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Minimally Adequate?

Reassessing the Role of the Minimum Wage in the 21st Century

Abstract:

In this paper I will examine the history, application and consequences of the federal minimum wage in the United States of America. Moreover, I will analyze the past and future of a sustainable “living wage” for all full-time workers, accounting for the political environment in which it is situated. Finally, I will describe, through the lens of Rawlsian justice and Utilitarianism, the ethics associated with the implementation of a living wage.

Introduction

Rarely in the history of the United States have we as a country encountered a more politically contentious issue than the maintenance of a federally mandated minimum wage. Yet despite decades of in-depth studies and exhaustive research, its long term effects remain largely uncertain—as political analyst Orin Levin-Waldman notes, “...there is simply no conclusive proof”¹ one way or the other. This is not to say that there is no answer, but rather that the conflicting ideologies, according to economist Alan Kard, “...are so politically

¹ Levin-Waldman, “The Case of the Minimum Wage,” 33

entrenched that even the most scientific studies can't change anyone's mind.”² It is therefore the purpose of this paper to delve into this political intractability in an attempt to gain a better understanding of the issue itself and how we, as a community bound to uphold the ethics of a nation, ought to regard it as we progress through the 21st century.

The History of the Wage

The historical precedent of a minimum guaranteed wage dates back to the turn of the 20th century. The first genuine legislation was passed in New Zealand in 1894, owing its passage to a remarkably progressive social agenda that enfranchised women, provided basic healthcare to children, and created some of the first arbitration courts.³ The first de jure minimum wage in the United States, conceived as a social protection for women and children, appeared from 1912-1920 and varied from state to state in their protections, breadth and enforcement.⁴

There was little interest, however, in implementing a minimum wage on a federal level, for it was presumed to be an unconstitutional violation of the sanctity of private contracts. Though similar laws had been struck down multiple times, Roosevelt’s threat to “pack the court” resulted in its narrow 5-4 passage in 1938. Though originally only covering roughly 20% of the workforce, largely due to several industrial exclusions, the FLSA provided workers with a \$.25 guaranteed wage and would become the basis for all future minimum wage protections.⁵

Econ 101: The Classic Objections

² Getner, “What is a Living Wage?,” 4

³ Neumark, “Minimum Wages,” 11

⁴ Ibid, 11-12

⁵ Ibid, 12

The FLSA would soon begin to draw fire from many economists, who primarily foresaw significant unemployment as the foremost ill of a minimum wage.⁶

First, according to standard economic models assuming perfect competition, the creation of a wage floor below the prevailing market price, found at the intersection of wage and labor demand, will result in a dead weight loss that reduces efficiency and employment.⁷ This disemployment effect, they argued, would be disproportionately shouldered by the teenage labor market. However teens only compose roughly $\frac{1}{4}$ of the minimum wage workforce and are often from middle class, not working backgrounds, thus rendering the argument less effective.⁸

Furthermore, the idea that workers deserve to be paid low wages because they lack the skills to justify anything greater is a long-standing one. Consequently, critics often cite the lack of employer investment in their human capital following a minimum wage increase, thus leaving workers with slightly higher incomes but greatly diminished opportunities for career advancement.⁹

Present Day: Vital Statistics and Economic Impact

Before the raise from \$5.25, the Federal Minimum wage was a poverty wage, netting full-time workers slightly less than \$11,000 a year.¹⁰ There are currently 3.6 million wage earners who make \$7.25 an hour or less in full time jobs, and over 2/3 of these workers are

⁶ Ibid, 12-13

⁷ Getner, "What is a Living Wage?" 3

⁸ Fillion, "Minimum Wage Issue Guide," 1

⁹ Neumark, "Minimum Wages" 193-194

¹⁰ Fillion, "The Minimum Wage Issues Guide," 1

women, almost exclusively without a high school diploma.¹¹ Not surprisingly, workers without a diploma are nearly 5 times as likely to earn at or below the minimum wage when compared to high school and college graduates. Most earning minimum wage, however, are still young, usually below the age of 25, and tend to be unmarried. Certain industries, such as hospitality and food service, tend to disproportionately employ minimum wage workers.¹²

The Letter of the Law: The FLSA Today

Today the FLSA covers most of the adult workforce along with providing special provisions for employing minors, which includes a 90-day subminimum wage for “training” those under the age of 18 . Certain work, however, such as farm labor, is exempted. It requires no sick days, health benefits, paid vacations, or anything aside from \$7.25 an hour, plus 1 ½ time overtime pay in most industries.¹³

