

The Path Forward for Raising the Federal Minimum Wage to \$10.10

Jason Furman

Economic Policy Institute

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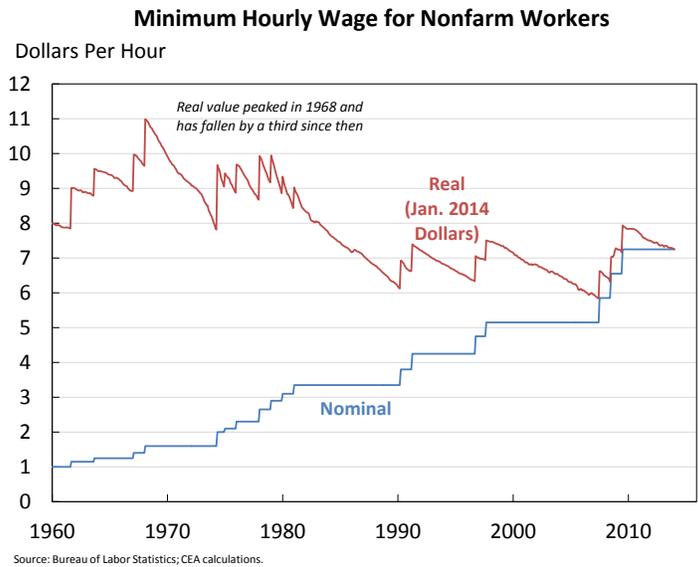
Mr. Furman: Thank you so much for hosting me here. And the Economic Policy Institute just makes such an extraordinary contribution to our economic dialogue and to economic policymaking in this country. And just looking up at that letter that you have and just the decades worth of letters on minimum wage it's where the best economists in the country turn to, both as an outlet to get their ideas out and as a way to organize their support of these issues. And I think the fact that you see such a broad based list of economists there means that a lot of what I'm going to go through with you today in terms of the economic case for raising the minimum wage is really mainstream and increasingly the consensus view of the economics profession. I think Larry probably had the view well in advance of it being the mainstream and consensus of the economics profession.

Mr. Lawrence Mishel: We at EPI say we're upstream, what we say now is what the mainstream will say later.

Mr. Furman: Fair enough. The other thing about that list as impressive as it is intellectually - none of them have a vote in House and the Senate, none of them can make anything happen. Fortunately we have Senator Harkin and Congressman Miller who have championed this issue just as long or longer than anyone else has and are really going to be the reason that it's going to happen.

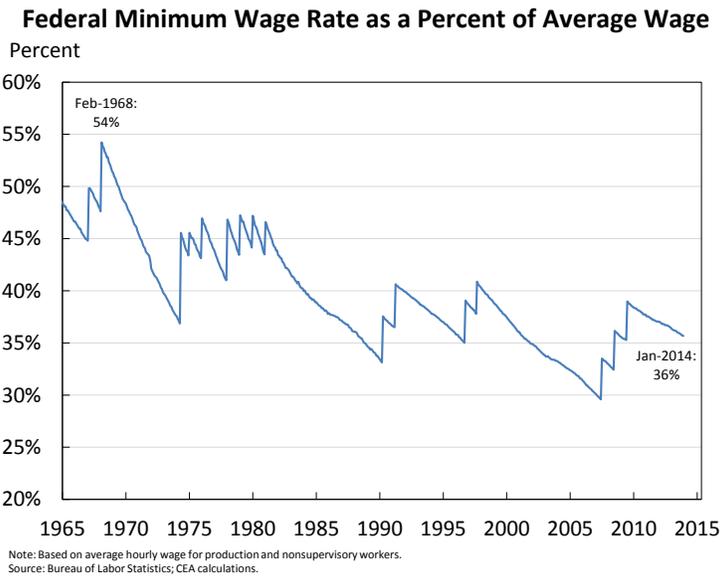
So I wanted to start out by just putting a little bit of historical context on the minimum wage and showing you what I think is the single most striking fact about the minimum wage right now, which is that it is below where it was in inflation-adjusted terms in 1950. To put some context on the economy since 1950, real per capita GDP is up 242%. Real hourly wages are up 65%, which is disappointingly small given that GDP growth and that's another story although not an entirely unrelated story. If you look at real per capita household wealth - we only have these numbers since 1952 - they're up 298%, and the minimum wage adjusted for inflation comparable to these is down - 64 years without a raise for workers at the bottom.

