

The Economic Case for Raising the Minimum Wage

Council of Economic Advisers

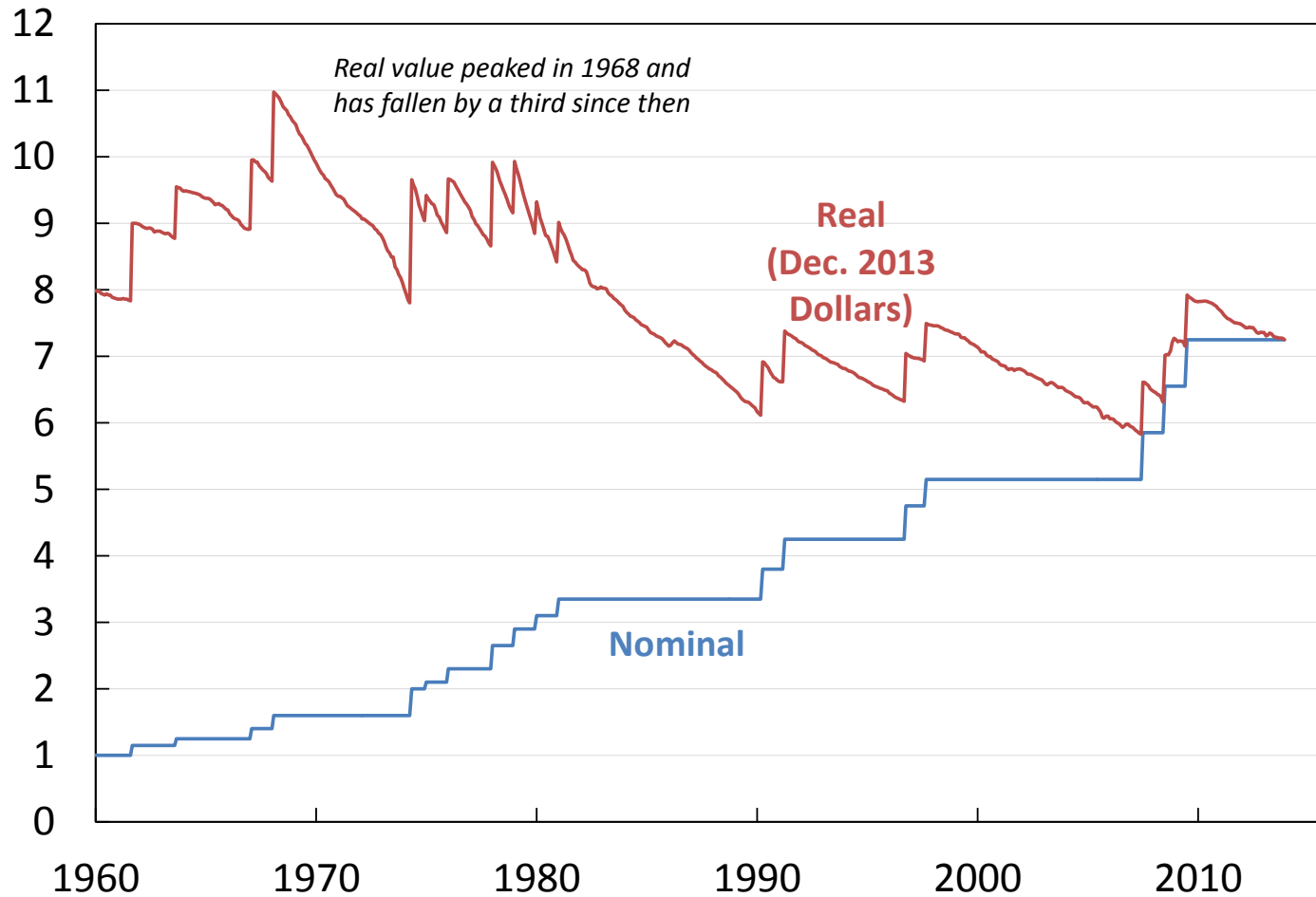


February 12, 2014

The Inflation-Adjusted Value of the Minimum Wage Has Fallen by a Third From Its Peak

