

Minimum Wage Increases: History, Public Opinion, and Empirical Findings

2017 REMI Users Conference

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History of the Minimum Wage in the United States



Fair Labor Standards Act of 1938 (FLSA)

- Banned oppressive child labor
- Established a minimum wage of \$0.25/hour
- Set a maximum work week of 44 hours/week
- Signed into law despite a history of judicial opposition to wage-hour and child-labor laws
 - *Hammer v. Dagenhart* (child labor)
 - *Adkins v. Children's Hospital* (women's min wage)
- Formal federal mandate

History of the Minimum Wage in the United States

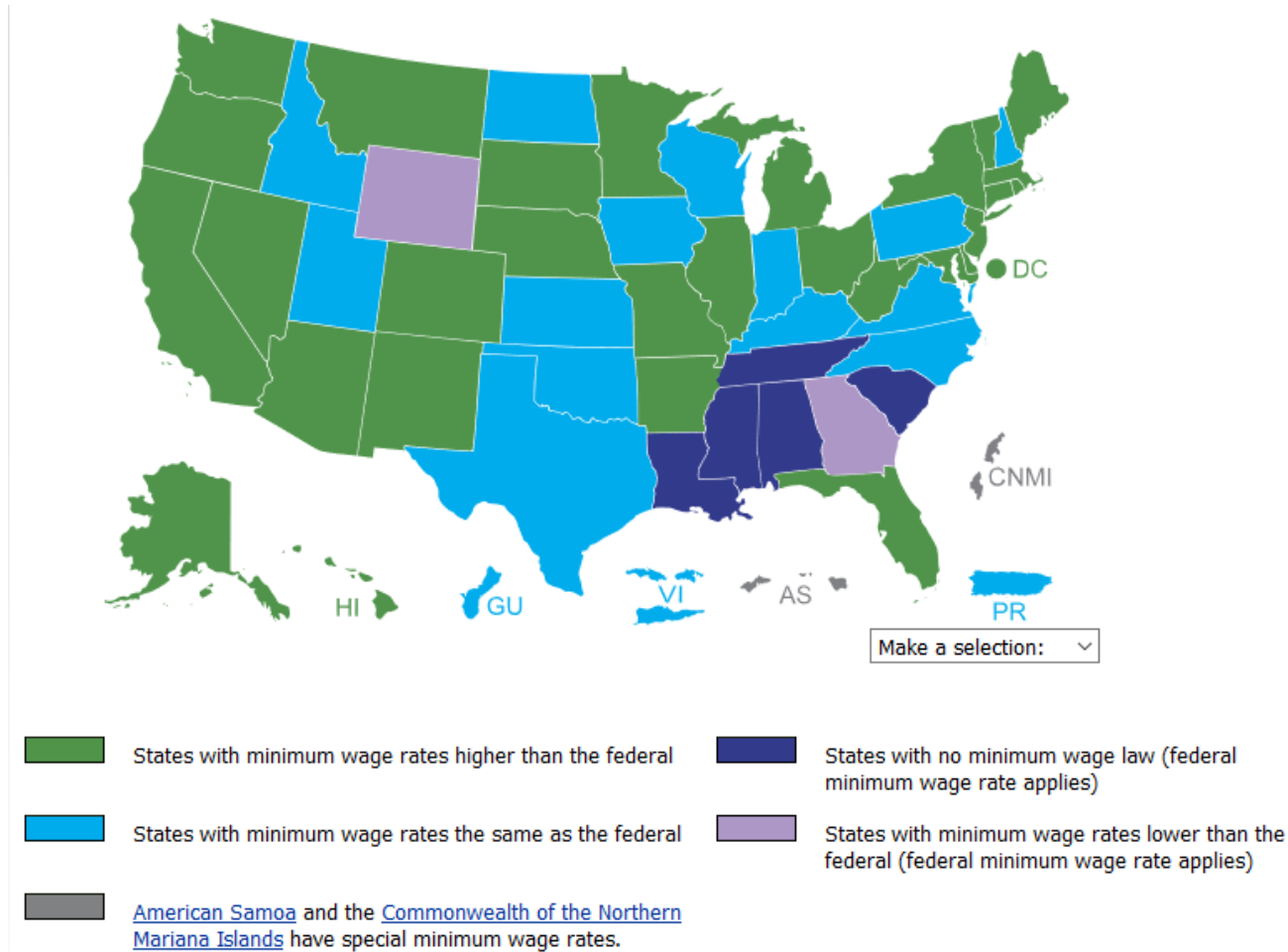


- Informal support from industry leaders to raise wages independent of any government mandate.
- Henry Ford and efficiency wages
 - Rationale: workers ought to be more productive if paid more and firms would encounter labor shortages less frequently.
 - Good for workers and for business.
- Pre-dates the FLSA by 2+ decades
- Ford introduced the “five-dollar day” in 1914

Current State of U.S. Minimum Wage Laws

- Federal minimum wage provisions are contained in the FLSA.
- Federal minimum currently set to \$7.25 per hour effective July 24, 2009.
- States can (and frequently do) have their own minimum wage laws.
 - Municipalities are increasingly establishing their own minimum wages.
- State laws may mandate a minimum wage that exceeds the federal minimum wage.
- Employers must comply with both federal and state minimum wage laws.

