Issue Overview: Minimum wages

By Jordaan Yadoo, Bloomberg on 10.05.16

There's no such thing as a free lunch. Or is there? For more than a century, politicians have been passing minimum wage laws and opponents have warned of their hidden costs. The argument still rages from Washington to London to Berlin: Does a minimum wage lead to better lives or fewer jobs, more prosperity or less? Or to put it in free-lunch terms, can you safely ignore the downside of higher labor costs as if there's no law of supply and demand? The answer, after decades of data mining by economists, is a tentative and surprising maybe. Lunch anyone?

The Situation

Twenty-eight countries report minimum-wage data to the OECD. (The first to establish one was New Zealand, in 1894.) The U.S. rate, $7.25 an hour, is 10th highest in real dollars, behind the U.K.'s (now about $10), and Australia's (about $12). More telling: When measured as a share of average wages, the U.S. ranks 25th, at 37 percent, tied with Mexico and ahead of only the Czech Republic. High-wage Germany adopted its first minimum wage, about $9, in July 2014. Swiss voters rejected a proposal in 2014 to establish the world's highest, $25 an hour. While the details are different, the argument is the same: Do wage floors help or hurt the economy? In his 2013 State of the Union
address, President Barack Obama challenged Congress to boost the federal minimum to $10.10. Capitol Hill Republicans didn’t take the bait, so a year later Obama set a $10.10 minimum wage for federal contractors and called on mayors and governors to “give America a raise.” Voters in four states then did. By the start of 2016, 29 states and more than a dozen U.S. cities had minimum wages higher than the federal rate. In March, California’s governor and state legislature reached a deal to increase the state’s minimum wage to $15 an hour by 2022. New York then enacted similar legislation, mandating an increase to $15 by 2019 in New York City and 2022 in the suburbs, and to $12.50 by 2021 in the rest of the state.

The Background

Minimum Wage Laws
As of July 1, 2016. California and Massachusetts have the highest state rates — $10 an hour

The U.S. federal minimum wage has been raised 22 times since Congress created it in 1938 at 25 cents an hour, with the most recent vote in 2007. Economists have been quarrelling about it all along. What no one disputes is that the buying power of the wage has eroded. Adjusted for inflation, the value peaked in February 1968 when it was $1.60, about $10.91 in 2015 dollars. Some studies conclude that higher wage floors lead to fewer jobs. That was the consensus until the 1990s, when a flurry of new state minimum
exceeding the federal rate (the higher rate always applies) gave researchers more ways to study the effects of wage hikes on adjacent communities. A landmark 1994 report compared employment at fast-food outlets in New Jersey and Pennsylvania two years after New Jersey raised its hourly minimum wage from $4.25 to $5.05. Job prospects improved for low-wage workers in New Jersey. The Congressional Budget Office released a mixed-bag analysis in 2014 that found that adopting a $10.10 minimum wage nationwide would lift 900,000 people out of poverty while eliminating 500,000 low-income jobs.

The Argument

Minimum-wage enthusiasts contend that workers aren’t the only beneficiaries. They say companies that rely on low-skilled labor, such as Walmart and McDonald’s, enjoy lower turnover and increased consumer spending as people use bigger paychecks to buy more stuff. Fewer workers would need food stamps and other aid to make ends meet. Maybe. Somewhere along the line, someone has to bear the cost of higher wages — that pesky free-lunch conundrum. A substantial burden would fall on the low-skilled and working poor if they had fewer jobs available to them. Wage mandates nibble at corporate profits, increase prices or both. The minimum wage is an inefficient tool for poverty relief because so many of its beneficiaries, such as teenagers and part-timers, aren’t poor. While economists squabble over who picks up the check, the debate is becoming more and more academic. Not many Americans work for $7.25 an hour these days. In 2015, just 3.3 percent of the country’s 78.2 million hourly workers earned that amount.
Quiz

1. Which of the following sentences from the article BEST develops a central idea?
   
   (A) Or to put it in free-lunch terms, can you safely ignore the downside of higher labor costs as if there’s no law of supply and demand?
   
   (B) While the details are different, the argument is the same: Do wage floors help or hurt the economy?
   
