The Case for Raising the Minimum Wage

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History and today:

The concept of a minimum wage in the United States was first implemented in 1938 ("Amount With Inflation") as part of the Fair Labor Standards Act ("Fair Labor Standards Act"). Signed by President Franklin D. Roosevelt at the height of the Great Depression (Bihan 1-32), this act set a minimum hourly wage of 25 cents in certain industries ("Fair Labor Standards Act"). The minimum wage then rose steadily until it reached a peak of $1.60 ($10.79 today ("Inflation Calculator"), adjusted for inflation) in 1968 ("Amount With Inflation"). Following 1968, however, minimum wage rates fell as the U.S. Congress failed to adapt it to inflation over time ("Amount With Inflation").

As of now, the federal minimum wage in the United States is $7.25 per hour ("Minimum Wage - Wage and Hour Division"). This minimum wage was made effective on July 24, 2009 ("Minimum Wage - Wage and Hour Division"). State and local governments are able to set their own minimum wages, which must be higher than the federal minimum wage. As of January 1, 2015, 29 states and the District of Columbia set minimum wages higher than the federal minimum wage of $7.25 ("What's the Minimum Wage in Your State?")[1].

Where the problem lies:

The main issue is that the federal minimum wage has not kept up with the cost of living (Dube), and in its current state the minimum wage is insufficient considering the number of workers relying on those wages to pay their bills and feed their families. Workers who earn the minimum wage, or close to it, have been shown increasingly to be

[1]The District of Columbia had the current highest minimum wage at $10.50. States who kept the federal minimum wage as is included Pennsylvania, Alabama, Georgia, Idaho, and Kentucky ("What's the Minimum Wage in Your State?").

those who depend on their earnings to "support necessary household consumption" as opposed to being people who are dependents of workers with higher wages (Dube). The current full-time minimum wage worker earns around $14,500 a year while the median income in the U.S. in 2013 was $52,250 (*Household Income: 2013*).

Although costs of living for different states, and moreover different cities, should be taken in to account when setting local minimum wages, the federal minimum wage needs to be raised to $10.10 per hour to accommodate the current economic state of the United States.

While wage increase has occurred, most of it has taken place in the top half of the wage distribution, especially since the 1990s (Dube). The 90th percentile real wage grew by over 30 percent between 1973 and 2011 while during the same period the median and 10th percentile real wages experienced growth by less than 5 percent (Dube). This increase in wages for the top half of the distribution only served to increase the wage gap.

The Great Recession and the minimum wage:

The Great Recession that hit the United States in December 2007 the following recovery from it caused a shift in jobs; there are fewer and fewer middle-class jobs and an increasing number of low-wage jobs (Bihan 1-32) (see Figure 1). Though the job losses during and immediately following the recession were widely distributed across industries, with the bulk (60%) of losses being in mid-wage occupations ("Low Wage Job Growth"), the recovery has been greatly in jobs with lower and minimum wages (Bihan 1-32); an August 2012 report by the National Employment Law Project showed that lower-wage occupations constituted 58 percent of recovery growth ("Low Wage Job Growth").

In 2010, a year which saw new job growth following the recession, the top three occupations in industries that experienced job growth were jobs paying below $10 an hour: retail sales persons, cashiers, and food preparation workers (Bihan 1-32). While the economy has recovered a great deal and

