates reported in studies, because they think that using the entire set of estimates reported is likely to fail to convey the conclusions of the research, most importantly because many papers present estimates that the authors do not view as credible. They then summarize the evidence on these core estimates in a number of ways.

They concluded that there is a clear preponderance of negative estimates in the literature. In their data, 78.9% of the estimated employment elasticities are negative, 53.9% are negative and significant at the 10% level or better, and 46.1% are negative and significant at the 5% level or better.

1. **Market Structure**

Additional aspect to be considered in the employment effects of the minimum wage is the market structure of the labor market. In the previous discussion, it assumed that the labor market are (perfectly) competitive. This means that there are numerous employers, numerous employees with each behaving as price taker with no market power. This is what is assumed implicitly whenever one applies and uses the standard supply-demand model.

If one assumes a monopsonitic labor market, i.e. one where there is one employer that has market power, the impacts of a minimum wage are drastically different.

The term “monopsony,” first used in print by Joan Robinson (1969, p. 215), means a *single buyer* in a market. Like a monopolist (a single seller), a monopsonist has power over price through control of quantity. In particular, a monopolist can push the market price of a good down by reducing the quantity it purchases. The tradeoff between price paid and quantity purchased is the *supply curve* that the monopsonist confronts. A competitive buyer, by contrast, confronts no such tradeoff — it must accept a price determined by the market. A monopsonized market will therefore be characterized by a smaller quantity traded and a lower price than a competitive market with the same demand and other costs of production.

1. **Monopsonistic Labor Market**

If one assumes a monopsonistic labor market, i.e. one where there is one employer that has market power, the impacts of a minimum wage are drastically different.

Theoretically, it can be shown (see seminal paper by Stigler (1964)) that a higher, well chosen min wage can actually increase employment (not decrease it) when firms enjoy monopsony power.

The questions that raises again is, how do we decide if a model of perfectly competitive labor market vs monopsonists labor market is appropriate? This debate again should again be settle using empirical data. However, just like in the debate above the estimates of labor demand elasticities, the issue is far from settles. Mostly because of the difficulties in obtaining clear empirical results.

First, monopsonistic market may not be observed only for low-skilled, min wage workers. In fact, one case where data seems to suggest a monopsonistic labor market could be for university professors:

Several researchers have suggested that moving costs give a university monopsony power over its existing workforce because professors face moving costs. This is because professors have highly specialized skills and their potential employers (universities) are widely dispersed geographically. Now the market for newly-hired professors is surely competitive, because new hires must pay moving costs no matter who hires them. But the market for existing professors is monopsonized because professors, once hired, may require a substantial wage increase to switch universities. Moreover, since pay is usually adjusted over time for performance, universities cannot promise future salary increases at the time of original hire, as school districts do. Assuming some professors have higher moving costs than others, a modest cut in wages for existing professors will not cause them all to leave.

Similar arguments cold be made for physicians at local hospitals since the massive mergers and acquisitions in the market for hospitals.

The market for low-skilled labor could be a monopsony due to geographical and occupational immobilities, which make it difficult for workers to switch jobs and find alternative employment.

This is still an ongoing debate, but a paper by Azar, et al. (2019) provides some interesting new insights: Their findings provide direct empirical evidence supporting the monopsony model as an explanation for the near-zero minimum wage employment effect documented in prior work. They suggest the aggregate minimum wage employment effects estimated thus far in the literature may mask heterogeneity across different levels of labor market concentration.

See Azar, José, et al. 2019. “Minimum Wage Employment Effects and Labor Market Concentration.” NBER Working Paper No. 26101.

1. **Simple Views Area Incomplete**

For a variety of reasons, the minimum wage effects are much more complex. First, employment need not decline. We will talk about the effects on worker effort in a minute, but employers may opt for maintaining current employment levels even in the face of the increase. This is more likely to be true for small changes rather than large. Also the issue of monopsony.

Second, it is also true that a minimum wage may not be good for low wage workers.

In both cases, employers have more levers at their disposal than simply to reduce employment in the fact of a wage increase. They can raise output prices, they can reduce nonwage compensation or they can change other job attributes.