Minimum Hourly Wage for Nonfarm Workers

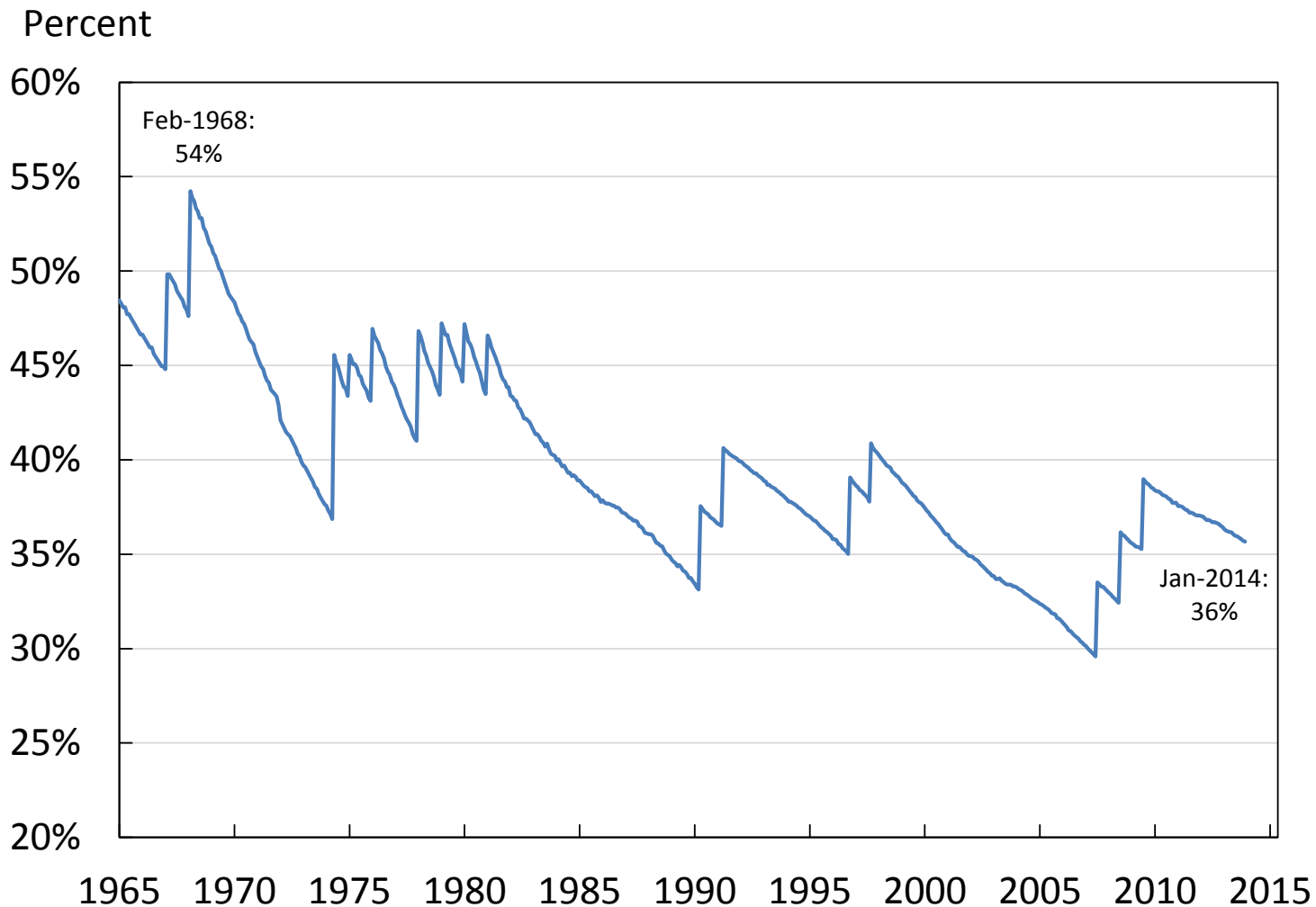
Dollars Per Hour



Source: Bureau of Labor Statistics; CEA calculations.

The Federal Minimum Wage Is Only About 36 Percent of the Average Wage, Down From Its Peak of Over 50 Percent

Federal Minimum Wage Rate as a Percent of Average Wage

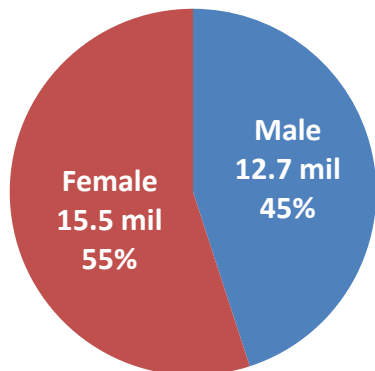


Note: Based on average hourly wage for production and nonsupervisory workers.

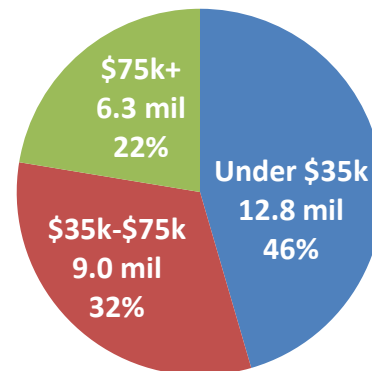
Source: Bureau of Labor Statistics; CEA calculations.

