

Economic Analysis

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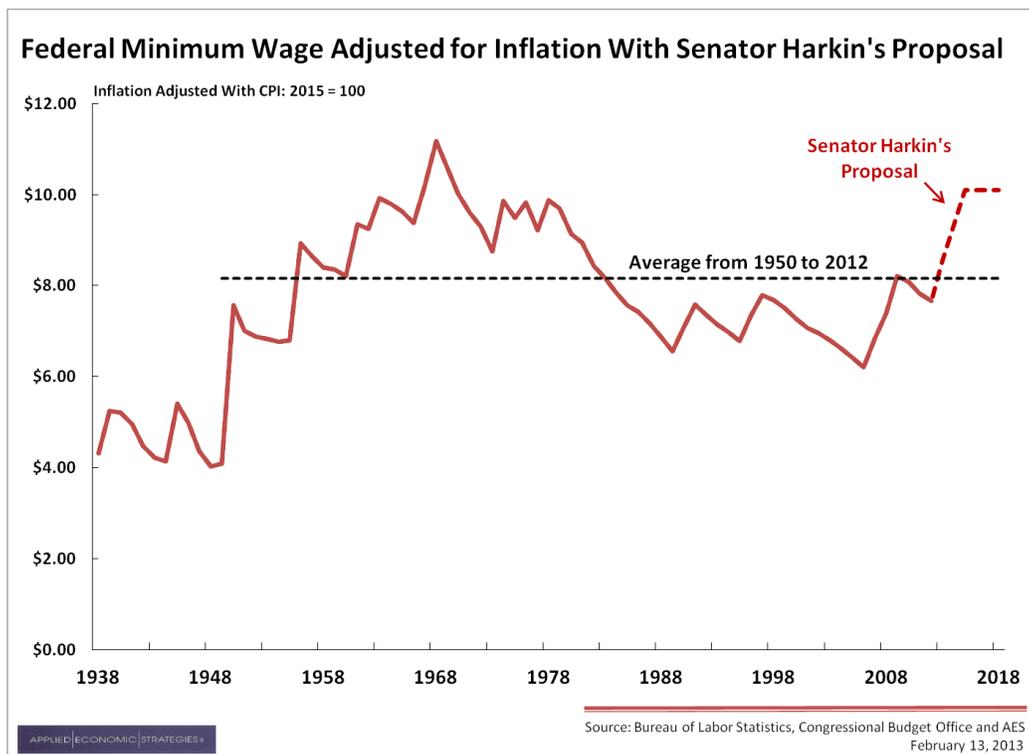
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Analysis of Proposals to Increase the Minimum Wage

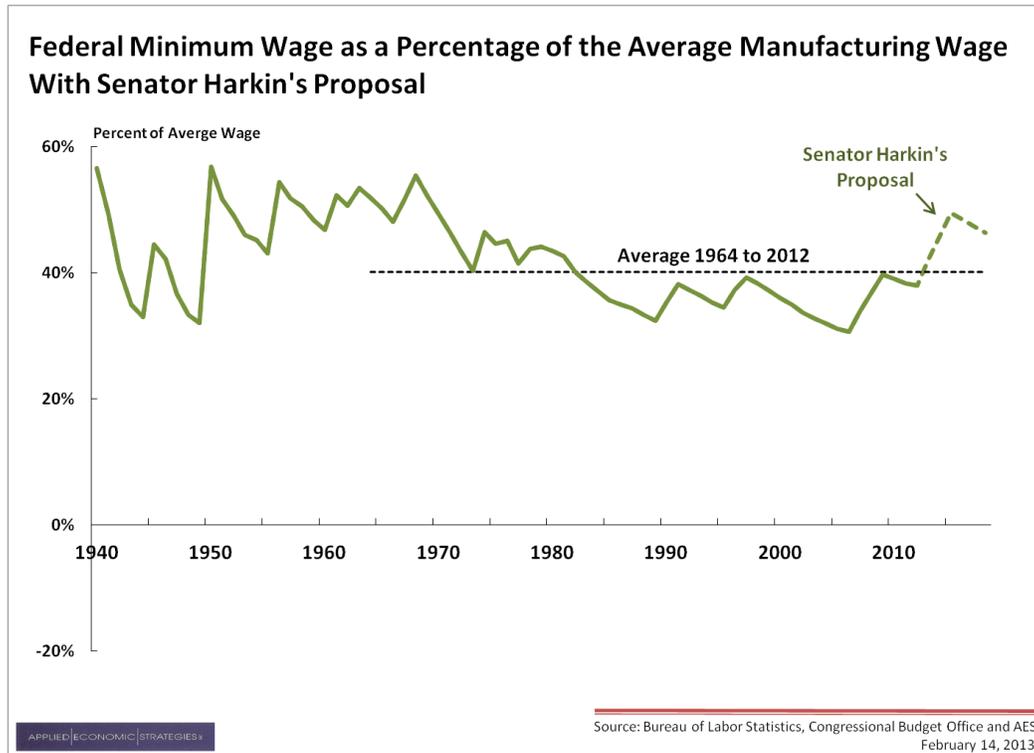
Jump to \$10.10 Per Hour Will Increase Employer Costs By \$48.5 Billion Per Year

