Debating the Minimum Wage

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Introduction

Definition of the **Proposal**:

- Annual increases to the federal mandatory minimum wage over 4 years.
- Will increase it from 7.25$/h in 2021, to 15$/h in 2025.
- Yearly salary of a full-time/full-year minimum wage worker is $15,080.

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1. Why a mandatory minimum wage?
2. Why a federal mandatory minimum wage?
3. Why a federal mandatory minimum wage at 15$/h ?

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- Price control is not the usual way we do policy in a market economy: why is it justified in this case?

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- It is justified because the labor market is different: in it, we trade working hours, i.e. time belonging to each of us.
- Consequences:
  1. Workers (most of us) support themselves through labor income:
     Without a living wage, workers cannot .... live!
  2. Workers are also consumers:
     Wages too low reduce consumption, depressing aggregate demand.
  3. Labor markets are not (and cannot) be perfectly competitive, simple supply/demand does not work:
     the meeting of workers and jobs is costly and affected by frictions.

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    - Low implementation costs.
    - No need for other government programs to support the working poor.

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As a result, imposing a price floor to wages may make economic sense:

1. Well-targeted, easy to implement and enforce policy:
   - Low implementation costs.
   - No need for other government programs to support the working poor.
2. May generate welfare gains in a cost-benefit analysis:
   - Costs to the firms (higher labor costs) can be greatly reduced by increase in demand.
   - Cost to the workers (lower employment) can be greatly reduced by the presence of labor market frictions:
     - Many jobs remain productive and generate positive profits even if they pay higher wages.
   - Potential welfare increase for both workers and firms:
     - Workers trade-off longer unemployment durations for higher wages.
     - Firms trade-off higher vacancy rates for lower turnovers and better matches.

Why a **federal** mandatory minimum wage?

- A federal minimum wage provides the floor to the price floors:
  - States and cities can then increase it to take into account different costs of living.
- It does share general the advantages of federal laws:
  - clarity reduces distortions;
  - federal mandates are easier to enforce.
- It may help the diffusion of economic growth between states.

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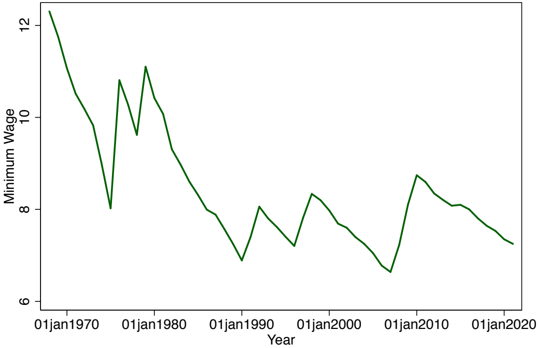
- The federal minimum wage was last raised in 2009:
  in real terms, its value is now 17% lower, close to historic low values.

Figure: Federal Minimum Wage in Real Terms



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- 15 is not a magic number: there are no magic numbers!
- It is a compromise and it will be introduced over 4 years:
  - In my view, the debate should focus more on the implementation time.

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Question 2: Should we increase the minimum wage at 15$/h?

- 15 is not a magic number: there are no magic numbers!
- It is a compromise and it will be introduced over 4 years:
  - In my view, the debate should focus more on the implementation time.
- It is an acceptable compromise because:
  - Tested on many markets and companies, we have some evidence of the trade-offs involved.
  - It will provide a living wage.
  - In line with increases in workers productivity. Figure

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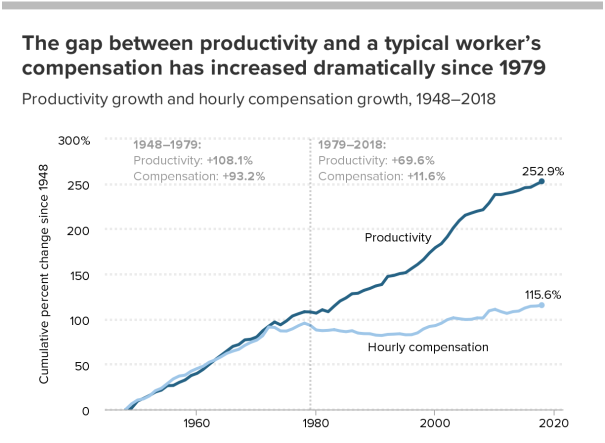
- There is support from the empirical evidence that the costs of a reasonable minimum age increase are low and in some cases absent.
- Historical data on productivity, wages and minimum wage levels indicates that now it is the right time for an increase.

Appendix

Additional Data and Figures

Wages and Productivity

Figure: Cumulative Growth of Wages and Productivity [Bivens et 2020] Back



Notes: Data are for compensation (wages and benefits) of production/nonsupervisory workers in the private sector and net productivity of the total economy. "Net productivity" is the growth of output of goods and services less depreciation per hour worked.