Raising the Minimum Wage Would Benefit Over 28 Million Workers From All Types of Households

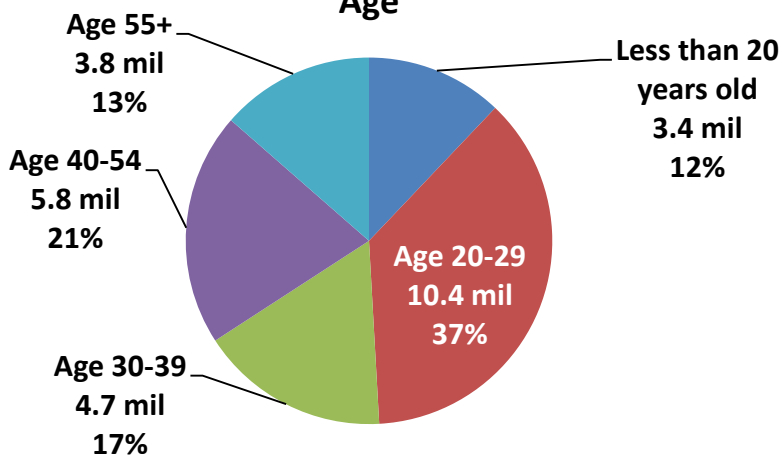
Gender



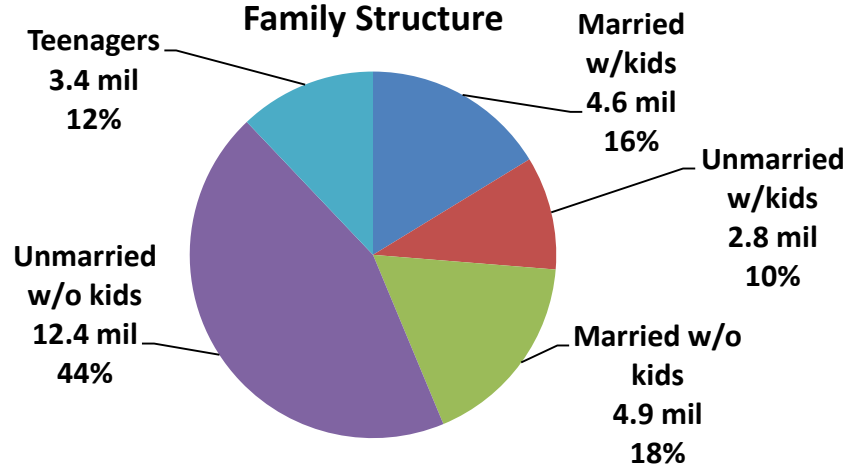
Family Income



Age

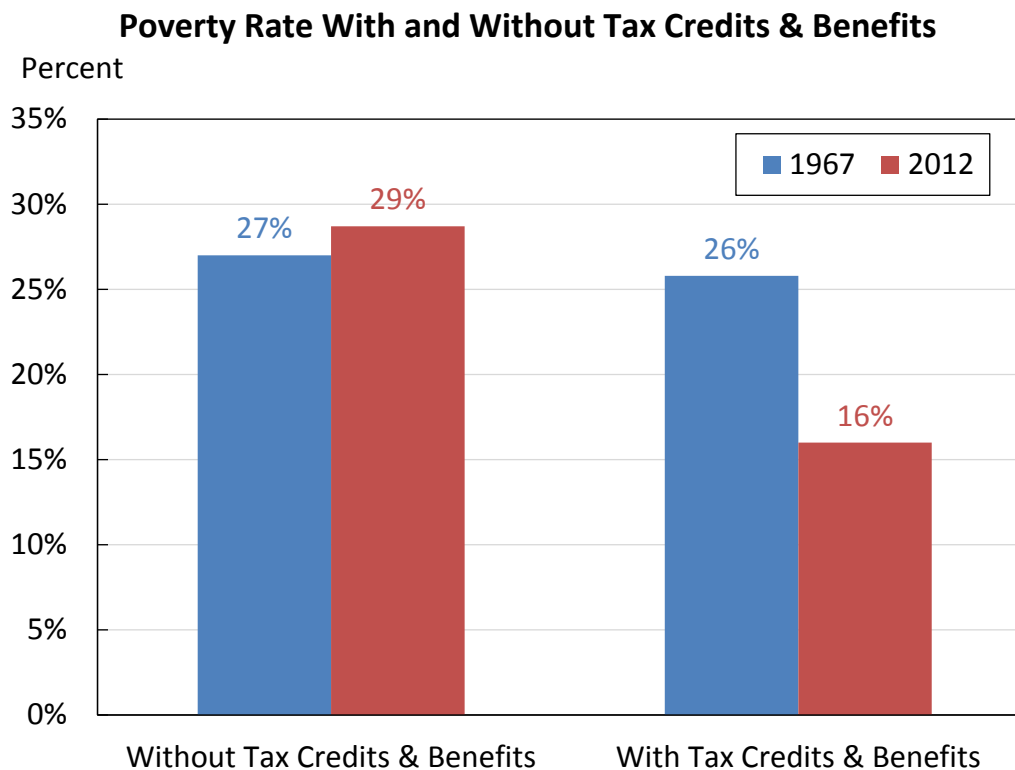


Family Structure



New estimates from CEA find that over 28 million workers would benefit from an increase in the minimum wage. Of these, more than 19 million would benefit directly, while the rest would benefit from the “ripple effect” of a shifting wage structure.