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



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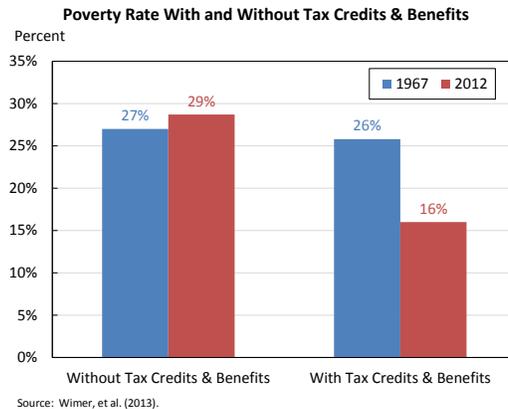
The Federal Minimum Wage Is Only About 36 Percent of the Average Wage, Down From Its Peak of Over 50 Percent



2

That wasn't always that way, the minimum wage was on an upward trend and reached its peak in 1968 and has fallen by one-third since 1968. And that fact is an important part of the explanation for what we've seen in this economy since the late 60's and there's been a lot of discussion of the 50th anniversary of the War on Poverty – the Council of Economic Advisers put out a report and there were a lot of things in that report but the most important point in it is if you look at the poverty rate and don't take into account public policy, it has actually gone up since 1967 and one of the important reasons for that is that when you're cutting the pay for people at the bottom by a third, you shouldn't be that surprised that you're not making a lot of progress on poverty when you just take into account peoples' wages. The War on Poverty of course was about a lot of things, including expanding assistance to low-income households, better things that came out of the War on Poverty eventually, not initially, better rewarding work through things like the earned income tax credit, nutrition assistance etc. When you take all of that into account we have made an immense amount of progress on poverty and that's why it's so important to make sure that we're doing things like extending emergency unemployment insurance, defending a robust nutrition assistance, making permanent a lot of the tax credits we've gotten for the earned income tax credit and child tax credit. But to really make a lot more progress and to continue to make progress on poverty we're going to need to raise wages and to raise wages for all workers and one of the important tools we have to help make that happen is raising the minimum wage.

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%

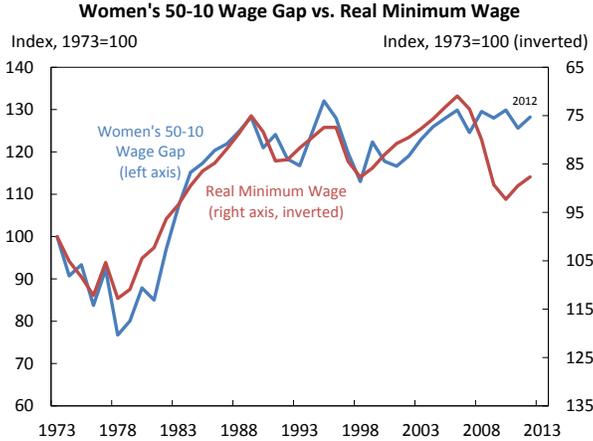
One reason for the lack of progress is that the real value of the minimum wage has fallen more than a third from its peak in the late 1960s. Going forward, raising the minimum wage and indexing it to inflation would help to raise wages and reduce poverty.

3

The minimum wage doesn't just matter for poverty, it matters for what President Obama has called the defining issue of our time, which is inequality. This graph shows you, there's a lot of dimensions of inequality, this shows you the ratio of women's wages at the 50th percentile to the 10th percentile that very closely tracks the value of the minimum wage and there have been a range of studies which have found that as much as one third to one half of increases in certain types of inequality has been due to the erosion in the value of the minimum wage. Inequality of

course is a much bigger phenomenon, there's a set of issues very concentrated at the top related to the middle – there's a lot of causes of inequality, but this is one of the important ones especially for inequality at the bottom.