The issue is that wages and wage inequality are incomplete and potentially misleading when used to summarize the effects of policies like minimum wages. If a firm offsets the cost of the minimum wage by reducing the generosity of my health insurance, for example, I may be no better or worse off. Importantly, the increase in my cash income may, for example, make it look as though I have been lifted out of poverty even if my total compensation has not changed! It will also look as though wage inequality has gone down even if inequality in total compensation has not changed! So we have to be careful in our use of economic statistics to ensure that we don’t choose statistics that unintentionally bake in policy conclusions that look either more or less favorable to a policy than is warranted. Similarly, we can note that if workers receive higher wages but are required to exert more effort on the job, they could plausibly be either better or worse off. The same can be said of shifts from worker-driven schedules towards employer-driven schedules.

All of these changes could be good for low wage workers as they put more $ in their pockets, but it will depend on their preferences. If they would rather have better job attributes at a lower wage, this could hurt minimum wage workers.

It must also be kept in mind that business settings vary and the response of different employers or in different industries will be different. Some may reduce employment while others raise prices.

As a consequence, no single answer to the employment question or to the worker welfare question is possible. Economists will not all agree.

1. **Responses by Employer**

Employers make a more complicated decision than just how many employees to have with the new minimum wage.

A helpful suggestion for presenters is to tell the audience to put themselves in the mindset of a business manager. From this mindset I think it's quite intuitive how the various margins come into play. E.g., Can I raise prices? Maybe, if my consumers can't easily get my services from firms elsewhere that have lower costs. Are there ways I can offset the wage increase by reducing other aspects of compensation? Again, maybe, depending on what the full package looks like and the relevant contracts are set up. Can I increase required effort on the job? Again, maybe, though this might be easier in some settings than others. Less so if faster work is likely to generate mistakes or if it's difficult to measure the output generated by a marginal increase in effort, etc.

1. **Responses by Employee**

Employees may also change their actions base on the new wage.

1. **Arguments FOR a Minimum Wage**

To elaborate on the previous slide, here we consolidate the major arguments in favor of a minimum wage or its increase. At a basic level, it will increase the standard of living for minimum wage workers. As well as for workers who are currently paid near the minimum wage. On this, there is significant consensus in the economics profession.

Where there is less consensus is in the secondary effects. Higher wages may well improve employee morale – leading to lower rates of turnover. Workers are less likely to quit a job that is satisfying, especially in terms of wages paid. With less turnover, there is likely to be higher labor productivity – certainly lower costs for employers. Turnover is costly.

From a broader economic perspective, a higher minimum wage is putting more money in the hands of people who will spend it. Imagine taking $1,000 from Jeff Bezos and giving it to somebody making minimum wage. Bezos will not spend less, but the min wage worker will spend more. This will increase overall demand for goods in the economy, stimulating growth.

Finally, because a higher proportion of women than men work jobs that pay minimum wages, a higher minimum wage could reduce disparities in men’s and women’s wages. Bringing women’s wages closer to those of men.

1. **Arguments AGAINST A Minimum Wage**

As with arguments for the minimum wage, there are consensus and non-consensus arguments against. The consensus is that there is likely to be some employment consequence – with a lack of consensus as to just how much. There is further consensus on the notion that it will hit small businesses and labor-intensive industries harder than larger businesses or other industries.

Secondary effects, where there is less consensus, include inflation – higher wages translate into higher prices for goods and services. The extent of this passthrough is not well understood, but it stands to reason that there will be some.

Further, as discussed, it may well have implications for the workplace environment. Fewer amenities, perhaps even less safe or hospitable.

1. **Who Wins? No Clear Answer**

It is a very complicated evaluation of these factors that lead individual economists to their views on minimum wages. As a consequence, there is no clear position from the economics profession.

This lack of consensus is a result of both incomplete evidence and the weights that individual economists put on the different implications of a minimum wage.

For instance, conservative economists will tend to place greater weight on the job losses while liberal economists will tend to downplay them.

