The Minimum Wage 2013

"A Minimum Standard of Living Necessary for Health, Efficiency and General Well-Being"

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Abstract

The first federal minimum-wage law, the Fair Labor Standards Act, was passed in 1938. The law set the minimum wage at 25-cents-per-hour. Upon signing the Fair Labor Standards Act President Franklin Delano Roosevelt proclaimed that, other than Social Security Act, the Fair Labor Standards Act was ". . . the most far-sighted program for the benefit of workers ever adopted". He went on to say that wages must ***ensure*** *a "minimum standard of living necessary for health, efficiency and general well-being". Today, the federal minimum wage is 7.25 per hour. Over the last forty years, the real value of the federal minimum wage has fallen by nearly 30%. In 2013, the yearly income of a minimum wage worker who supports a family of two falls slightly below the poverty line. This statistic begs the question: Is the minimum wage of 2013 fulfilling its mandate of ensuring a minimum standard of living necessary for health, efficiency and general well-being? Respected economists are of the opinion that raising the minimum wage would have positive effects on the economy and minimum wage workers as well. This question, as well as the question of whether or not the 2013 minimum wage is sustaining its original mandate, is the focus of this paper.*

A Brief History of the Minimum Wage

"There is nothing but a lack of social vision to prevent us from paying an adequate wage to every American citizen whether he is a hospital worker, laundry worker, maid or day laborer. There is nothing but shortsightedness to prevent us from guaranteeing an annual minimum- and livable- income for every American family." Dr Martin Luther King Jr.

On January 13, 1938 President Franklin Delano Roosevelt signed the Fair Labor Standards Act, which created the first mandatory federal minimum wage. The minimum wage was set at 25 cents per hour. Upon signing the law, President Roosevelt stated that the legislation was drafted to create a ". . . minimum standard of living necessary for health, efficiency and general well being without substantially curtailing employment. "

President Harry S. Truman's State of the Union Address in 1948 called for an increase in the minimum wage so that the prosperity of the country could be shared by all He stated*". . . In this society, we are conservative about the values and principles which we cherish; but we are forward- looking in protecting those values and principles and in extending their benefits. We have rejected the discredited theory that the fortunes of the Nation should be in the hands of the privileged few. We have abandoned the 'trickledown' concept of national prosperity. Instead we believe our economic system should rest on a democratic foundation and that wealth should be created for the benefit of all . . . the health of our economy and its maintenance at high levels further require that the minimum wage fixed by law should be raised to at least 75 cents per hour."* His efforts led to an increase in the minimum wage from 40 cents per hour to 75 cents per hour, an increase of 87.5%, in 1949.

Over the years the federal minimum wage in terms of real dollars has increased and decreased with the political climate of the time. In terms of real dollars the minimum wage reached a peak in 1968 at $1.60 per hour. In all, the federal minimum wage laws have been amended twenty times and the minimum wage rate has been increased twenty two times since its inception in 1938. The current minimum wage is $7.25 per hour. The last minimum wage increase took effect in January 2009.

One of the most important changes to the federal minimum wage law was set in motion in 1997 when President Clinton introduced legislation that made an important change to the minimum wage law. The change allowed states to set their own minimum wage rate. As a result of this change, in 2013, 18 states have minimum wage rates higher than the federal minimum wage. The state with the highest minimum wage is Washington where the minimum wage was raised to $9.19 on January 1, 2013.

Demographics of the Minimum Wage in 2012

According to the Bureau of Labor Statistics, in 2011, the latest year for which information is available, 1.8 million hourly employees were paid the federal minimum wage of $7.25 per hour and another 2.2 million hourly employees were paid less than the minimum wage. Thus, 5.2% of workforce earnings were at the minimum wage or below in 2011. This was actually an improvement over the previous year. In 2010, 6% of the workforce earned the minimum wage or below. The worst years on record since statistics were first collected in 1979 were 1980-81 when 15.1% of the workforce earned the minimum wage or below. The best year on record was 2006 when only 2.3% of the workforce earned the minimum wage or below.