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

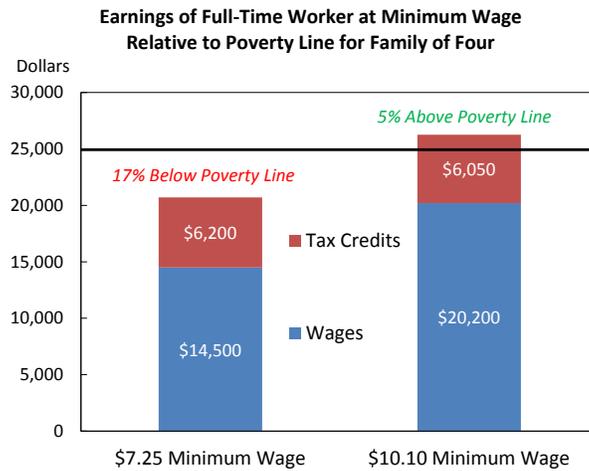
Studies have shown that the minimum wage plays an important role in reducing inequality.

- 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).

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Returning again to poverty we're now in a place where somebody works full-time year around and makes the minimum wage they're going to be paid \$14,500. You add the tax credits they get to that and they're still raising their family below the poverty line. We fundamentally think you want to set a minimum wage so if you're working full-time, year-around you're going to be able to raise your family above the poverty line and when you take into account tax credits the \$10.10 that Senator Harkin and Congressman Miller and President Obama all support would take you above that poverty line. It would lift 1.6 million people out of poverty and if you look at in total, 8.8 million in poverty would see their wages go up.

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



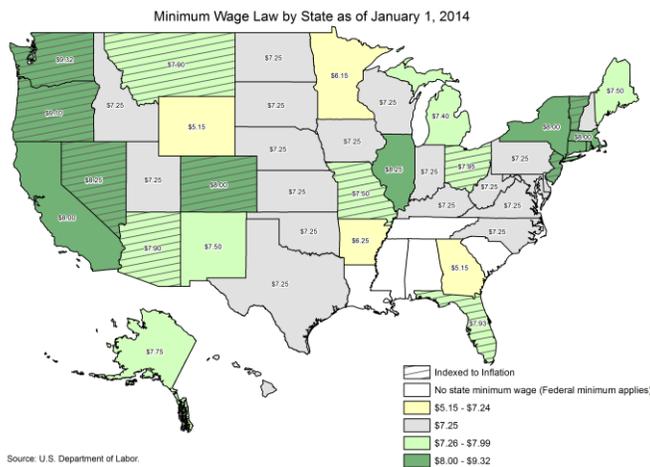
Note: Based on projected poverty threshold for a family of four in 2016. Does not include SNAP assistance.
Source: CEA calculations.

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.

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Federal level has often been a way to encourage states to raise their minimum wages and what they do in turn encourages us – there are 21 states and D.C. that have higher minimum wages, a lot of states are now indexing to inflation and one of the encouraging developments in the past year is that we’ve seen 4 states pass legislation to raise their minimum wages and we’d like to see more states doing that in 2014 - there is no reason that anyone needs to wait for Washington to do this.

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

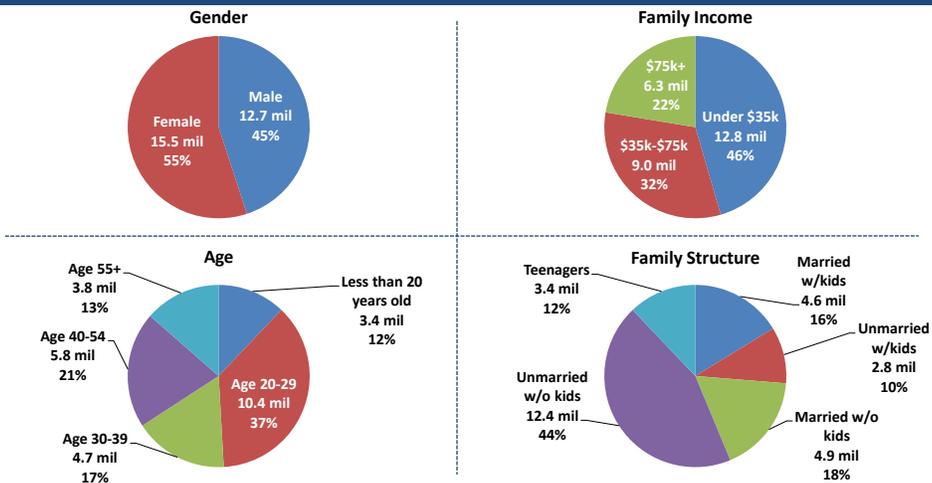


During the 2013 legislative session, CA, CT, NY and RI passed legislation to provide for minimum wage increases; NJ raised the minimum wage and indexed it to inflation by ballot initiative; DE enacted a minimum wage increase in early 2014. These changes take effect at different points in 2014 and 2015.