The Poverty Rate Has Fallen Because of Policies Like the Earned Income Tax Credit and Nutrition Assistance, Not Wage Gains



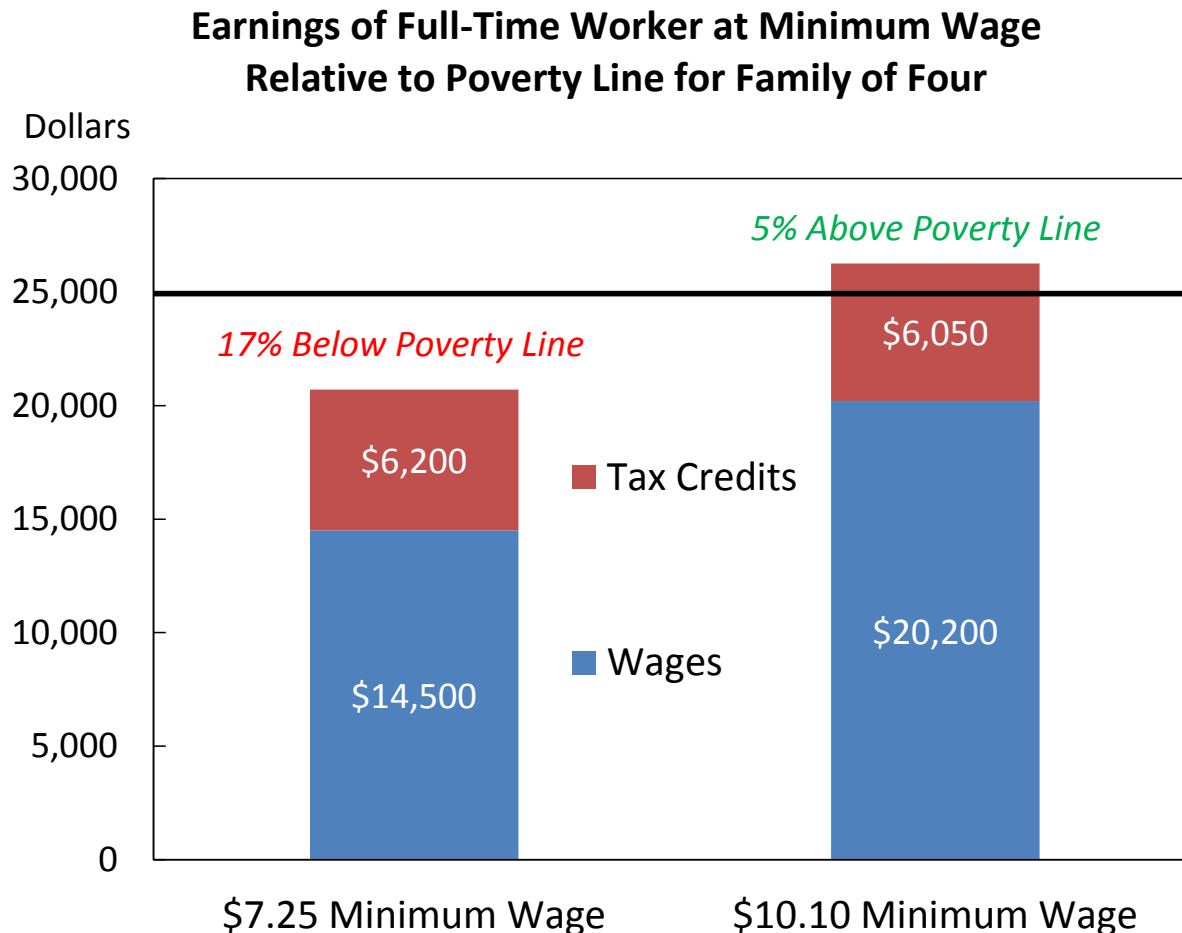
Source: Wimer, et al. (2013).

The economy has expanded enormously without leading to progress in market-income poverty. Since 1967:

- *Real per capita GDP up 128%*
- *Labor productivity up 142%*
- *Real per capita household wealth up 173%*

One reason for the lack of progress is that the real value of the minimum wage has fallen more than a third from its peak in the late 1960s. Going forward, raising the minimum wage and indexing it to inflation would help to raise wages and reduce poverty.