Demographics statistics show that 49.5% of minimum wage workers are aged 24 or younger and 50.5% are above the age of 24. Among workers aged 24 and younger, 16.8% live with families who are at or below the poverty line, whereas 29.2% of workers age 25 and older live with families who are at or below the poverty line.
In 2011, 53% of the total American workforce was male and 47% was female. However, among minimum wage workers, 38% were male and 62% were female. In 2012, African Americans made up 11% of the total workforce but 15% of minimum wage workforce. Hispanic workers made up 15% of the workforce but 18% of minimum wage workforce. Moreover, 11% of workers without a high school diploma earned the minimum wage or less whereas 5% of workers with a high school diploma earned the minimum wage or less. In contrast, only 2% of workers with a college degree earned the minimum wage or less.

The Value of the Minimum Wage Today

The National Employment Law Project released a data brief on the minimum wage in July 2012. The data brief concluded that the minimum wage has lost real value over time, stating "After nearly a half century of neglect, today's federal minimum wage is decades out of date. In terms of purchasing power, its value is 30% lower than it was in 1968".

The study statistics showed that the minimum wage would be $10.55 today if it had kept pace with inflation over the past 40 years. Furthermore, the study found that the minimum wage would be $23 today if it had kept pace with executive salaries since 1990.

A worker who earns the minimum wage of $7.25 per hour and works 40 hours per week for 52 weeks will earn an annual salary of $15,080. In 2013 the poverty line for a single person is $11,070 per annum; the poverty line for a single person with a dependent child is $15,130 and the poverty line for a single person with two dependent children is $19,090. Therefore, a minimum wage worker with one dependent is at the poverty line whereas a minimum wage worker with two dependent children is well below the poverty line.

Income Inequality

In 2013 income inequality in the United States is at an all time high. As of 2010 the top one percent of American households held 35.4% of the net wealth whereas the bottom ninety five percent held 36.9% of the net wealth. The post recession recovery of the past two years has exacerbated the situation. Between 2002 and 2007 the top one percent of American households received a little over 65% of the total increase in national wealth. In 2010 the top one percent of American households received over 95% of the total increase in national wealth.

The Nobel Laureate Economist, Joseph Stiglitz, believes that the United States will not be able to fix the economy without addressing income inequality.

The United States had years of sustained growth and prosperity between 1950 and 1970. During these same years there was a marked decline in income inequality in the United States. The Nobel Laureate Economist, Joseph Stiglitz,, believes that the decline in income inequality fueled increased consumer demand which in turn fueled the dynamic economy which increased prosperity for all.

Stiglitz has stated that post World War II government and economic policies were responsible for this unprecedented economic growth. In particular, he cites the GI Bill, which dramatically increased access to higher education and progressive tax rates as policies that were primarily responsible for the years of sustained economic growth.

According to Stiglitz, the post 1980 economic policies have favored the wealthy and endanger the future of the United States. In his 2012 book, The Price of Inequality: How Today's Divided Society Endangers Our Future, Stiglitz writes, "While there may be economic forces at play, politics have shaped the market, and shaped it in ways that advantage the top at the expense of the rest… The economic elite have pushed for a framework that benefits them at the expense of the rest, but it is an economic system that is neither efficient nor fair".

A November 2012 study from the Center on Budget and Policy Priorities reported that income inequality had spread across all fifty states. The report stated that one of the primary reasons for the widespread inequality was the growth in wage inequality. The study cites the failure to raise the minimum wage as the primary cause of wage inequality. The study's first recommendation for resolving income inequality in the United States is to raise the minimum wage and index it to inflation.

At a time when income inequality is rivaling a disparity not seen since the time immediately preceding the Great Depression, Stiglitz believes that raising the minimum wage would not be sufficient to alleviate the problem of income inequality but would be a solid step in the right direction that would have positive effects on the United States economy.

Raising the Minimum Wage Will Improve the Economy

Consumer spending comprises seventy percent of the United States Gross Domestic Profit (GDP). A 2011 Survey by the Bureau of Labor Statistics on Consumer Spending found that the working poor tend to spend every dollar they earn. Increasing the minimum wage would put more money in the hands of working poor who tend to spend their wages. Thus, an increase in the minimum wage could lead to economic growth. In addition, a 2011 study by the Federal Reserve Bank of Chicago found that a $1 increase in the minimum wage would boost consumer spending by minimum wage households by $3,500 in new consumer spending over the next year.
Additional statistics put forward in a December 2009 study by the Economic Policy Institute found that the slight increase in the minimum wage that occurred in 2009 increased consumer spending by $5.5 billion. The study also proposed that increasing the minimum wage to $9.80 per hour would increase consumer spending by $25 billion.
Raising the minimum wage would have the ancillary effect of increasing payroll tax and sales tax collections as lower income workers pay a larger portion of their income in payroll and sales taxes. Federal Earned Income Tax Credit payouts would also be reduced if the income of the working poor increased.