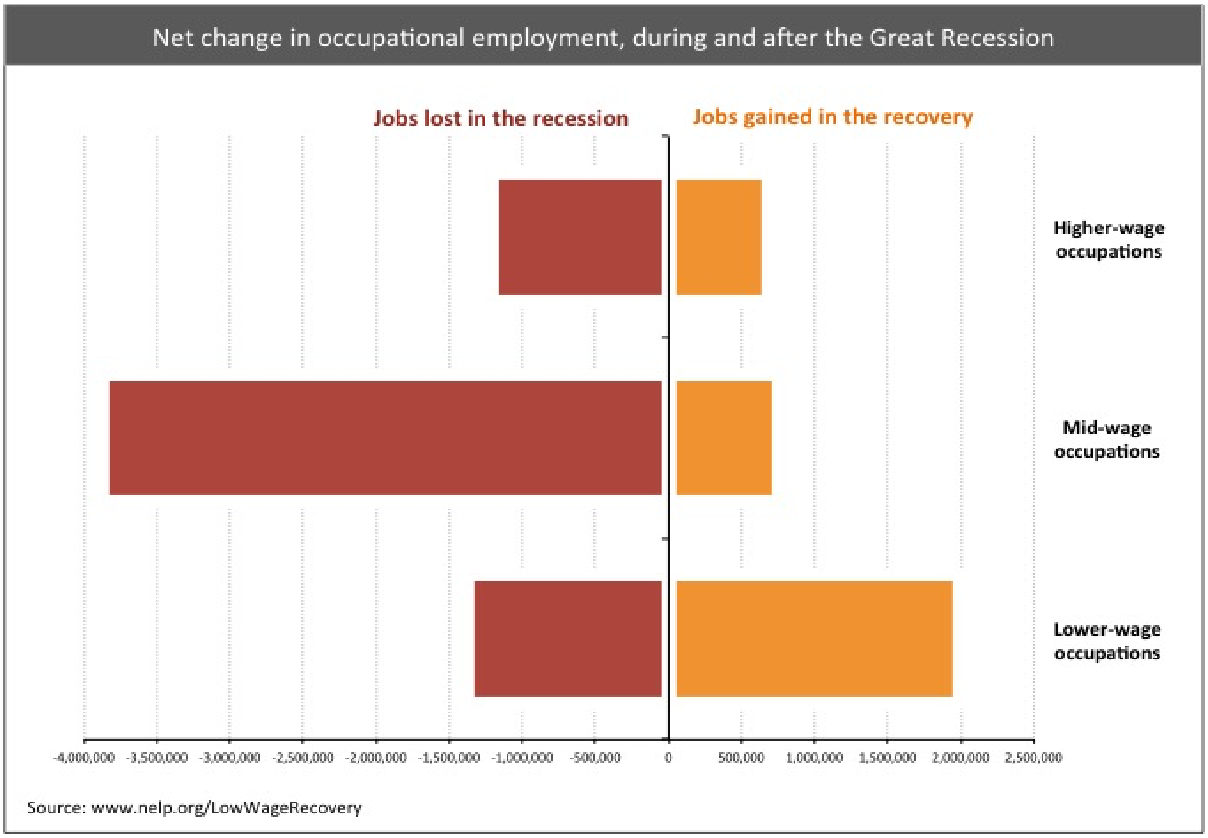

Figure 1: Comparison of the jobs lost in the recession vs. jobs gained in the recovery for different wage brackets ("Low Wage Job Growth").

continues to do so, this growth in low-wage jobs means that still today there may be a significant number of working families and individuals depending on the minimum wage, or wages close to it, to support their household.

The problem of families depending on lower and minimum wage jobs for support is not simply a short-term issue following the Great Recession, though. The Bureau of Labor Statistics projected in 2011 that seven out of the top ten growth occupations for the next decade would be low-wage jobs (Bihan 1-32), meaning the future could see an even larger number of families depending on low-wage and minimum wage jobs to support their households. With such significant growth of the low-wage workforce, both past and projected for the future, the minimum wage will play an enormous role in shaping the wages and economy of the future.

Who would benefit from an increased federal minimum wage?

Raising the minimum wage to $10.10 per hour would benefit more than 28 million workers across the United States and directly increase the wages of 19 million workers from multiple types of households ("Raise the Wage") (see Figure 2). To give an idea of how a $10.10 minimum wage could benefit Americans, take this example: for a full-time minimum wage worker in Arizona, over the course of a year, a $10.10 minimum wage could help pay for either four months of rent, 24 weeks of groceries, 68 tanks of gas, or the equivalent of 31 months of electricity ("Raise the Wage"). In Pennsylvania, a

$10.10 minimum wage could help pay for 6.01 months of rent, 36 weeks of groceries, 98 tanks of gas, and 50 months of electricity ("Raise the Wage"). While these are just a few potential examples of how raising the minimum wage could help make ends meet for one American worker, the possible benefits are ones that would be tangible, easily visible, and very necessary.

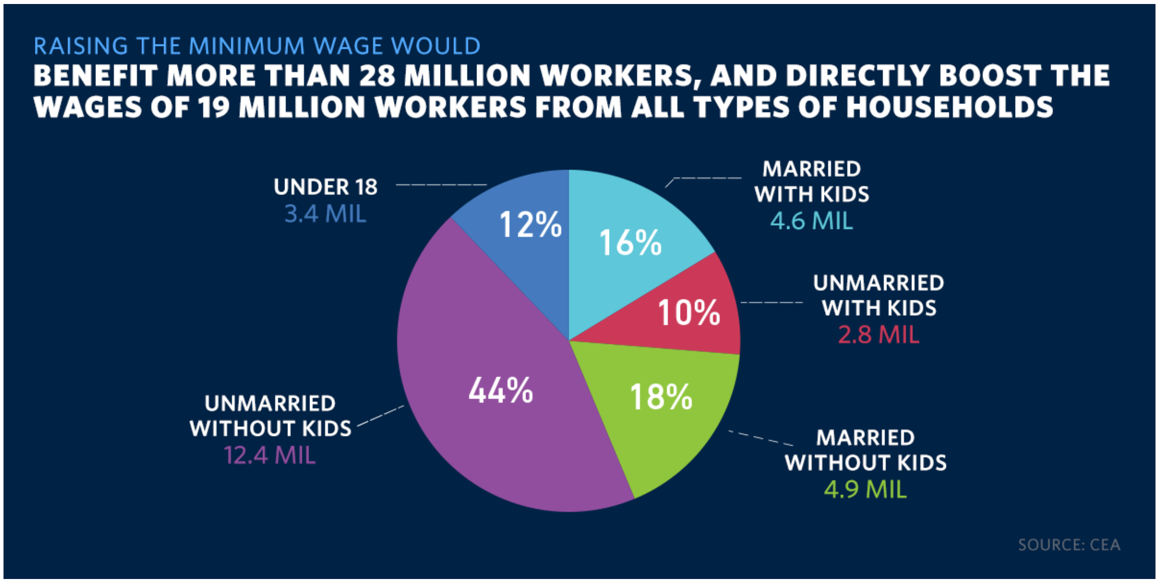

Figure 2: Breakdown of the number of people from different types of households that would benefit from a minimum wage increase to $10.10 ("Raise the Wage").