1. **Consensus on Employment Effects?**

There is clearly no consensus on whether or not the minimum wage reduces overall employment of low-wage workers (see Clemens).

However, there is more of a consensus in the results of the myriad studies since 1992. The preponderance of results indicate negative employment effects. Nearly 80% of estimated elasticities during this time imply that an increase in the minimum wage reduces overall employment of low-skilled workers (Neumark and Shirley, 2021).

Beyond the overall employment effects are the implications of this finding for overall compensation. If the time an individual is employed falls by 10%, but their compensation rises by 15%, this is a tradeoff that most low-wage workers are willing to accept. However, the limited evidence in this regard suggests that a $1 increase in the minimum wage reduces overall compensation by more than 10%, a tradeoff most are unlikely to make (Yu, Mankad, and Shunku, 2021).

1. **Raise the Wage Act 2021 (RWA)**

Congress has recently put forward HR 603, the Raise the Wage Act of 2021. The act is reasonably simple and straightforward. It has basically 3 provisions:

1. It raises the minimum wage to $15 by 2025.
2. It then indexes the minimum wage to median wages in the economy.
	1. This helps to make sure that as overall wages increase, those at the bottom experience the increase as well.
3. It eliminates 3 of the separate minimum wages – young workers, tipped workers, and disabled workers – consolidating them into the overall minimum wage.
	1. Section 14(c) of the FLSA allows employers to pay wages below the federal minimum to employees who have disabilities that directly affect their job performance.
4. **Scheduled Min Wage Increases Under RWA**

The schedule illustrates the rate at which the minimum wages will grow between now and 2025, or 2026. The overall minimum wage increases by $150 an hour for the first couple of years and a dollar an hour in the last year to arrive at the $15/hour figure. A different rate of growth applies to the other minimum wages – generally faster as they started off at a significantly lower rate and only have one additional year (for young and tipped) to catch up.

All four are indexed to median wages beginning in 2027.

1. **Economic Consensus on $15/hour? NO**

The evidence to date does not support an unambiguous yes or no answer to this question. There are three sets of effects. The first is low wage workers and the effect on their living standards. The second is the effect on business owners. The final is on broader society.

These are listed broadly in reverse order of consensus.

There is very little consensus on whether the tradeoffs for low wage workers make for a good equity vs efficiency tradeoff. Job losses, less desirable workplaces, and the potential for inflation way against while the higher wages of those who remain employed weigh in favor.

As for the affected businesses, there isn’t 100% consensus as the higher wages may in fact serve to make some businesses better off – through the efficiency wages that were mentioned earlier.

In terms of broader society, here is likely the most consensus. Imposing wage rigidities on the economy is thought by very few economists to lead to a bigger pie. At best, it is a redistribution of the resources around the economy, but this is an unlikely scenario. More likely is it that the minimum wage will reorient the economy’s resources away from that which is most efficient.

In the end, the profession is neither able to objectively support or condemn the increase in the minimum wage.

1. **CBO Analysis**

However, economic tools can be brought to bear on the effects of a $15/hour minimum wage and perhaps the most thorough analysis is that carried out by the Congressional Budget Office (CBO). Here we provide a summary of their findings.

They estimate that some 27 million people would have higher wages in 2025 than would otherwise be the case. This is 17 million for whom the minimum wage would be binding and 10 million whose wages would be pushed up above $15/hour as the minimum wage approaches that level.

All in all, these 27 million workers would see an estimated increase in income of $509B.

It is further estimated that 1.4 million low wage jobs would go away. These would be jobs primarily held by young and less educated workers.

Their lost income amounts to about $175B, making the net gain in income just $333B between 2021 and 2025.

Finally, the hike in the minimum wage is estimated to lift some 900,000 out of poverty. In 2019, there were 34 million Americans living in poverty. This lowers poverty by just 2.6%, or by significantly less than one percentage point.

Aside: Min wage is not a good tool to be dealing with the issue of poverty to begin with. The majority of people who are poor do not work. So even if the min wage is $50 per hour it makes not difference if you are not working.