A \$10.10 Minimum Wage Would Raise a Family of Four With One Full-Time Worker Above the Poverty Line Counting Their Tax Credits

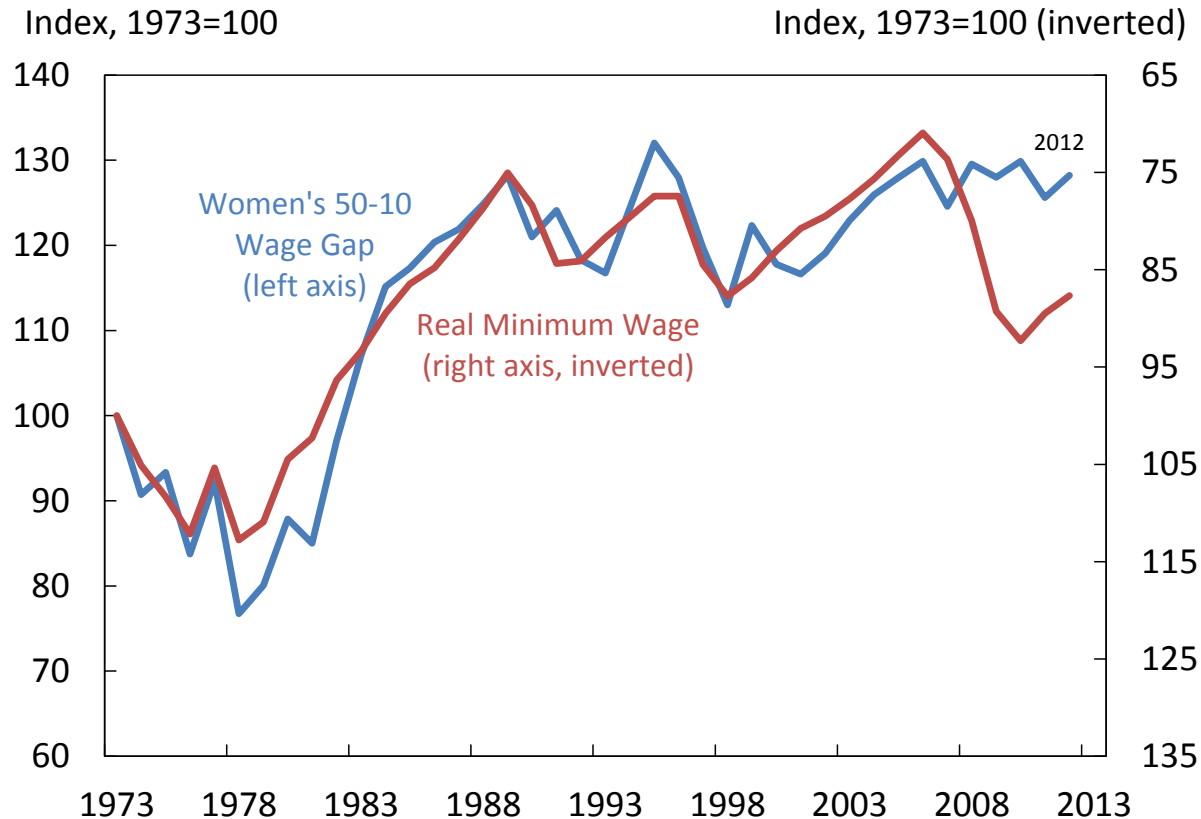


Note: Based on projected poverty threshold for a family of four in 2016. Does not include SNAP assistance.
Source: CEA calculations.

Raising the minimum wage to \$10.10 would raise incomes for an estimated 12 million people now in poverty, lifting 2 million of them out of poverty.

The Minimum Wage Affects Inequality – With Inequality Between Low/Middle-Income Historically Tracking the Minimum Wage