Current State of U.S. Minimum Wage Laws



Source: Department of Labor

What Do Americans Think about Raising the Minimum Wage? (2014)

Americans agree that working Americans should not have to live in poverty. But will raising the minimum wage alleviate poverty? And is it a good idea in general?

Former President Obama: “In America, no one who works full-time should ever have to raise a family in poverty”?

Agree	68%
Disagree	22%
Not sure	10%

Unweighted N = 1,000

Source: YouGov poll, September 4-8, 2014

*More recent YouGov survey results from 2016 published in Huff Post but do not include a \$20/hr min wage

What Do Americans Think about Raising the Minimum Wage? (2014)

“Do you support or oppose increasing the minimum wage from \$7.25 to \$15 an hour”?

Support	49%
Oppose	39%
Not sure	13%

Unweighted N = 998

What Do Americans Think about Raising the Minimum Wage? (2014)

“Some people say raising the minimum wage will help workers by giving them more income. Others say it will hurt workers because businesses will hire fewer people. What do you think?”

It will help workers	39%
It will hurt workers	44%
Not sure	18%

Unweighted N = 999

What Do Americans Think about Raising the Minimum Wage? (2015)

- 38% of respondents had close friends or family who currently worked for the minimum wage.
- 74% had worked for the minimum wage before

“Would you favor or oppose raising the minimum wage to...?”

	Favor	Oppose	Not sure
\$9 an hour	47%	39%	14%
\$10.10 an hour	54%	35%	12%
\$15 an hour	48%	42%	11%
\$20 an hour	24%	59%	17%

Why stop at \$20/hr?
Why not go higher?

What Do Americans Think about Raising the Minimum Wage? (2015)

“Some people say raising the minimum wage will help workers by giving them more income. Others say it will hurt workers because businesses will hire fewer people. What do you think?”

- Help: 46%; Hurt: 38%; Not sure: 16%

“What effect do you think raising the minimum wage to \$15 an hour would have on **unemployment**?”

- Increase: 43%; No effect: 21%; Decrease: 18%; Not sure: 18%

What Do Americans Think about Raising the Minimum Wage? (2015)

“What do you think is more important, raising the minimum wage or preventing unemployment among low income workers?”

Raising the minimum wage	32%
Preventing unemployment among low income workers	55%
Not sure	13%

- Americans think raising the minimum wage will “help workers” but also **think that raising the minimum wage will increase unemployment.**
- **They also think preventing unemployment among low income workers is more important than raising the minimum wage.**

What Do Americans Think about Raising the Minimum Wage? (2016)

“Would you favor or oppose raising the minimum wage to...?”

\$10.10/hr (Harkin/Miller/Obama):

Favor: 66%; Oppose: 26%; Not sure: 8%

\$12.00/hr (Clinton):

