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Introduction

- **Why is minimum wage important?**
- The minimum wage is important because it guarantees that a typical worker has a certain hourly pay.
- On the other hand, opponents of the minimum wage say it is an unnecessary government regulation which makes employers involuntarily pay above-equilibrium wages.

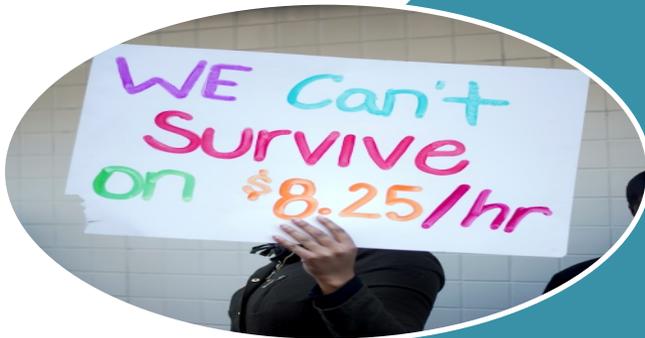


Many Adults Rely on the Minimum Wage as a Living Wage

- The fact is, almost two-thirds of minimum wage workers are adults, and four in ten are the sole bread winner of their family.

- (Source: United States of Labor)

Who Makes Minimum Wage?



The min. wage is more important for the least skilled or experienced workers.



50% of minimum wage workers are employed in food preparation and serving related occupations.

How Great Is the Gap Between the Minimum Wage and the Amount of Money Needed to Meet a Minimum Standard of Living?

- The living wage in the United States is **\$15.12** per hour in 2015, before taxes for a family of four (two working adults, two children).
- The current federal minimum wage is **\$7.25** per hour (unchanged since 2009).
- <http://www.minimum-wage.org/wage-by-state.asp>

Should the Minimum Wage be Raised?



The minimum wage should be raised. Currently, 15 states and the District of Columbia index the minimum wage. 29 states have a minimum wage higher than the federal minimum.

But How High Should It Go?

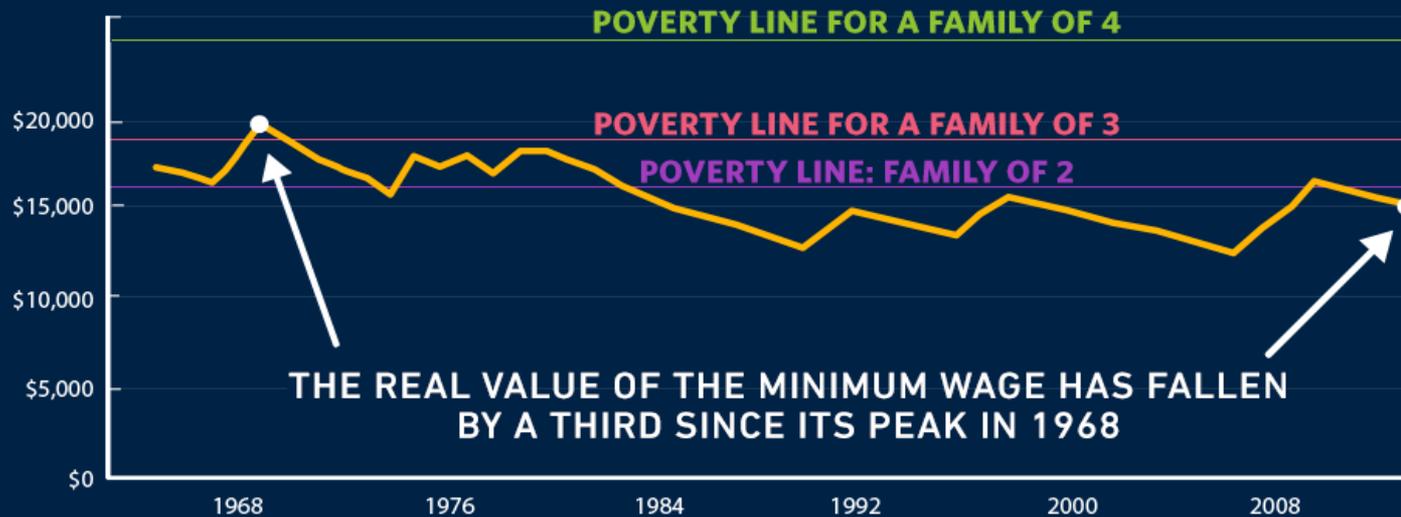


The minimum wage should be raised at least to the point where the lowest paid workers can meet their basic needs.

Economics Is About People

THE CURRENT MINIMUM WAGE

IS NOT ENOUGH FOR WORKERS AND THEIR FAMILIES TO GET OUT OF POVERTY



Annual minimum wage earnings and poverty line for families of two to four, 1964-2013 (2013 dollars)

SOURCE: CEA

According to a 2014 Census Bureau report more than **45 million** people, or **14.5 %** of all Americans, lived below the poverty line.

