



Election Economics

Minimum Wage By Brett Burkey

- Introduced in 1938 through the *Fair Labor Standards Act*.
- The oversupply of labor and continued use of children in factories led to passage to end the exploitation.
- Set a national minimum wage of \$0.25 an hour, a 44-hour work week, and the prohibition of "oppressive" child labor.
- FDR indicated it was his 2nd most important domestic accomplishment after Social Security.
(Jonathan Grossman, "Fair Labor Standards Act of 1938: Maximum Struggle for a Minimum Wage," *Monthly Labor Review*, June 1978)



22 INCREASES UNDER 12 PRESIDENTS

Federal Minimum Wage, 1938-2013

Shown in nominal (not adjusted for inflation) dollars and 2013 (inflation-adjusted) dollars



Note: Wage rates adjusted for inflation using implicit price deflator for personal consumption expenditures.
Sources: Bureau of Labor Statistics, Bureau of Economic Analysis, Pew Research Center analysis

PEW RESEARCH CENTER

- Though it has been adjusted 22 times, the real value of the wage has been declining since 1968.
- The current \$7.25 federal minimum is on par with its real value in the late 1950s.
- 40 hours a week, 52 weeks a year equals an annual income of \$15,080. Only 65% of the poverty threshold if there are two children in the house.

[Animated History of the Minimum Wage](#)

WHO MAKES MINIMUM WAGE?

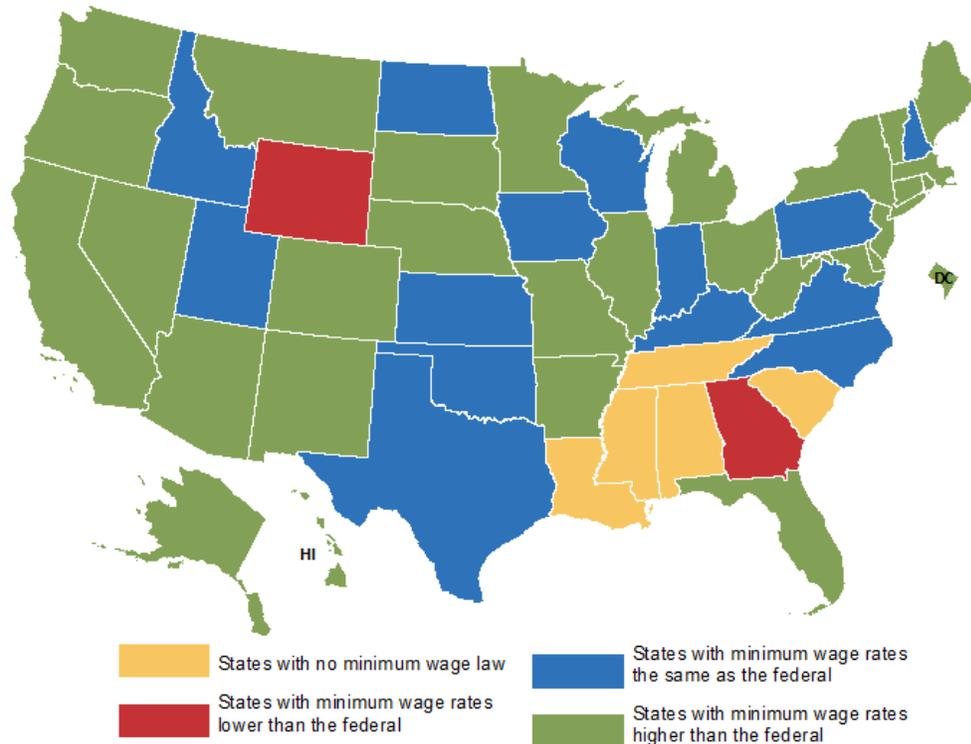
- According to the BLS, in 2015 there were 2.6 million wage earners at or below the minimum (some jobs are exempt).
- 50% are in the food preparation or food serving sector.
- 63% are women and 55% are over the age of 25, according to the U.S. Department of Labor.
- More likely to live in the South than anywhere else, with Florida the only state to adjust higher (\$8.05/hour).

<http://www.bls.gov/opub/reports/minimum-wage/2015/home.htm>



RAISE THE FEDERAL MINIMUM?

Chart 2. Minimum wage laws in the states, January 1, 2015



Source: U.S. Department of Labor, Wage and Hour Division.