- President Obama has proposed increasing the minimum wage from \$7.25 to \$9.00 by the end of 2015, a 24.1 percent increase, and indexing it to inflation thereafter. Senator Harkin has proposed increasing it to \$10.10 in three \$0.95 increments over two years, or 39.3 percent, and indexing it thereafter.
- Since 1938, the federal minimum wage has increased faster than inflation (*i.e.*, in 1938 the inflation adjusted value of the minimum wage was \$4.07 compared to \$7.25 in 2012). Senator Harkin's proposal would increase the "real" value of the minimum wage (adjusted for inflation) well above its average from 1959 to 2012 (\$8.16), to its highest level since 1969, and "lock" it to that value by indexing it to inflation (see chart below).



- President Obama's standard for the minimum wage is "no one who works full-time should have to live in poverty,"¹ yet the current minimum wage for a full-time, year-round, worker equals \$14,500 for an individual -- 21.4 percent *above* the current poverty level for a single person.² An increase to \$7.70 would make it higher than the poverty level for a family of two. Moreover, if two people in a family of four are working full-time year-round at the minimum wage their family income would be 22.5 percent above the poverty level.

- From 1940 to 1969, the federal minimum wage averaged 47.1 percent of the average manufacturing wage in the United States, and from 1964 to 2012, it averaged 40.1 percent. It is currently just below (38.0%) that long-term average. Senator Harkin's proposal would increase it to 49.5 percent in 2015, its highest level since 1969 (see chart below).