Raising the Minimum Wage Will Improve the Lives of Millions of Workers without Increasing Job Loss

In their July 23, 2012 letter to President Obama and Congressional leaders entitled, "Time to Raise the Minimum Wage", ten leading US economists called for raising the minimum wage to $9.80 by 2014. The letter states that, "this policy would directly provide higher wages for close to 20 million workers by 2014. Furthermore another nearly 9 million workers who wages are just above the new minimum would likely see a wage increase through 'spillover effects', as employers adjust their internal wage ladders." The letter concluded, "In recent years, there have been important developments in the academic literature on the effect of increases in the minimum wage on employment, with the weight of evidence now showing that increases in the minimum wage have had little or no effect on the employment of minimum wage workers, even in times of weakness in the labor market."

Recent economic studies have support this contention that raising the minimum wage would not lead to job loss. Firstly, the majority of minimum wage jobs in the United States are in the service sector and these jobs cannot be outsourced. Secondly, the positive effects of minimum wage increases on the economy as a result of increased spending by minimum wage workers would more than compensate for the economic effects of wage increases..
The Center for American Progress released a comprehensive report in June 2012 on the effects of raising the minimum wage during periods of high unemployment. The study entitled, "The Facts on Raising the Minimum Wage When Unemployment is High," analyzed five academic studies of increases in the minimum wage during periods of high unemployment that included different geographical areas and time periods. The report concluded that raising the minimum wage during times of high unemployment does not increase job loss.

Businesses Who Hire Minimum Wage Workers Can Afford to Raise the Minimum Wage and May Actually Benefit By Raising It:

The National Employment Law Project released a study, "Big Business, Corporate Profits and the Minimum Wage" in July 2012. The study reported that the majority of low income workers are employed by large employers who have recovered from the economic recession. These corporations are in strong financial positions and are earning profits above their pre-recession levels. Furthermore, these corporations are generously sharing these profits with their top executives and shareholders.

The study concluded, "Taken together these indicators show that the nation's top low-wage employers can readily afford to pay for a higher minimum wage for their lowest-paid employees".

The study specifically cited the following facts:

- The majority (66%) of low- wage workers are employed by large corporations with over 100 employees.
- The 50 largest employers of low wage workers have largely recovered from the recession and most are in strong financial positions
- 92% of these corporations were profitable in 2011.
- Top executive compensation at these corporations averaged $9.4 million in 2011.
- $174.8 billion was returned to the shareholders of these corporations through dividends and share buybacks between 2007 and 2011.

Finally, research has shown that raising wages in low-wage industries reduces employee turnover and increases productivity. A study of the effect of wage increases at the San Francisco airport found that turnover among security screeners dropped from 95% to 19 % when wages were raised from $6.45 to $10 per hour. Additional studies produced similar results. Further, studies have found that raising wages of low-wage workers afforded significant savings for employers in terms of reduced recruitment, staffing and training costs.
A study by Zeynep Tom, an expert on the retail sector at Massachusetts Institute of Technology, found that paying higher wages in the retail sector increases profitability as higher paid workers are more productive and generate higher sales. Additional studies have shown similar results in the retail industry.

Conclusion: The Minimum Wage of 2013 is Not Sustaining Fulfilling Its Original Mandate and Should Be Raised.

The Minimum wage of 2013 does not ensure a "minimum standard of living necessary for health, efficiency and general well-being" The base hourly income rate should be raised not only to benefit the individual worker but also for the benefit of the economy as a whole. In addition, wealth inequality has never been greater in the United States than it is in 2013. Raising the minimum wage would be a positive step toward alleviating this troubling trend.

Unfortunately, on March 15, 2013 the House of Representatives rejected a bill to raise the minimum wage to $10.0 per hour by a vote 233 to 184.

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