- States and municipalities are free to set their own minimum hourly wage rate, the higher one prevails.
- 29 states plus D.C. have established rates higher than the federal \$7.25/hour.
- At least 30 cities and counties have adopted their own minimum rates.
- For example, Washington D.C. has a minimum wage of \$10.50/hour and Emeryville, CA of \$14.44/hour

*<http://laborcenter.berkeley.edu/minimum-wage-living-wage-resources/inventory-of-us-city-and-county-minimum-wage-ordinances/> provides a complete list.

STUDENTS

ON THE FOLLOWING SLIDES YOU WILL SEE A SET OF ARGUMENTS FOR AND OPPOSED TO RAIING THE FEDERAL MINIMUM WAGE RATE FROM ITS CURRENT \$7.25 TO A PROPOSED LEVEL OF \$10.10 AN HOUR. LEGISLATION HAD BEEN INTRODUCED THREE TIMES BETWEEN 2012-14 TO IMPLEMENT THIS INCREASE WITHOUT SUCCESS.

BEFORE THE RESPONSE TO THE POSITION IS REVEALED, SPEND A LITTLE TIME IN GENERATING YOUR OWN THOUGHTS ON WHY THE POSITION MIGHT BE VALID. ONCE YOU HAVE SUGGESTED YOUR EVIDENCE, THE SLIDE WILL PRESENT ADDITIONAL SUPPORT.

Raising the minimum wage would increase economic activity and spur job growth.

- Any increase in income for low-wage workers would be completely dedicated to consumption as they try to catch up to the cost of living.
- Once the increases and decreases in income for all workers are taken into account, overall real income would rise by \$2 billion.*

*<https://www.cbo.gov/publication/44995>

Increasing the minimum wage would force businesses to lay off employees and raise unemployment levels.

- The Congressional Budget Office has predicted that this proposed wage increase could cost the economy 500,000 jobs.*
- A 2014 survey of 1213 business owners finds that 39 percent of respondents would reduce future hiring. Among those employers who currently pay the minimum wage, 54 percent would reduce future hiring.**

*<https://www.cbo.gov/publication/45138>

**<http://www.prweb.com/releases/2014/05/prweb11811070.htm>

Increasing the minimum wage would reduce poverty.

- Based on 2015 poverty thresholds, an increase to \$10.10 an hour would elevate a single parent with two children out of poverty.*
- According to a 2014 CBO report, this would lift 900,000 people out of poverty.

*<https://aspe.hhs.gov/2015-poverty-guidelines#thresholds>

Raising the minimum wage **WON'T HAVE MUCH IMPACT ON** poverty.

- 57% of poor families with heads of household ages 18–64 have no workers
- Some workers are poor not because of low wages but because of low hours
- Many low-wage workers, such as teens, are not in poor families
- If wages were simply raised to \$10.10 with no changes to the number of jobs or hours, only 18% of the total increase in incomes would go to poor families

*<http://www.frbsf.org/economic-research/publications/economic-letter/2015/december/reducing-poverty-via-minimum-wages-tax-credit/>

Yes, it Should

- Teens make up a disproportionate percentage of food service and retail workers where minimum wage is most common.
- Employers might attract more adults with a universally higher minimum wage, and a two-tiered minimum might be a compromise to get an increased wage for adults.
- More (unskilled) teens might be hired at a lower wage, allowing them to gain experience and skills (human capital).

No, It should Not

- Could hurt teens that support families or lead to adults being passed over for teens in certain part-time occupations.
- U.S. federal law already lets employers pay workers just \$4.25 an hour during their first 90 days on the job if they're under the age of 20.

STUDENTS

IN ACTIVITY ONE, READ ABOUT THE TYPICAL LIFE OF AN ADULT WORKING FOR THE FEDERAL MINIMUM WAGE. THE INCOME AND EXPENSES ARE HIGHLIGHTED THROUGHOUT THE DESCRIPTION. ON ACTIVITY TWO, CREATE A BUDGET FOR THIS INDIVIDUAL TRACKING THE INCOME FROM WORK AND FOOD STAMPS (SNAP) AND THE EXPENSES REVISITED EVERY MONTH. CALCULATE THE TOTALS AND THE AMOUNT LEFT FOR ALL THAT HAS BEEN LEFT OUT OF THE STORY. A POSSIBLE ANSWER WILL APPEAR ON THE NEXT SLIDE.

COULD YOU LIVE ON MINIMUM WAGE?