Favor: 59%; Oppose: 33%; Not sure: 9%

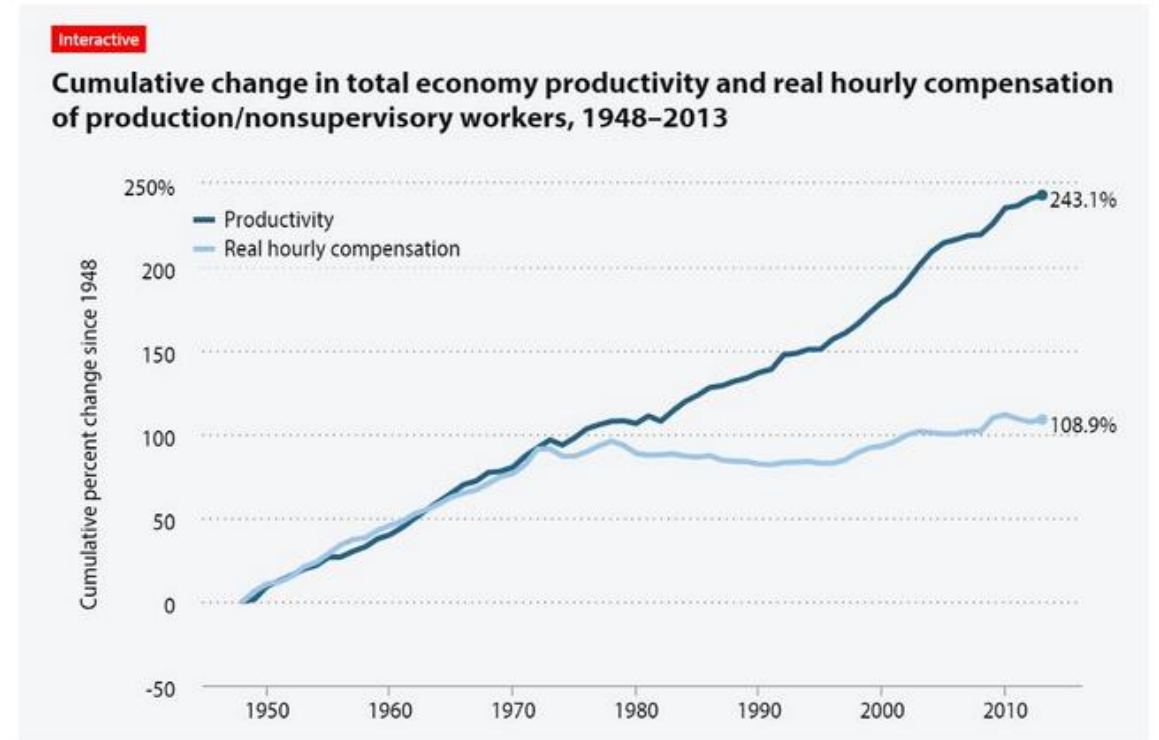
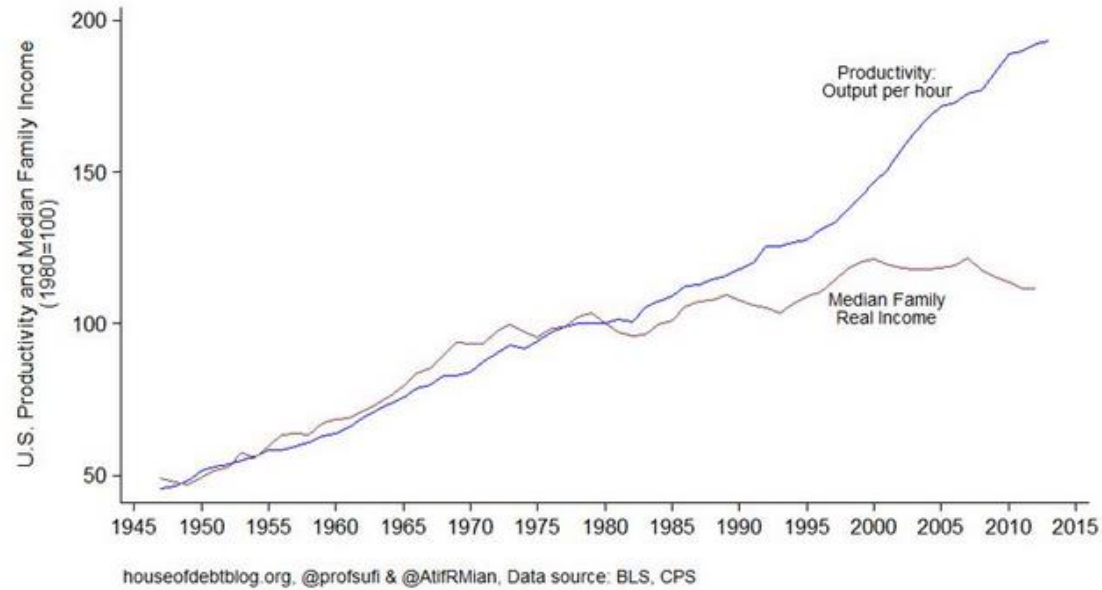
\$15.00/hr (Sanders):

Favor 48%; Oppose: 38%; Not sure: 13%

Again, why stop at these levels?

Source: YouGov poll, April 8-10, 2016

Inequality and Wage Stagnation



Theory

- Firms are profit maximizing. If the benefits of increasing wages exceed the costs, *i.e.*, if any productivity gains from increasing wages exceeds the higher cost of labor to firms ($\uparrow \frac{w}{p} \rightarrow \uparrow \frac{Y}{L}$), then firms would do this.
- Efficiency wage theory, attract better workers, ...
- Can imagine under certain theoretical conditions, $\uparrow \frac{w}{p} \rightarrow \uparrow \frac{Y}{L}$ always, yielding $\uparrow \frac{w}{p} \rightarrow \infty$.
- Clearly, reality does not bear this out.