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The minimum wage disproportionately benefits women, although it benefits an awful lot of men. It is very focused – about half of the benefits go to low and moderate income families. The fact that a third of the benefits go to families between \$35,000 and \$75,000 I don't think is a defect in the policy I think it's one of the strengths in the policy; those are families that may have a secondary earner working part-time or full-time at the minimum wage and they need a raise too. And above \$75,000 that's where a minority of the benefits go but many of those families also could use a raise in this economy. It goes to a wide spectrum of ages, only a small amount of it goes to teenagers, and it goes to a diverse set of families, a lot of them with children.

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



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.

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		
	% of All Workers	4.5%	21.4%	100.0%					
Family Structure									
Married w/ kids	12.7%	16.3%	26.6%						
Unmarried w/ kids	9.0%	10.0%	7.5%						
Married w/o kids	12.9%	17.4%	27.4%						
Unmarried w/o kids	41.2%	44.2%	35.1%						
Teenagers	24.2%	12.1%	3.4%						
Age									
Under 20 yrs old	24.2%	12.1%	3.4%						
Age 20-29	35.4%	37.0%	21.9%						
Age 30-39	13.9%	16.7%	21.7%						
Age 40-54	16.0%	20.6%	33.0%						
Age 55+	10.4%	13.6%	19.9%						
Family Income									
Under \$35,000	47.7%	45.5%	24.8%						
\$35k-\$75k	30.2%	32.1%	35.0%						
\$75k+	22.2%	22.4%	40.2%						
Race/Ethnicity									
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.

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In terms of the case overall on its impact on our economy and jobs, one thing just to put it in context is, we're among the lowest of countries that are as rich as the United States is, even with \$10.10 an hour we would still be relatively low compared to many of our peer countries. This is not something that in the historical perspective for the US would be particularly high and internationally it's very manageable.

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

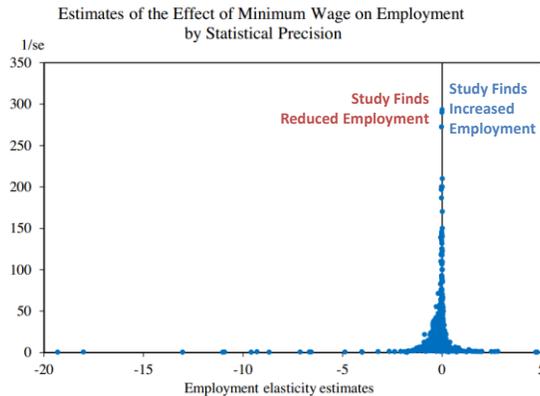


*Underlying data in 2012 US\$, converted to 2016 US\$ using CBO projections for consumer price inflation. Source: OECD; CEA calculations.

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And finally I wanted to end on a slide that summarizes the research effort that John Shmidt put together and – is he here? Oh thank you John we show this slide everywhere we go. This shows the range of studies on minimum wage that have been conducted and the impact they have on employment – some find a negative effect, some find a positive effect. The vast bulk find zero effect and that’s why John correctly summarized it as no evidence of a meaningful adverse employment effect. And just a small thing about the economics profession – my guess is that a bunch of people found regressions that found +15 and +20, they decided that was crazy so they kept that paper in a desk drawer and it never got published so the publication bias itself is likely to skew those studies in a negative direction even with that publication bias you still see essentially 0 in a meta-analysis. And that’s the micro labor market economics of it, if you look more broadly increasing the purchasing power of workers in an economy like the one we have today will at least in the short-run provide a boost to aggregate demand and potentially help create more jobs.

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



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.

Conclusion

So in summary, this is long overdue - arguably 64 years overdue - to get to where we need to go matters a lot for poverty, matters a lot for inequality, a lot of the myths about who it goes to are wrong, a lot of the benefits are very tangible and very large and it’s something we need to do.