Women's 50-10 Wage Gap vs. Real Minimum Wage



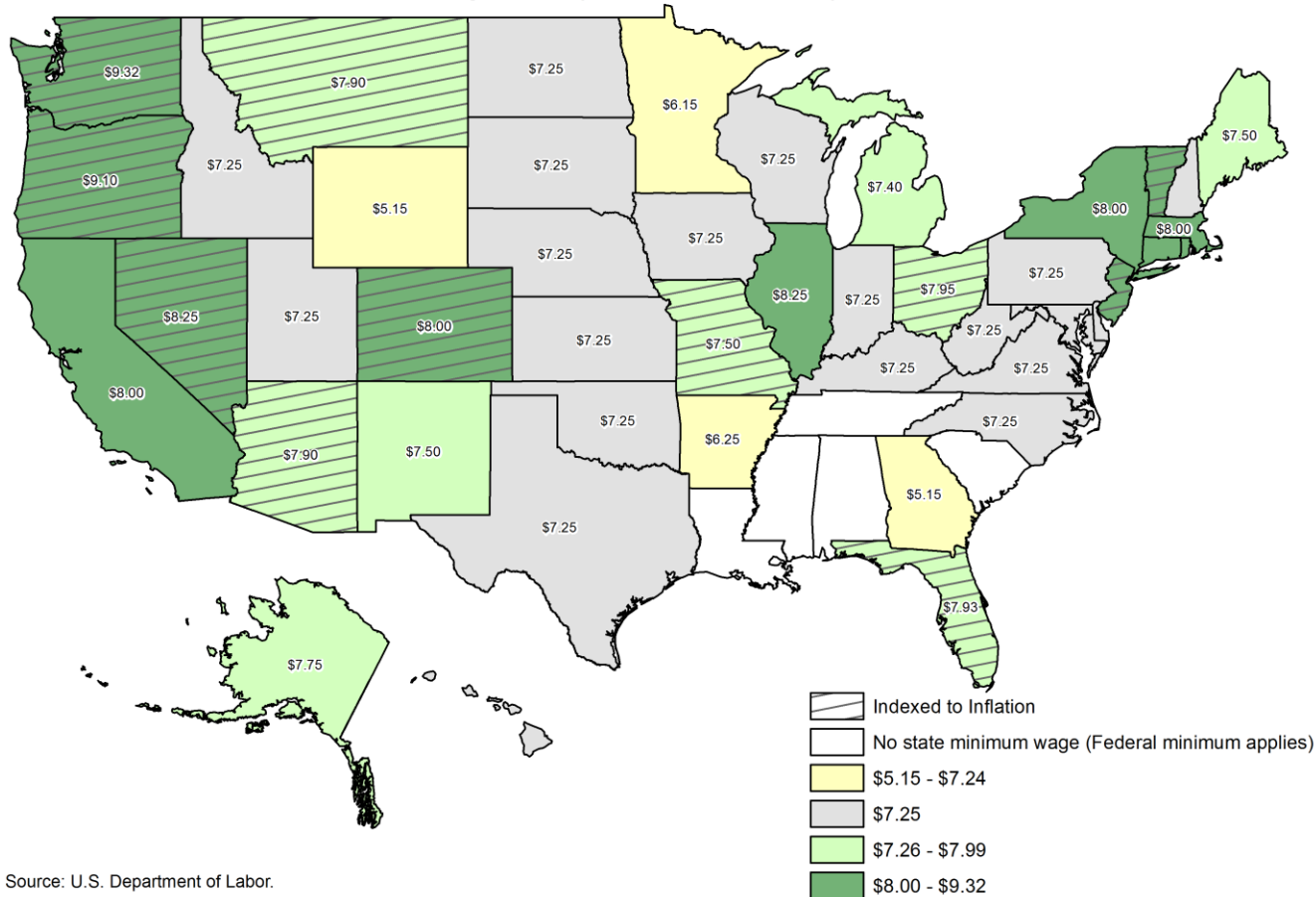
Note: The 50-10 wage gap is the ratio of income earned at the 50th percentile to income earned at the 10th percentile.
Source: CEA calculations based on updated data from Lemieux (2007).

Studies have shown that the minimum wage plays an important role in reducing inequality.

- Important in the bottom of the wage distribution and for women (DiNardo, Fortin, and Lemieux, 1996).
- Declining real value of the minimum wage explained roughly one-third to one-half of the increase in the 50-10 wage gap for women during the 1980s (Autor, Manning, and Smith, 2010).

As of January 2014, 21 States + DC Have Higher Minimum Wages than the Federal and 11 States Index to Inflation