NET INCOME/MONTHLY	MONTHLY EXPENSES
WAGES: \$987.12	\$547.50/RENT
SNAP BENEFITS : \$378.00	\$100/CHILDCARE
	\$378/GROCERIES
	\$125/ELECTRIC
	\$50/CABLE
	\$55/PUBLIC TRANSPORTATION
	\$65/OUT OF POCKET FOOD EXPENSES
	\$40/LAUNDRY
TOTAL: \$1365.12	TOTAL: \$1360.50
	\$1.00 A WEEK LEFT FOR THE UNEXPECTED

STUDENTS

IN ACTIVITY THREE, CREATE A BUDGET FOR THE SAME INDIVIDUAL IF THE FEDERAL MINIMUM WAGE WERE \$10.10 AN HOUR. KEEP EVERYTHING THE SAME WITH THE EXCEPTION OF THE AREA OF FOOD. THE SNAP BENEFIT IS **REDUCED FROM \$378 TO \$333** BECAUSE OF THE INCREASE IN INCOME.*

WHILE THE GROCERY EXPENSES WILL REMAIN THE SAME, THE OUT OF POCKET EXPENSES WILL HAVE TO ADJUST TO MAKE UP FOR THE SHORTFALL. THE GROSS INCOME FROM 38 HOURS AT \$10.10 AN HOUR IS \$383.80 A WEEK AND THE NET INCOME IS \$343.77. **THE MONTHLY NET IS \$1375.08.** A POSSIBLE ANSWER WILL APPEAR ON THE NEXT SLIDE.

*<http://www.cbpp.org/research/a-quick-guide-to-snap-eligibility-and-benefits>

COULD YOU LIVE ON MINIMUM WAGE?

NET INCOME/MONTHLY	MONTHLY EXPENSES
WAGES: \$1375.08	\$547.50/RENT
SNAP BENEFITS: \$333.00	\$100/CHILDCARE
	\$378/GROCERIES
	\$125/ELECTRIC
	\$50/CABLE
	\$55/PUBLIC TRANSPORTATION
	\$110/OUT OF POCKET FOOD EXPENSES
	\$40/LAUNDRY
TOTAL: \$1708.08	TOTAL: \$1405.50
	\$75.00 A WEEK LEFT FOR THE UNEXPECTED

STUDENTS

IN ACTIVITY 4, YOU WILL RESPOND TO THE UNEXPECTED TRIALS OF LIFE UNDER THE CURRENT FEDERAL MINIMUM WAGE OF \$7.25 AND THE PROPOSED FEDERAL MINIMUM OF \$10.10. ON THE NEXT SLIDES YOU WILL BE PRESENTED WITH A SERIES OF SCENARIOS AND YOUR TASK IS TO FIT THEM INTO YOUR BUDGETS. TREAT EACH DILEMMA AS AN ISOLATED EVENT AND GO BACK TO THE ORIGINAL BUDGET BEFORE ADDRESSING THE NEXT ONE. WRITE YOUR RESPONSES ON THE HANDOUT PROVIDED SUGGESTING THE TRADE-OFF YOU WOULD MAKE WHILE MANAGING AS A SINGLE PARENT WITH TWO CHILDREN.

1. Your 11-year old comes home crying because he is embarrassed about purchasing meals through the free and reduced lunch program. It's \$3 a day for lunch.
2. Your 8-year old tears open her only pair of sneakers. \$10 for a new pair or \$2 for a roll of duct tape.
3. You've discovered a small leak from the bathroom sink and the landlord is away for a week. \$150 for a plumber or \$40 in parts and tools to fix it yourself.
4. Your sister has fallen ill and can't watch your children after school. You can miss work or pay \$125 a week for an after care program.
5. Your tooth has been hurting for weeks, and it's starting to get unbearable. You need a root canal, but you don't have dental insurance. The clinic will do it for \$400.

6. You are unbanked and can either open a checking account or go to the check cashing store. The bank charges a \$8.00 monthly service charge but fees increase dramatically if the balance falls below \$50. The check cashing store charges a flat fee of \$7.50.
7. The flu is going around and your child has the chills and a fever. Do you skip work or send him to school sick?
8. You weren't paying attention running into the building and accidentally knocked the side view mirror off of your neighbors car. \$125 to replace it.
9. Your landlord raises the rent by \$150 dollars a month without warning. You and your roommate protest but it falls on deaf ears. Moving to a new place would require one month's rent and a security deposit.
10. One of your co-workers has gotten seriously ill. Because your company doesn't offer sick days, everyone is contributing \$20 to help her out.