Female workers, who across many fields earn less than their male counterparts, have been shown to be more affected than men by the declining value of the minimum wage (Dube). The decreased value of the minimum wage affecting women in this way can, in turn, provide more stress for single mothers, who make up more than 80% of the 12 million single-parent families in the U.S., working minimum wage jobs in an attempt to support their families ("Single Mother Statistics").

Impact of raising the minimum wage on employment:

Critics of raising the minimum wage have long cited increasing minimum wages as a cause of increased unemployment, especially in minimum wage and unskilled jobs; while there have been previous studies that have shown this trend, the primary demographic facing this unemployment as a result of increasing the minimum wage is the 16-24 year-olds, those who are likely dependents of higher-earning individuals ("The Minimum Wage Delusion"), while 75% of minimum wage earners are over 20 years old ("Demographics of Low-Wage Workers").

Additionally, recent research has been able to refute this idea that higher minimum wages reduce employment. Usually the claim is that if businesses have to pay their employees higher minimum wages, the employers will fire some current employees or hire fewer people in an attempt to not spend an overall large amount on employee wages. A study from 2012, however, has found that almost two-thirds of low- and minimum wage workers are employed by big companies (ones with over 100 employees) rather than small businesses[2]. The 50 largest of these companies can absolutely afford higher wages; 78% have been profitable for the last three years and 75 percent have higher revenues now than they did pre-recession (“Corporate Profits”).

Impact of raising the minimum wage on the economy:

Opponents of raising the minimum wage also cling to claims that doing so will not stimulate the economy. A 2011 study done by the Chicago Federal Reserve Bank, however, has shown that minimum wage increases do in fact raise incomes and increase consumer spending, particularly increasing car purchases (“Minimum Wage as Economic Stimulus”). The authors of this study examined 23 years of household spending data and found a numerical relationship between the minimum wage and household spending: every dollar increase for a minimum wage worker results in $2,800 in consumer spending by his/her household within the following year (“Minimum Wage as Economic Stimulus”). With these figures, raising the minimum wage by just under $3 as proposed would have the potential to inject $8,400 in new spending into the economy by each household directly affected by this increase over the course of a year. This increased spending would lead to an increase in demand that in turn drives economic growth; in short, raising the minimum wage to $10.10 can indeed stimulate the economy.

Implementing higher minimum wages can also increase productivity within companies. A study done by MIT Professor Zeynep Ton documented the benefits higher minimum wages can have on businesses through examining major retailer Trader Joe’s (“The Job Loss Myth”). The starting salary for a Trader Joe’s employee ranges between $40,000 and $60,000 a year, more than double what most of the competing businesses offer, yet their sales revenue per square foot numbers are three times as high as the average U.S. supermarket (“The Job Loss Myth”). Ton documents through the case study of Trader Joe’s how investing in employees by increasing wages leads to decreased employee turnover and increased productivity (“The Job Loss Myth”).

With all the potential downsides considered, the consensus among economists seems to be that raising the minimum wage is still beneficial. A 2013 survey by the University of Chicago’s Booth School of Business showed that leading economists agreed by nearly a 4 to 1 margin that the benefits of raising the minimum wage outweigh the potential negative impacts (“The Job Loss Myth”).

Conclusion:

When Franklin D. Roosevelt called for the implementation of a minimum wage 1938, he explained that it was a “necessary part of economic

[2] Some of these big companies that pay minimum wage are Target, McDonald’s, Staples, KFC, Olive Garden, Dunkin’ Donuts, and Subway ("Corporate Profits").

recovery" and that increasing the spending ability of workers who lost it during the Great Depression, those "who have the least of it today, the purchasing power of the Nation as a whole – can be still further increased, (and) other happy results will flow from such an increase" ("Minimum Wage as Economic Stimulus").

Current research has proven the ideas of Roosevelt, expanding to prove that increased minimum wages can, indeed, produce "happy results" including a stimulated economy with more people having money to spend on items other than food and rent, more productive companies with happier employees, and ultimately fewer American citizens working low- or minimum-wage jobs who struggle to make ends meet. Given all the research done on the effects of higher minimum wages, the benefits of increasing the federal minimum wage from $7.25 an hour to $10.10 an hour are clear and overpower potential negative effects, which turn out to be mostly unlikely based on the results of such research.

The course of action that must be taken to stimulate the economy, make businesses more productive, and better the lives of over 28 million Americans is clear: the government must raise the federal minimum wage to $10.10 per hour.

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