Minimum Wage Law by State as of January 1, 2014

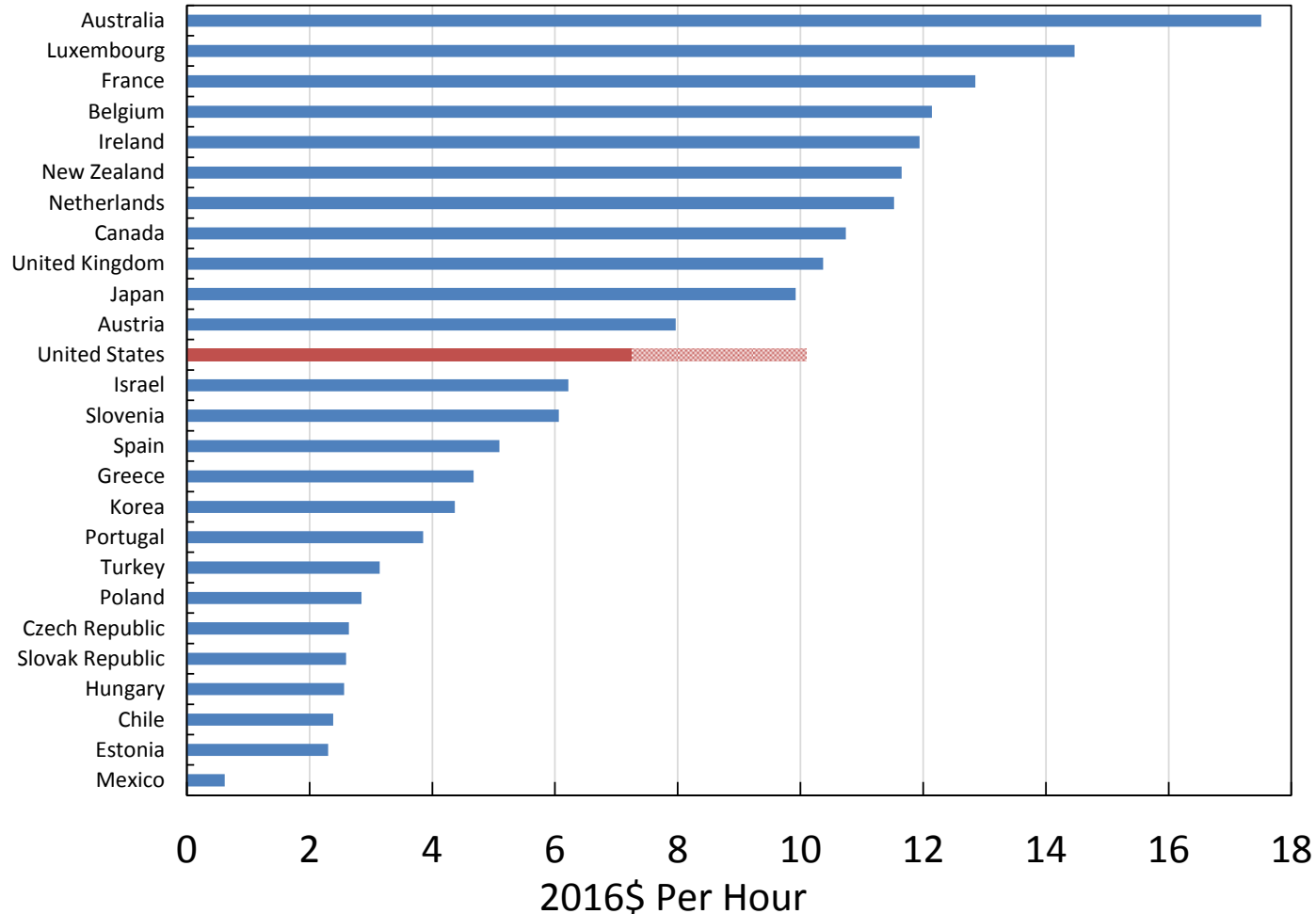


Source: U.S. Department of Labor.

During the 2013 legislative session, CA, CT, NY and RI passed legislation to provide for minimum wage increases; NJ raised the minimum wage and indexed it to inflation by ballot initiative. These changes take effect at different points in 2014 and 2015.

The U.S. Remains Slightly Lower Than Other Advanced Countries Even With a \$10.10 Minimum Wage

Real Minimum Wage in 2016 U.S. Dollars*



*Underlying data in 2012 US\$, converted to 2016 US\$ using CBO projections for consumer price inflation.
Source: OECD; CEA calculations.

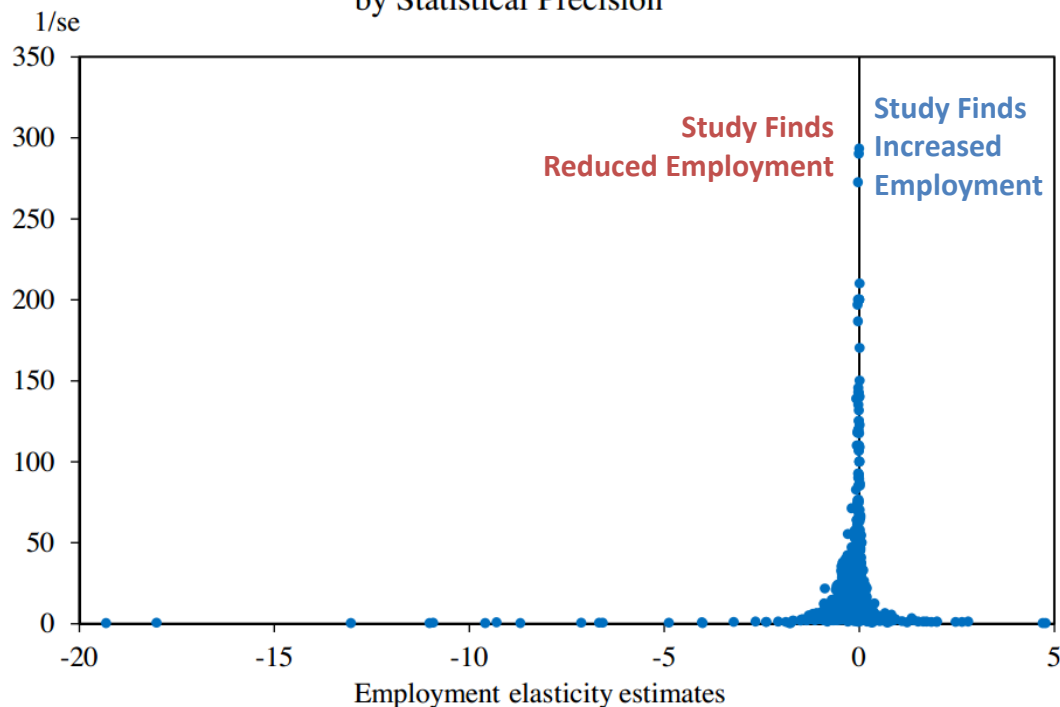
Raising the Minimum Wage Would Help Businesses by Increasing Productivity and Reducing Turnover and Absenteeism

