



FEDERAL MINIMUM WAGE

Yu-chia Wu, Guest Author

Proposals to raise the federal minimum wage have been receiving significant attention. President Obama has repeatedly called for an increase in the minimum wage to \$10.10. According to the Harkin-Miller proposal, the Fair Minimum Wage Act of 2013 (FMWA) would have three increments of 95 cents to the current minimum wage of \$7.25, raising it to \$10.10 in 2016. After that, the minimum wage would be indexed to rise with inflation. “Millions of Americans clean our offices, wait on customers in restaurants and stores, and provide care for our children, parents, or grandparents. Yet, despite all they do to keep our economy running, minimum wage workers earn just \$7.25 an hour—not enough to pay the bills, much less aspire to the American Dream,” said Harkin in March.

(Mantel, Barbara, “Minimum Wage.” *CQ Research* 24 Jan. 2014: 73-96.)

<http://library.cqpress.com/cqresearcher/document.php?id=cqresrre2014012400&type=hitlist&num=0>

According to a report from the Bureau of Labor Statistics, 75.9 million workers—or 58.8% of all wage and salary workers—who are at least 16 years old are paid hourly rates in 2013. Furthermore, 3.3 million workers or 4.3% of all hourly paid workers are paid at or below the federal minimum wage. About two third of the minimum wage workers are in the service occupations, with a majority in the food preparation and service-related jobs. The leisure and hospitality industry has the highest number of minimum wage workers. A significant number of minimum wage workers are employed in restaurants and other food services, and tips may serve as a complement to their wages.

By examining the distribution of minimum wage workers at the state level, Tennessee has the largest share of minimum wage workers. 7.4 percent of workforce or 117,000 workers in Tennessee earns at or below the minimum wage. The number of minimum wage workers in Tennessee is much higher than the national average.

<http://www.bls.gov/cps/minwage2013.pdf>

The National Conference of State Legislatures reports that 5 states, including Tennessee, have not established a state minimum wage. Several states have higher state minimum wages than the federal minimum wage, some that are indexed to increase with the federal minimum wage.

<http://www.ncsl.org/research/labor-and-employment/state-minimum-wage-chart.aspx>

These proposals suggest that raising the federal minimum wage would be beneficial in terms of lifting people out of poverty, reducing income inequalities and boosting economy. However, there has been a debate over the increase in minimum wage, as policymakers have different viewpoints.

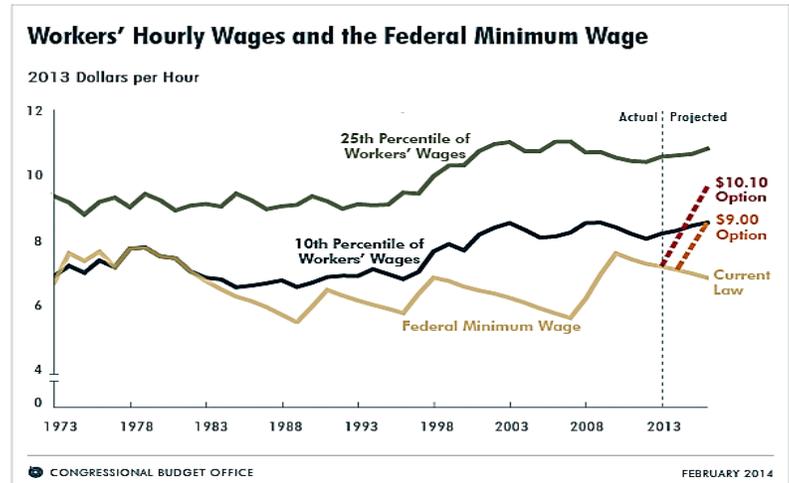
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Viewpoints from the Proponents

Proponents of the increase indicate that the current minimum wage fails to keep pace with inflation, and the real value of the minimum wage has declined. The chart below compares the federal minimum wages with the wages of workers at the 10th and 25th percentile. The federal minimum wage was first introduced by the Fair Labor Standards Act of 1938 (FLSA). Since then, the minimum wage has been raised on 22 separate occasions, from \$0.25 an hour in 1938 to \$7.25 in 2009. Despite the increase in nominal minimum wage, its real value declined over the years due to inflation. This decline was significant over two decades (1981-1990 and 1997-2007) when the nominal minimum wage was stagnant. Currently, the minimum wage is \$7.25 per hour, which has stagnated since its latest change in 2009. The real value has been on the decline. Therefore, the FMWA's adjustment to inflation would restore the real value, as reported in the Congressional Budget Office's *The Effects of a Minimum Wage Increase on Employment and Family Income* on February 18, 2014.