Here, the measurable pros and cons are clearly laid out, but many remain absent. Such as the effects on inflation and the effects on the workplace of low wage workers.

1. **What to make of the CBO Results?**

The bottom line of the CBO results are increased wages for 27 million people, 1.4 million fewer low wage jobs, and 900,000 people lifted out of poverty.

There are tradeoffs inherent in this policy. Some low-wage workers will be worse off, for sure, but many will experience higher wages. These higher wages will also impact businesses, many of which are small.

In the end, it is a judgement call. As with many economic issues, economics is unable to concretely state that raising the minimum wage is better for society than not and many people, all reasonable, disagree about the efficacy of this policy.

As with all policies, it is also worth considering the possibility that there is a better policy instrument available that will achieve the same end with better results.

In this case, their may be and that is the EITC – earned income tax credit. The EITC provides a tax subsidy that raises the incomes of low wage workers. A similar end to that achieved by the minimum wage could be achieved through the EITC. However, the willingness of taxpayers to pick up the tab as opposed to putting it on businesses may be an impediment to this policy.

It is also a value judgement as to who should pick up the tab. Should it be businesses who are benefiting from paying such low wages or should it be taxpayers who may collectively wish to improve living standards among the nation’s working poor.

1. **The impact on poverty and wage inequality**

One reasons why politicians or votes might be in favor of the min wage is that they view it as an effective tool to fight against poverty and wage inequality.

Data (and actually common sense) suggests that MW may not be a great tool to fight against poverty, but it could be potentially use against wage inequality.

1. **Other Options?**

There might be other better options than the current Federal MW.

One options that many economists seem to support a lot more that MW is Earned Income Tax Credit (EITC).

1. **Earned Income Tax Credit (EITC) superior on many grounds**

Short comparison between MW and EITC.

In addition, the cost of the minimum wage is not borne, to a meaningful degree, by tech companies, law firms, physicians in private practice, or even firms like major auto manufacturers. The businesses impacted by the minimum wage are those in sectors that employ non-trivial amounts of low wage labor. As redistributive policies go, the EITC has the distinct advantage that its financing can be targeted at the top of the income distribution. The minimum wage, by contrast, targets the owners of a fairly narrow slice of businesses, which tend to have owners who are less well off than the owners of tech firms, etc.

EITC puts taxpayers on the hook instead of the mix of business owners, consumers, and adversely affected workers who pay directly or indirectly for the minimum wage.

1. **Summary**

I know that this isn’t terribly satisfying, but here is some of what we do know about the minimum wage. It has been in place at the national level since 1938. When it was born, it covered barely 25% of the workers in the country. Coverage has expanded greatly since then.

The Federal minimum wage is currently $7.25/our and has not been increased in more than 10 years (2009). In inflation adjusted terms, the minimum wage was about $5 higher in the 1960s.

There is insufficient evidence to provide a clear answer to whether it is a good idea or not. Accordingly, there are both perfectly valid reasons to support or oppose it. It’s all in how you value the tradeoffs – largely employment for some and higher wages for others.

But the story is quite a bit more complicated than that. There is inflation to be considered, the overall effect on the economy and on small businesses as well as the workplace environment of low wage workers.

It is also the case that the Federal minimum wage is becoming less and less relevant because states and local governments are imposing their own minimum wage. This leads open the potential for great inequities in living standards for low-income workers around the country. It is also true that these inequities can fall along racial lines – as we have seen, the states with no independent minimum wage have a very high representation of Black Americans. It is also possible that the upside of different minimum wages across the country could more accurately reflect differences in the cost of living around the country. Some states are cheaper than others and it could be argued that the minimum wage should reflect that.

Finally, and this is wholly unsatisfying, the state of evidence on the economics of the minimum wage is insufficient to provide clarity and anything like a consensus within the economics profession about the efficacy of the minimum wage. Views expressed tend to reflect personal evaluations of the minimum wage rather than the outcome of hard evidence.

Economics simply doesn’t provide us with an answer as to whether or not raising the minimum wage is a productive tradeoff of efficiency for equity.

1. **Most Important Point: It’s Complicated**
2. **Thank you!**

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