Some of the key findings from decades of research on the minimum wage:

- 1. Increases worker productivity.** A higher minimum wage would increase the productivity of workers:
 - Greater motivation and perception of fairness. Workers are motivated directly by feeling they are receiving a fair wage (e.g., Bewley 1999; Mas 2006). Akerlof (1986) argues that higher wages increase employee morale, which raises productivity. Also, workers monitor each other more when they feel that they are receiving good, fair wages, creating a culture of hard work that allows employers to spend less on supervising them (Akerlof 2012).
 - Improved focus on the job. Higher wages help workers maintain better physical and mental health and could help relieve “decision fatigue” (Mani, et al 2013; Shah et al, 2012), allowing them to be more productive at work.
- 2. Reduces turnover and saves on recruiting/training costs.** Higher wages lead to lower turnover, reducing the amount employers must spend recruiting and training new employees (Dube, Reich, and Naidu 2005; Dube, Lester, and Reich 2013).
- 3. Reduces absenteeism.** When workers are paid higher wages, they are absent from work less often, increasing both their own productivity and that of their coworkers (Allen 1983; Mefford 1986; Pfeifer 2010; Zhang 2013).

Based on 64 Studies of Minimum Wage Increases, Researchers Find “No Discernable Effect on Employment”

Estimates of the Effect of Minimum Wage on Employment
by Statistical Precision



Note: "SE" refers to the standard error.

Source: Doucouliagos and Stanley (2009); data provided by John Schmitt.

Studies have shown that minimum wage increases lead to “little or no employment response”:

- Comparing 288 pairs of contiguous U.S. counties with minimum wage differentials from 1990 to 2006 finds “no adverse employment effects” (Dube, Lester, and Reich, 2010).
- A meta-analysis of the minimum wage research published since 2000 concludes, “The weight of that evidence points to little or no employment response to modest increases in the minimum wage” (Schmitt, 2013).
- Researchers have noted that even this distribution of studies is biased because studies (spuriously) finding large positive effects on employment are likely not to be published while studies (spuriously) finding large negative effects on employment are published.

APPENDIX: Beneficiaries of Increasing the Minimum Wage

Characteristics of Minimum Wage Workers and Workers Affected by Increasing the Federal Minimum Wage

| | Minimum Wage Workers | Workers Affected by Increase to \$10.10 | All Workers | | Minimum Wage Workers | Workers Affected by Increase to \$10.10 | All Workers |
|-------------------------|----------------------|---|-------------|-------------------------|----------------------|---|-------------|
| <u>% of All Workers</u> | 4.5% | 21.4% | 100.0% | <u>Family Structure</u> | | | |
| | | | | Married w/ kids | 12.7% | 16.3% | 26.6% |
| <u>Sex</u> | | | | Unmarried w/ kids | 9.0% | 10.0% | 7.5% |
| Male | 42.1% | 45.0% | 51.5% | Married w/o kids | 12.9% | 17.4% | 27.4% |
| Female | 57.9% | 55.0% | 48.5% | Unmarried w/o kids | 41.2% | 44.2% | 35.1% |
| | | | | Teenagers | 24.2% | 12.1% | 3.4% |
| <u>Family Income</u> | | | | <u>Age</u> | | | |
| Under \$35,000 | 47.7% | 45.5% | 24.8% | Under 20 yrs old | 24.2% | 12.1% | 3.4% |
| \$35k-\$75k | 30.2% | 32.1% | 35.0% | Age 20-29 | 35.4% | 37.0% | 21.9% |
| \$75k+ | 22.2% | 22.4% | 40.2% | Age 30-39 | 13.9% | 16.7% | 21.7% |
| | | | | Age 40-54 | 16.0% | 20.6% | 33.0% |
| <u>Race/Ethnicity</u> | | | | Age 55+ | 10.4% | 13.6% | 19.9% |
| White | 52.3% | 53.3% | 65.0% | | | | |
| Black | 13.0% | 14.5% | 11.2% | | | | |
| Hispanic | 27.6% | 25.2% | 16.2% | | | | |
| Asian | 4.7% | 4.8% | 5.8% | | | | |
| Other | 2.4% | 2.3% | 1.8% | | | | |

Source: Current Population Survey, outgoing rotation groups for December 2012 through November 2013. Minimum Wage Workers earn a wage within 25 cents above or below the federal minimum of \$7.25. Affected workers earn a wage between 25 cents below the minimum and \$10.10, deflated from 2016 dollars to 2013 dollars using CBO projections. Percentages may not sum to 100% within category due to rounding.