<http://www.cbo.gov/publication/44995>



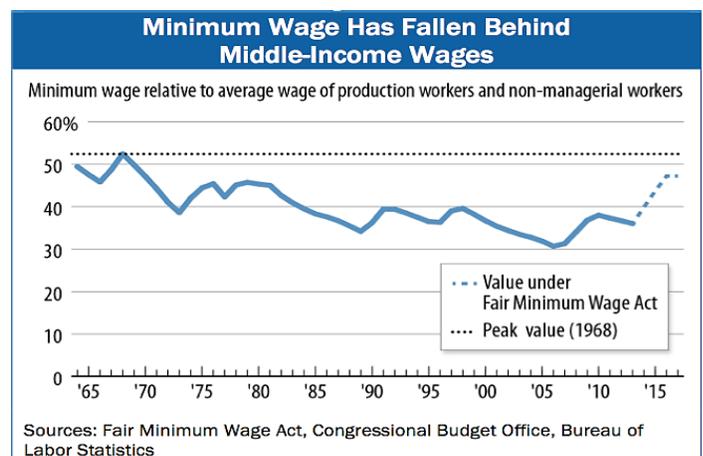
The current minimum wage fails to bring fairness to workers in terms of not making work pay.

A Full Committee Hearing (*From Poverty to Opportunity: How a Fair Minimum Wage Will Help Working Families Succeed*) on March 12, 2014, explained that many families are trapped in poverty because of the existing minimum wage. A full-time minimum wage worker who works 40 hours a week every week of the year would earn \$15,050 during the year.

In spite of the hard work put in, the minimum wage workers still live barely above poverty. Furthermore, if the worker has a dependent such as a child, this family would live below the U.S. poverty threshold, which was \$16,057 for one adult and one child family in 2013. Therefore, minimum wage workers do not receive wages equivalent to the amount of work done.

<http://www.help.senate.gov/hearings/hearing/?id=51f3cf01-5056-a032-5266-935ef3b78cc9>

A January 7, 2014 report from the Center on Budget and Policy Priorities described the disconnection between pay and productivity for minimum wage workers occurs because much of the productivity growth accrued to those with the highest wages. *Proposal to Strengthen Minimum Wage Would Help Low-Wage Workers, With Little Impact on Employment* indicates that



the current minimum wage has failed to keep up with the median wage.

Raising minimum wage would reduce the wage disparity and alleviate income inequality. The figure shows the degree to which minimum wage has fallen behind middle-income wages, and the report explains the erosion of the minimum wage and inequality in the distance between the minimum wage and workers with higher incomes.

Viewpoints from the Opponents

An increase in the minimum wage would have a harmful effect on employment.

The opponents claim that employers would respond to the cost of higher minimum wage by laying-off employees or hiring fewer workers. As a result, raising minimum wage would risk unemployment for minimum wage workers. Several studies of the impact of increasing minimum wage on employment have been published, but the results vary. Economist John Schmitt has reviewed over 60 articles and concluded “the weight of the evidence points to little or no employment response to modest increase in the minimum wage”. In other words, the effect of unemployment and change in work hours are insignificant. *Proposal to Strengthen Minimum Wage Would Help Low-Wage Workers, With Little Impact on Employment* also explains that fewer employees would be laid-off compared to those with higher wages, and workers with fewer hours still have a higher salary.

<http://www.cbpp.org/files/1-7-14minwg.pdf>

Raising the minimum wage is not well targeted to those who are in need, but primarily benefits teenagers who are taking part-time jobs and from high-income families.

As explained in the June 9, 2014, New York Times, this argument is not justified because only 12% of minimum wage earners are less than 20 years old. *Minimum Wage: Who Makes It?* Indicates that the majority of the minimum wage workers are needy people. The characteristics of minimum wage earners are as following:

- Age: average is 35
- Gender: 55% are woman
- Race: minorities are overrepresented.
- Education: 78% have a minimum of high school education
- Family Income: 12% come from families with income above \$100,000
- Family Composition: significant number are parents
- Full/Part Time: equal proportion of full-time and part-time workers
- Region: disproportionately large number in the South

http://www.nytimes.com/2014/06/10/upshot/minimum-wage.html?_r=4

After understanding the characteristics of minimum wage workers, it is clear that an increase in the minimum wage is beneficial. In fact, a higher minimum wage would not only benefit employees but also employers, the government, and even the society.



Benefit to Employees

Up to 35 million U.S. workers (29.4% of the workforce) could benefit from raising the minimum wage, according to *The “Ripple Effect” of a Minimum Wage Increase on American Workers* (Brookings, January 10, 2014). When there is a rise in the minimum wage, those who are earning up to 150 percent of the minimum wage will also stand to benefit. In other words, workers who are earning marginally higher than the minimum wage will also have a raise, which is known as the ripple effect. <http://www.brookings.edu/blogs/up-front/posts/2014/01/10-ripple-effect-of-increasing-the-minimum-wage-kearney-harris>

Increasing Wages is an Effective Poverty Reduction Tool, Even for Kids (Economic Policy Institute, June 18, 2014) indicates that because the majority of the bottom fifth of working age American households relies on wage for their income, increased wages would help them attain a modest and secure living standard. Moreover, about one-in-five children would have at least one parent receiving a raise. This would result in an improved lifestyle for families as they have a mean of obtaining better health care, childcare, housing and education. <http://www.epi.org/publication/increasing-wages-effective-poverty-reduction/>



Benefit to the Employers

An increase in the minimum wage can help employers save non-wage costs and make workers more productive.