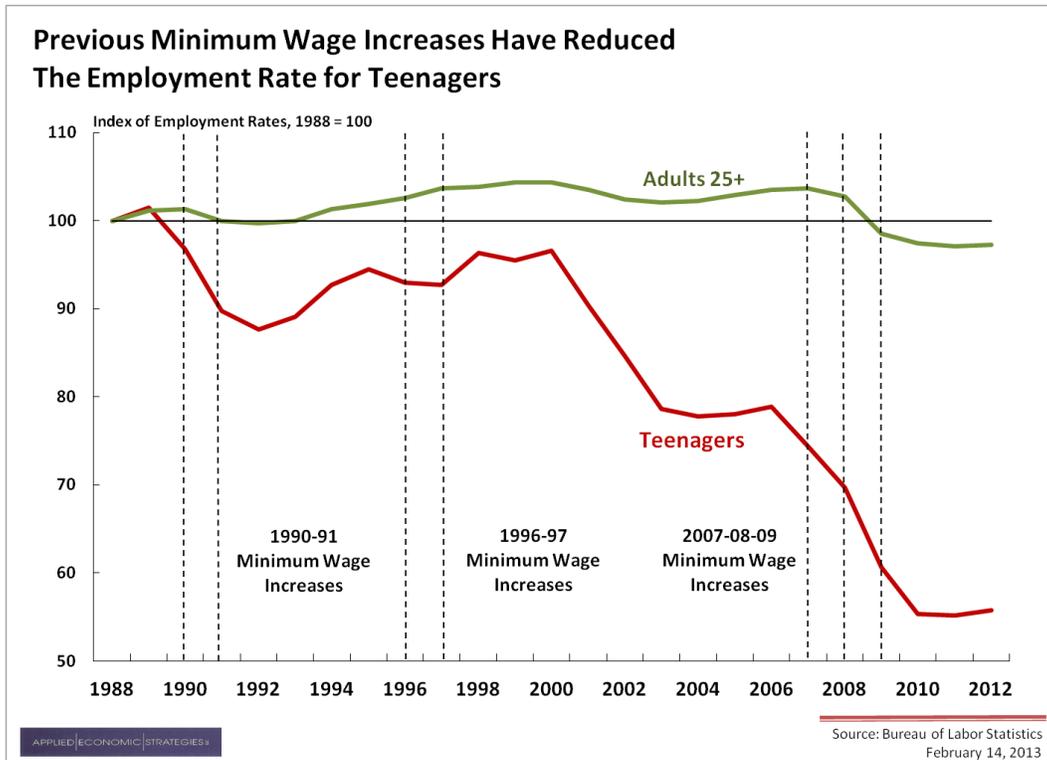


The Cost of Increasing the Minimum Wage

- Increasing the minimum wage to \$9.00 will effect 12.2 million hourly-paid employees who work an average 28.4 hours per week and 43.3 weeks per year. Assuming there is no negative employment impact on these workers, the increase will cost employers at least \$15.6 billion per year when fully phased in. It could also impact another 1.3 million non-hourly employees for an additional cost of \$2.1 billion per year; *for a total potential cost of \$17.7 billion per year.*³
- Increasing the minimum wage to \$10.10 will effect 23.1 million hourly-paid employees who work an average 30.6 hours per week and 44.1 weeks per year. Assuming there is no negative employment impact on these workers, the increase will cost employers at least \$42.6 billion per year when fully phased in. It could also impact another 2.6 million non-hourly employees for an additional cost of \$5.9 billion per year; *for a total potential cost of \$48.5 billion per year.*
- There is no “free lunch” when the minimum wage is increased. Someone must pay for the higher cost. Economic research shows that businesses will make a variety of adjustments including: reducing hiring, increasing productivity (*i.e.*, cutting employee hours), reducing benefits, delaying wage increases for higher paid employees, and charging higher prices.⁴

An Illustration of the Impact of Increasing the Minimum Wage on Teenagers

- Economic research has found that if there is a negative impact from increasing the minimum wage it most likely falls on unskilled youth.⁵
- During the 1990–1991 recession, the minimum wage increase at the time contributed to the -6.5 percentage point decrease in the employment rate for teenagers compared to the -0.9 percentage point decline for adults (see chart below). And during the 2008–2009 recession, the minimum wage increase contributed to the -8.9 percentage point decrease in the employment rate for teenagers compared to the -3.9 percentage point decline for adults.



Conclusion

Senator Harkin’s proposal to increase the minimum wage would be the largest increase in dollar terms, and one of the largest increases in percentage terms in the history of the Fair Labor Standards Act. It would increase the inflation adjusted value of the minimum wage to near its record high in 1968, well above its average for the past 60 years, and cost employers \$48.5 billion per year.

¹ President Barack Obama, State of the Union Address, February 12, 2013.

² \$7.25 times 2,000 hours (40 hours per week times 50 weeks) = \$14,500.

³ Applied Economic Strategies analysis of 2012 Census Bureau data. Methodology follows economic analysis in U.S. Department of Labor, Defining and Delimiting the Exemptions for Executive, Administrative, Professional, Outside Sales and Computer Employees; Final Rule, April 23, 2004, (69 Fed. Reg. 22191) for determining FLSA covered employees. Number of employees, average weekly hours, average hourly pay increase, and average weekly pay increase estimated using January through December Outgoing Rotation Group data. Average number of weeks worked estimated using 2012 Current Population Survey March Supplement data.

⁴ Mark Wilson, “The Negative Effects of Increasing the Minimum Wage,” CATO Institute, Policy Analysis No. 701, June 21, 2012. Also see: John Schmitt, “Why Does the Minimum Wage Have No Discernible Effect on Employment?,” Center for Economic and Policy Research, February 2013.

⁵ Mark Wilson, “The Negative Effects of Increasing the Minimum Wage,” CATO Institute, Policy Analysis No. 701.