REMI Project

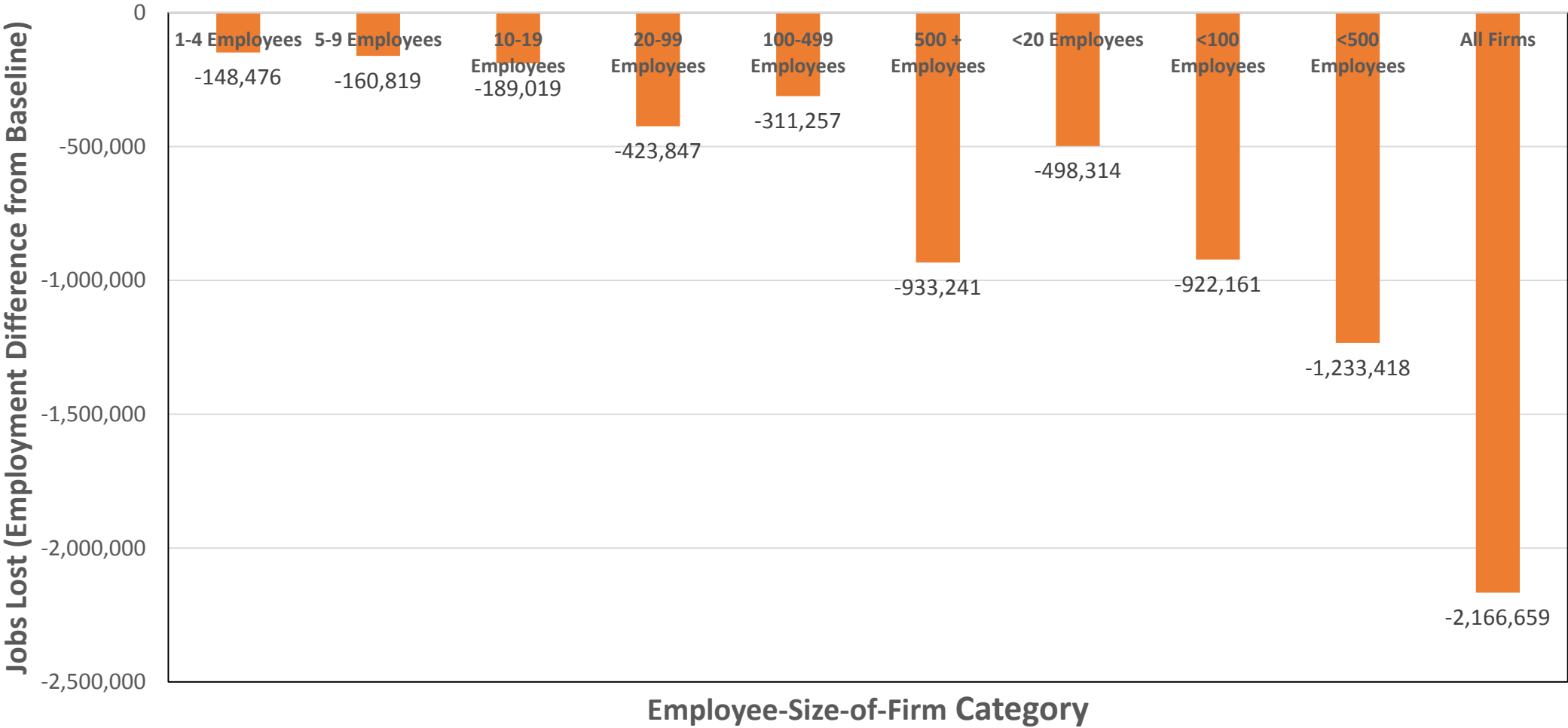
- Analyzed the impacts of implementing a \$12/hr and \$15/hr minimum wage.
- Based on H.R. 3164 of the 114th Congress which sought to increase the minimum wage to \$15/hr
- 2.6 million workers with wages at or below the federal minimum wage, making up 3.3% of the 78.2 million U.S. workers paid hourly rates.
- Phase-in of up to 5 years for workers currently earning the minimum wage after which COLA apply
- → \$15/hr minimum wages = 107% increase in wage compensation

REMI Project

- Tipped workers would eventually see their wages raised to the minimum wage, essentially eliminating this class of workers
- Minimum cash wage is currently \$2.13/hr. Raising to \$15/hr increases the cash wage by more than 7X.
- Emulation effects – workers earning near (just above) the minimum wage would want to see their wages increased as well to maintain wage structure and avoid wage compression
- Don't believe me?
 - Do you care about how your compensation compares to that of your peers?
 - Has HR ever told you not to talk about compensation in the work places?
- No business exemptions (*e.g.*, eliminate IL business size exemption)

REMI Project: Employment Effects

U.S. Jobs Lost (Employment Difference from Baseline) by 2026 Due to a \$15 per Hour Minimum Wage, by Employee-Size-of-Firm



REMI Project: Real Output Effects



Modest Productivity Gains for Workers Who Keep Their Jobs

2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
0.04%	0.09%	0.14%	0.18%	0.23%	0.24%	0.25%	0.26%	0.28%	0.30%

U.S.