The Full Committee Hearing on From Poverty to Opportunity: How a Fair Minimum Wage Will Help Working Families Succeed emphasized that Nobel Laureates Joseph Stiglitz and George Akerlof proposed that companies could be more productive by paying higher wages, and this effect is called the “efficiency wages theory.” Higher wage would result in higher productivity and efficiency, boost morale of workers, and decrease cost. Furthermore, job satisfaction will be higher, leading to lower turnover costs. According to a research conducted by Economist Arindrajit Dube, William Lester, and Michael Reich, the turnover rate decreases due to a higher minimum wage. Therefore, it is possible that employers could still benefit from paying higher wages as turnover costs are reduced. <http://www.help.senate.gov/hearings/hearing/?id=51f3cf01-5056-a032-5266-935ef3b78cc9>

Benefit to the Government

Raising the minimum wage will reduce enrollments and expenditures on public assistance program. A recent report released by the Center for American Progress, *The Effects of Minimum Wages on SNAP Enrollments and Expenditures*, found that increasing the federal minimum wage to \$10.10 an hour

would lower government spending on the Supplemental Nutrition Assistance Program (SNAP). Over the past decades, government spending and enrollment in SNAP have grown. In 2011, SNAP served 45 million people, nearly one-seventh of the U.S. population, and cost \$78 billion. Among SNAP recipients, a disproportionate number are minimum wage workers.

According to the report, an increase in the minimum wage would reduce SNAP enrollment by 3.1 million to 3.6 million people, and that saves nearly \$4.6 billion annually or \$46 billion over the next 10 years. “The best way to reduce spending on nutrition assistance is not cutting food aid for families struggling against hunger, but improving the bottom lines of families by ensuring that they are not earning poverty wages to begin with,” said CAP President Neera Tanden.

<http://www.americanprogress.org/issues/economy/report/2014/03/05/85158/the-effects-of-minimum-wages-on-snap-enrollments-and-expenditures/>

An increase in the minimum wage complements the Earned Income Tax Credit (EITC) in reducing poverty effectively.

The EITC, a pro-work wage subsidy for low-income workers, has been an effective tool in lifting people out of poverty. Nevertheless, the EITC alone is not enough in reducing poverty. With the complement of a minimum-wage increase, unintended consequences result from the EITC will be offset. Firstly, an accidental effect caused by the EITC is that it increases the work force in the low-wage sector, resulting in lower wages offered by employers. This is disadvantageous for people who are not covered by the EITC. Increasing the minimum wage helps to negate this ramification. Secondly, the EITC is only in the form of an annual basis supplement, which may fail to provide for families in times of need. However, the increase in minimum wage is presented in monthly salaries, allowing families to make ends meet.

Proposal to Strengthen Minimum Wage Would Help

Low-Wage Workers, With Little Impact on Employment notes that the EITC can be enhanced through an increase in the minimum wage, but that it also needs changes in order to be strengthened. For example, expanding the EITC benefits to childless workers enables the two policies to work hand in hand, resulting in higher earnings for low-wage workers. Policymakers would underestimate the cost to the government if they rely too much on the EITC to help low-income workers. Instead, they should consider the EITC as complement to a sufficient minimum wage.

<http://www.cbpp.org/files/1-7-14minwg.pdf>



Benefit to the Society

Raising the minimum wage would lift people out of poverty, reduce income inequality, and boost economy. According to economist Arindrajit Dube, about 4.6 million people will be pulled out of poverty if the minimum wage is raised. By 2016, the Fair Minimum Wage Act will lower poverty rate of

non-elderly Americans from 17.5% to 15.85%. Moreover, the distribution of wages in the United States is significantly affected by the value of the minimum wage. The decrease in the true value of the minimum wage plays a major role in widening the income gap for the lower half of the income distribution. Therefore, an increase in the minimum wage would alleviate income equality, as explained in the Full Committee Hearing, *From Poverty to Opportunity: How a Fair Minimum Wage Will Help Working Families Succeed*.

<http://www.help.senate.gov/hearings/hearing/?id=51f3cf01-5056-a032-5266-935ef3b78cc9>

In addition, an increase in the minimum wage would boost economy. This positive effect is the result of workers having more money to spend, which increases demand and economic activity. Jared Bernstein, a senior fellow at the Center on Budget and Policy Priorities, claimed that consumer spending makes up 70% of the American economy. Based on the theory that people in different income levels have different money managing trends, a low-income earner has a higher chance of spending that extra money earned compared to a wealthy person. This is because wealthy people do not have a tight budget, which allows them to buy things easily. However, a low-income earner would be more prone to spend the extra money. As a result, an increase in the minimum wage will not hurt, but help the economy by boosting the demand.

(Mantel, Barbara. "Minimum Wage." *CQ Research* 24 Jan. 2014: 73-96.)

<http://library.cqpress.com/cqresearcher/document.php?id=cqresrr2014012400&type=hitlist&num=0>

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During the summer of 2014, Yu-Chia worked as an intern with Planning & Coordination/Social Data Analysis of Metropolitan Social Services. She provided outstanding assistance in data analysis and special projects, including this issue paper on the Minimum Wage. Many thanks to Yu-Chia.