Excluded from full wage, however, are tipped-workers such as waiters and short order cooks, employees who are often underpaid due to the incredible ease with which managers are able to exaggerate tips on W2 forms. Because employers are only required to pay \$2.13 an hour directly, this reliance on tips is tenuous at best.¹⁴ Similarly, workers hired for “piece-work,” such as emigrant women employed in the garment industry, can rarely keep pace with the extreme quotas necessary just to achieve minimum wage. And much like tips, managers of such factories are prone to underreport the number of pieces completed.¹⁵

¹¹ U.S. Department of Labor, Bureau of Labor Statistics (2009), “Characteristics of Minimum Wage Workers.”

¹² Ibid

¹³ U.S. Department of Labor, “Compliance Assistance, FLSA Guidelines”

¹⁴ Ibid

¹⁵ Shipler, *The Working Poor: Invisible in America*, 78-79

Though many often cite small businesses as the standard victim of a new economic policy, upon the institution of the full \$7.25 wage, some 64% of small businesses were entirely unaffected by the increase, complicating the oft-repeated myth that such business owners will be the ones to suffer from increasing their lowliest worker's salaries.¹⁶

Also, despite frequent claims that raising the minimum wage would greatly reduce teenage employment opportunities, a study of fast food employment in Pennsylvania and New Jersey following New Jersey's minimum wage increase revealed minor *increases* in employment, contrary to every classical economic model relating to wage floors. Additionally, the increase did not adversely affect the number of store openings nor did it significantly increase the price of meals.¹⁷ However these findings have been challenged and defended periodically throughout the past decade, effectively polarizing many economists on the issue.

What is remarkable is that despite the relative political intractability of the minimum wage, over 80% of the voting public has consistently supported most proposed federal increases.¹⁸

Variations among States

When the minimum wage act of 2007 was finally passed, thirty-three states already had set the minimum at or greater than the former wage of \$5.15.¹⁹ There are still thirteen states, largely progressive, predominantly left-leaning, with wages above the \$7.25 minimum. The states without a minimum wage are exclusively southern and politically conservative.

¹⁶ Levin-Waldman, *The Case of the Minimum Wage*, 31

¹⁷ *Ibid*, 30

¹⁸ Dimock, "Maximum Support for the Minimum," 1

¹⁹ Filion, "The Minimum Wage Issue Guide," 2

Additionally, Texas and Alabama ranked first and third respectively on the percentage of workers employed at or below minimum wage, with both nearly topping 10%.²⁰ This interstate divide grants some insight into the polarizing political nature of the wage itself.

Real Wages vs. Inflation

In order to fully appreciate the history of the minimum wage, one must also understand how inflationary pressures have created a gap between “real” and “nominal” wages over the past fifty years. When surveying the trajectory of the minimum wage throughout the 20th century, a clear pattern emerges: the “nominal” minimum wage is only now beginning to mirror its actual buying power, having fallen from its peak in 1968 and emerging from its greatest disparity in the late 90’s to arrive at temporary equilibrium.

In fact, the inflation-adjusted real minimum wage of 1968 comes out to nearly \$10 an hour, a full 17% higher than the current rate.²¹ Furthermore, despite productivity and CEO pay rising dramatically from 1980-2000, the real minimum wage *fell* to near-historic lows during the same period; indeed if the wage had risen in step with CEO pay, it would prevail at nearly \$23 an hour.²²

To illustrate this disparity, bills proposing a wage increase were often laden with tax breaks and subsidies for businesses, that when passed, created a sort of inflationary equilibrium that effectively nullified any real gains among workers. These politically

²⁰ U.S. Department of Labor, Bureau of Labor Statistics (2009), “Characteristics of Minimum Wage Workers.”

²¹ Ibid, 1

²² “The Minimum Wage Act of 2007, Fact Index”

conservative poison pills were one of the reasons why workers saw little return on the monumental productivity increases begun in the mid 80's and sustained through the late 90's.²³

The Classical Rebuttal

Widely-respected economists David Neumark and William Wascher spent over two decades consolidating and analyzing nearly every piece of significant research conducted on the effects of the minimum wage, finally releasing their findings in 2009. In what they label an entirely "dispassionate" study, they urge readers to rely on empirical evidence, not ethical justifications or high minded rhetoric, when making an assessment.²⁴