   (C) The Congressional Budget Office released a mixed-bag analysis in 2014 that found that adopting a $10.10 minimum wage nationwide would lift 900,000 people out of poverty while eliminating 500,000 low-income jobs.
   
   (D) They say companies that rely on low-skilled labor, such as Walmart and McDonald’s, enjoy lower turnover and increased consumer spending as people use bigger paychecks to buy more stuff.

2. Which TWO of the following are central ideas of the article?

   1. Twenty-eight countries report minimum wages higher than the U.S.
   2. Economists are undecided about minimum wage benefits.
   3. Research studies reveal advantages and disadvantages to minimum wage
   4. Minimum wage helps Americans balance income with inflation.

   (A) 1 and 3
   
   (B) 2 and 3
   
   (C) 1 and 4
   
   (D) 2 and 4
Why does the author include a quote from Obama in the following statement in the article?

_Capitol Hill Republicans didn’t take the bait, so a year later Obama set a $10.10 minimum wage for federal contractors and called on mayors and governors to “give America a raise.”_

(A) to show that mayors and governors agreed with Obama’s point of view  
(B) to describe the opposing viewpoints of Republicans, federal contractors, mayors and governors  
(C) to illustrate how the president can provide a solution to a problem when others disagree  
(D) to emphasize Obama’s belief that raising the minimum wage would benefit everyone in the country

Which statement MOST accurately summarizes two main opposing perspectives about minimum wage benefits?

(A) The argument still rages from Washington to London to Berlin: Does a minimum wage lead to better lives or fewer jobs?  
(B) The OECD reports that the U.S. ranks higher than Australia in minimum wage rates, but Australians believe they are higher in real dollars.  
(C) Workers in New York City reached a deal to increase the minimum wage to $15 in 2019; workers in the rest of the state will see an increase to $12.50 by 2021.  
(D) Economists squabble over who picks up the check to pay for higher wages, while lawmakers would rather determine wage laws through an academic debate.
Answer Key

1. Which of the following sentences from the article BEST develops a central idea?

(A) Or to put it in free-lunch terms, can you safely ignore the downside of higher labor costs as if there’s no law of supply and demand?

(B) While the details are different, the argument is the same: Do wage floors help or hurt the economy?

(C) The Congressional Budget Office released a mixed-bag analysis in 2014 that found that adopting a $10.10 minimum wage nationwide would lift 900,000 people out of poverty while eliminating 500,000 low-income jobs.

(D) They say companies that rely on low-skilled labor, such as Walmart and McDonald’s, enjoy lower turnover and increased consumer spending as people use bigger paychecks to buy more stuff.

2. Which TWO of the following are central ideas of the article?

1. Twenty-eight countries report minimum wages higher than the U.S.
2. Economists are undecided about minimum wage benefits.
3. Research studies reveal advantages and disadvantages to minimum wage
4. Minimum wage helps Americans balance income with inflation.

(A) 1 and 3
(B) 2 and 3
(C) 1 and 4
(D) 2 and 4
3 Why does the author include a quote from Obama in the following statement in the article?

*Capitol Hill Republicans didn’t take the bait, so a year later Obama set a $10.10 minimum wage for federal contractors and called on mayors and governors to “give America a raise.”*

(A) to show that mayors and governors agreed with Obama’s point of view

(B) to describe the opposing viewpoints of Republicans, federal contractors, mayors and governors

(C) to illustrate how the president can provide a solution to a problem when others disagree

(D) to emphasize Obama’s belief that raising the minimum wage would benefit everyone in the country

4 Which statement MOST accurately summarizes two main opposing perspectives about minimum wage benefits?

(A) The argument still rages from Washington to London to Berlin: Does a minimum wage lead to better lives or fewer jobs?

(B) The OECD reports that the U.S. ranks higher than Australia in minimum wage rates, but Australians believe they are higher in real dollars.

(C) Workers in New York City reached a deal to increase the minimum wage to $15 in 2019; workers in the rest of the state will see an increase to $12.50 by 2021.

(D) Economists squabble over who picks up the check to pay for higher wages, while lawmakers would rather determine wage laws through an academic debate.