Increasing the minimum wage to **\$9** would lift **300,000** people out of poverty, and an increase to **\$10.10** would lift **900,000** people out of poverty.

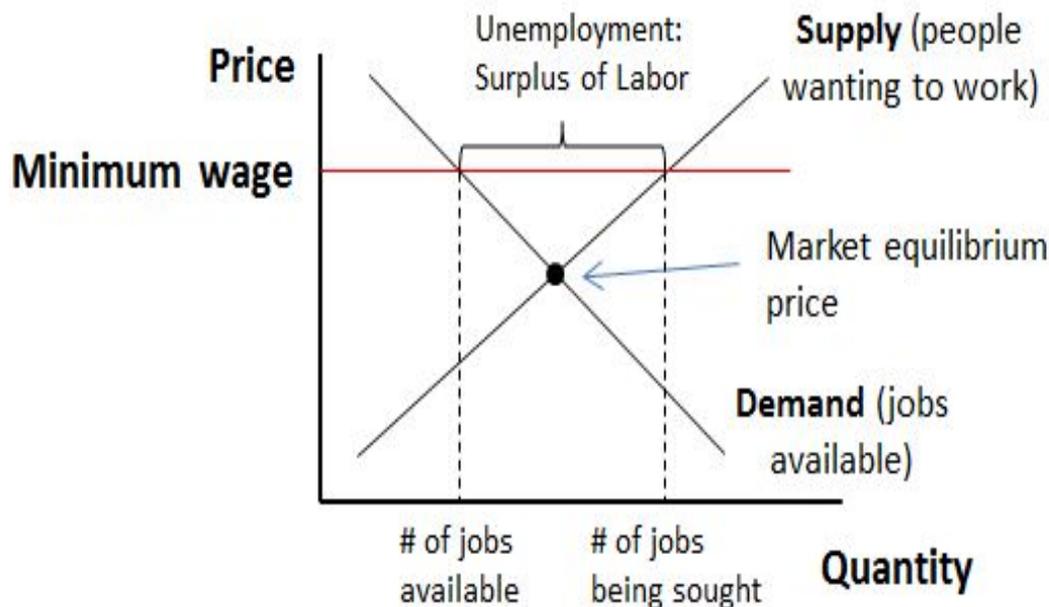
The Ends never Meet

- In 2015, the Federal Poverty Line was **\$21,775.**
- To get above the poverty line with a 40-hour week (2,080 hours), the minimum wage would need to go above \$10.
- At 29 hours a week, it would need to make it to \$15 an hour.
- For example, in household of two adults, a single full-time worker at minimum wage will earn only 95% of the poverty line.

Economic Theory of Minimum Wage

According to the economic theory, government imposes the price control by setting the minimum wage. The purpose is to ensure that workers receive a fair wage.

Impact of Minimum Wage on Labor Quantities Supplied and Demanded



However, price controls by the government in a free market economy can distort the basic concept of supply and demand. In order to not negatively impact the number of jobs available, the minimum wage should be 55% to 65% of whatever the median wage is.

Doing the Math: Indexing the Minimum Wage to the Median Wage

- In 2015, the median wage was \$14.38 per hour and the minimum wage should be at least \$9.35.
- $\$29,930.13 / 2,080 \text{ hours} = \14.38 and $\$14.38 * 0.65 = \9.35
- **The minimum wage annual income would be \$19,448** which is below the Federal Poverty Line (\$21,775).
- $\$9.35 * 2,080 \text{ hours} = \$19,448$.
- The minimum wage should be above the poverty line.
- So it should be **greater than \$10** an hour.

(Source: Social Security <https://www.ssa.gov/OACT/COLA/central.html>)

What Is the Effect of the Minimum Wage Increase on the Economy?



The research into the positive and negative effects of increasing the minimum wage is **conflicting and inconclusive**.

Positive Effects

Raising the minimum wage would increase family income for many low-wage workers.

Raising the minimum wage would reduce poverty

It will help boost the economy (according the study of Federal Reserve bank of Chicago, \$1 raise in wages increases spending by \$2800 a year for families with minimum wage workers).

The Negative Effects



It would force businesses to lay off employees and raise unemployment levels

It would increase the price of consumer goods and services

It can force individuals into higher tax brackets and reduce benefits from gov. assistance.

It would be “economic disaster” for small businesses.

Conclusions

- The effect of the min wage increase on the economy is uncertain.
- **The minimum wage should be raised.**
- Federal and state governments should focus on policies that generate faster economic growth, which would provide more jobs, more opportunities for all workers.
- Businesses should recognize that paying their employees above the minimum wage pays off in many different ways such as higher revenue, wider profit margins and just more successful and productive workers...

Questions?



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