They conclude that not only does the existence of a minimum wage not benefit those it is designed to assist but it actually *harms* the lower classes, eroding their incomes and hobbling their chances at economic advancement.²⁵ Perhaps the most salient feature of their argument comes when they present evidence that the only form of redistribution of wealth that occurs is among the lower class, insulating those above from any sacrifice while shuffling money between poor families instead of reducing poverty.²⁶

Others note the widely held belief that raising minimum wage will require pay scale hikes and price increases, or as one company president states, "If you move the minimum wage up, where they are spending money is back within the minimum wage realm...when the wages

²³ Ibid

²⁴ Neumark, "Minimum Wages," 5

²⁵ Ibid, 5-6

²⁶ Ibid," 6

are raised, the prices would have to be raised...The inflation it would cause would be a low-end inflation.”²⁷

Towards a Living Wage?

Stepping aside from the minimum wage, the possibility of creating a “living wage” that would serve all workers, not only those employed as the minimum wage, becomes increasingly more important when considering fundamental structural change. Before analyzing the various approaches to and implications of a living wage, let us first establish, for the purposes of this paper, a standard definition:

Any wage that provides a worker with the resources necessary to provide for adequate clothing, shelter, healthcare and housing in promotion of equality of opportunity.

When surveying the cost of living throughout America, it becomes clear that while only 4.9% of wage earners make at or below minimum wage, it often costs nearly \$20 an hour for a single adult to raise one child. This means that far more than 5% of the population is struggling to make ends meet; for this very reason, many contend that the current formula used to set the poverty line has long been outmoded, for it is based on outdated food consumption equations and not on more realistic average expenditure percentages.²⁸

For example, the cost of living, including, quite modestly, the price of healthcare, in Greenville, SC for a single parent and child amounts to an hourly wage of roughly \$17 an hour,

²⁷ Shipler, *The Working Poor: Invisible in America*, 90

²⁸ Glasmeier, “The Living Wage Calculator”

over twice the current minimum wage.²⁹ In essence, the minimum wage in Greenville County is a poverty wage when healthcare is included in the formula.

Living Wage Precedents

In 2006, when the city council of Santa Fe, New Mexico prepared to vote on a municipal minimum wage of \$9.25 for city employees and contractors, the public debate on the floor lasted until 3 A.M.³⁰

One proponent recalls that “...what really got the other side was when we said, 'It's just immoral to pay people \$5.15, they can't live on that,' demonstrating the efficacy of the moralistic approach to public policy.”³¹ After passing the council vote, it survived a protracted court battle launched by business owners fearing insolvency before going into effect. One of the more interesting concepts discussed in trial arose out of evidence, presented on behalf of the city, known as the “fried-haddock dinner” experiment. In the study, an economist charged prices ranging from \$8.50 to \$10.50 for an identical dinner at nearly identical hotels to determine how much variations in price affected demand—surprisingly, there was no change.³² This study was, much to the chagrin of business owners, extrapolated to discredit fears of a city-wide pay scale increase.

Two years after Santa Fe became one of the first living wage cities to incorporate much of the private sector, only excluding businesses with fewer than 25 employees, the city's,

²⁹ Ibid

³⁰ Gertner, Jon, “What is a Living Wage?,” 5

³¹ Ibid, 6

³² Ibid, 8

economy continued to grow and employment continued to rise, defying traditional economic models, though the cost of living did increase by significant 9 percent each year.³³

Many business owners still fear, however, that they will struggle to stay afloat in the coming years, for as one noted, it feels as if he has “...awakened in a mad laboratory for urban liberalism.” As Gertner states:

“When wealth is being redistributed from one party to another - and not, in the case of Santa Fe, from overpaid C.E.O.'s and hedge-fund managers but from everyday entrepreneurs who have worked long hours to succeed in their businesses—things become complicated”³⁴

For the more skeptical, there are other examples of successful living wages just as there are also multiple practical benefits to paying workers a living wage.

Since the institution of an across the board living wage law in London, England, companies have reported dramatic decreases in worker turnover, large increases in customer satisfaction, employee loyalty and productivity, and the local government has reported higher tax revenues and a 2% increase in real median household income.³⁵ However it is not the government who deserves credit for the policy, but rather the various grassroots organizations that began their advocacy in 2001, long before it reached fruition in 2004.³⁶

³³ Ibid, 8-9

³⁴ Gertner, “What is a Living Wage?,” 9-10

³⁵ GLA Economics “A Fairer London: The Living Wage in London,” 22

³⁶ Ibid, 2

Similarly, the American fast-food chain In-N-Out Burger, which has traditionally paid nearly \$10 an hour starting wages, consistently leads the country in customer satisfaction and efficiency. However the employee benefits are not strictly economic, for as one employee notes, “(I)t’s just the respect and everything I got. It was a lot more than I expected, so that’s why I stayed and that’s what’s kept me here.”³⁷

And they are not being employed in token roles, either: according to another employee, “They’re paying you for...hard work; it’s not easy.” And so far their workers have been more than willing to accommodate the increased demands of their employment, especially in light of the healthcare benefits and 401(k) plan full-time workers receive.³⁸ Already a leader in fast food, other industries ought to look to In-N-Out burgers business model in the 21st century.