In St. Louis, a Rare Effort to Lower the Minimum Wage

Missouri lawmakers and business groups prevail in push to counter national wave of municipal pay increases



Protesters outside a McDonald's restaurant in St. Louis last week. A state law taking effect Monday mandates that Missouri municipalities follow the state minimum of \$7.70 an hour. PHOTO: JIM SALTER/ASSOCIATED PRESS

By Eric Morath

Aug. 27, 2017 2:03 p.m. ET

The minimum wage in St. Louis falls by \$2.30 an hour Monday, making it a rare city to buck the national trend of municipal pay floors rising above federal and state levels.

Many low-wage workers in the Gateway City will lose raises they received in May, when the minimum wage increased to \$10 an hour. A state law taking effect Monday mandates that Missouri municipalities follow the state minimum of \$7.70 an hour, nullifying the higher wage St. Louis officials had sought since 2015.

Some business owners have already pledged to maintain the higher wage in a region where the jobless rate is lower than the national average. Others have told their employees to expect cuts.

- Numerous municipalities have raised minimum wages independently through local ordinances
- Before 2012, only five localities had minimum wage laws. Today, 39 counties and cities do.
- Some cities and counties:
 - Berkeley, Chicago, Los Angeles, Miami Beach, San Francisco, Seattle, St. Louis
- Fight over state vs. municipal power over wage-setting laws
- Push-back from states due to concerns about economic competitiveness

NBER Paper (University of Washington; June 2017)

- Evaluated wage, employment, and hours effects of the first and second phase-in of the Seattle Minimum Wage Ordinance
- \$9.47 → \$11.00 in 2015; \$11.00 → \$13.00 in 2016

Conclusions:

- Second wage increase reduced hours worked in low-wage jobs by around 9 percent (although hourly wages in such jobs increased by around 3 percent)
- Total payroll fell for such jobs → Implies a lowering of low-wage employees' earnings by an average of \$125/month in 2016

Minimum Wage Impact on Firm Survival

- Recent research by Harvard academics investigated the impact of the minimum wage on firm exit in the restaurant industry (Luca & Luca)
- Examined changes in exit rates surrounding changes in the minimum wage at the city level
- Results:
 - Higher minimum wages increase overall exit rates for restaurants
 - Lower quality restaurants are disproportionately impacted by increases to the minimum wage
 - For 3.5-star restaurant: \$1 increase → 14% increase in likelihood of exit
 - For 5-star restaurant: No discernable effect

International Perspective: Hong Kong

- Minimum Wage Ordinance Cap. 608 enacted by Legislative Council of Hong Kong in July 2010
- Introduced Statutory Minimum Wage (SMW) in Hong Kong of HK\$28 (~US\$3.61).
 - Currently, HK\$7.8 ~= USD 1
- Took effect on May 1, 2011.
- Research to date:
 - Introduction of wage floor obviously raises income for some but rapid inflation eroded the increase in income (Lau and Wong, 2016).
 - Survey research (Hong Kong Labour Department)
 - At retail enterprises, 3.1% reported a reduction in contractual working hours with incidence higher for shop managers/supervisors and other related staff (about 6.4%). Reason cited was business needs (cutting of business hours for cost saving purposes).
 - At restaurant enterprises, 1.8% reported a reduction in contractual working hours with incidence higher for dishwashers, kitchen general workers, and other related elementary workers (about 3.1%). Reason cited again was business needs.

HK Wage Gains Eaten Up by Inflation



SOURCE: [TRADINGECONOMICS.COM](https://tradingeconomics.com) | CENSUS AND STATISTICS DEPARTMENT, HONG KONG

HK Only Exhibiting Modest Growth



SOURCE: [TRADINGECONOMICS.COM](https://tradingeconomics.com) | CENSUS AND STATISTICS DEPARTMENT, HONG KONG

HK Inflation and Housing Prices



SOURCE: TRADINGECONOMICS.COM | CENTALINE PROPERTY AGENCY LTD., HONG KONG

Thank You!