While there may be genuine problems associated with the implementation of a living wage, it has enjoyed a good deal of success in more than a few areas and should not be dismissed as a mere ivory tower liberal fantasy.

Ethical Considerations

“Nobody who works hard should be poor in America”³⁹

America is one of the wealthiest countries in the world, and yet our society is also one of the most economically stratified, with the top 1% controlling in excess of 40% of the wealth.

³⁷ Horsley, “Pay Helps Keep Workers at Western Burger Chain,” 1

³⁸ Ibid, 1

³⁹ Shipler, *The Working Poor: Invisible in America*, ix

Nearly 40 million people, roughly 13% of the population, fall below the federal poverty line, a line that many already deem inadequate for assessing genuine poverty.⁴⁰

If one utilizes John Rawl's "Veil of Ignorance" whereby one is unaware of his or her abilities and socioeconomic position, the proposition of eliminating the minimum wage becomes largely untenable—who would prescribe anything less than a basic living wage for full-time workers? Again, as mentioned earlier, this observation is empirically undergirded by the near-constant popular support for minimum wage increases. This is not to say that such a wage will provide workers with the bourgeoisie comforts of the middle class; it will simply enable them to own a small home and afford adequate healthcare, clothing and food. Those who would cry foul at the faintest scent of "wealth redistribution" ought to reconsider the core tenant of our nation's paradigmatic meritocracy—the presumed equality of opportunity.

If we approach the issue as primarily political, not economic, a wide array of opportunities appear before the public, as the possibility of truly effectuating the economy becomes increasingly more realistic. Even if prices are to increase somewhat as a result, ought we not pay a fair price for fair wages?

To the Utilitarian, The collective good of equality becomes undeniable, as the marginal utility for each dollar is exponentially higher among the lower classes. Though inequality will always exist and the buying power of the rich will far exceed the relative poor, increasing compensation for those on the lower end can only serve to enhance the general utility of equality.

⁴⁰ U.S. Department of Labor, Bureau of Labor Statistics "A Profile of the Working Poor, 2008," 1

Only when we begin to conceive of the economy not as a set of ineluctable principles bordering on sacred, but as a means to achieve the political, social and economic equality of opportunity and social mobility that our leaders so readily espouse can we even consider calling our nation a “city upon a hill.”

Conclusion

There are no clear *empirical* answers to the problems presented by the existence of a minimum wage. If there were, the issue would have been settled long ago. The very fact that it has not been settled speaks to its political volatility and the conflicting ideologies marshaled in support of both its defense and its elimination.

In sum, we are faced with a decision between two conflicting value systems: one, the reigning paradigm of autonomy and liberalism and the other, one of fairness and equity. Thus the attempt at indexing the minimum wage to inflation is nothing more than piecemeal solution on the road to a more just and fair society; we must be willing to fundamentally restructure the nature of work and compensation under neoliberal capitalism.

Though such defiance of long-standing economic tradition may smack of radicalism, the only way to truly realize the American Dream is by breaking the cycle of inequality that perpetuates the status quo of class structure. When nearly 4% of workers are classified as “working poor” despite holding full time jobs, there is clearly an inherent dysfunction in the system.⁴¹ In light of the financial disaster of 2008, it has become increasingly more apparent that there is indeed a man behind the curtain in Emerald City. The mystical walls have begun to

⁴¹ Ibid, 1

crumble and the ether is starting to clear, revealing nothing more than the vested interest of a few at the expense of many. Workers have languished while the executives have escaped burning corporate wrecks with their carefully packed “golden parachute” bonuses.

Thus the creation of a federally mandated living wage, annually indexed for inflation, will not guarantee equal outcomes, but opportunities, opportunities that the children of the working poor have been structurally denied for far too long. We can no longer stand idly by, wringing our collective hands as the privileged devise new forms of economic alchemy drawn from the sweat of the working class—we must demand political action.

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