

CHEAP LABOR IS FREQUENTLY THE MOST EXPENSIVE KIND...

To:

Senator Roberts

Senator Moran

Representative Lynn Jenkins

Representative Mike Pompeo

From:

Dr. George McDuffee

Date:

Friday 15 February 2013

Subject:

Minimum wage increase with possible automatic indexing

Ref:

<http://mcduffee-associates.us/PE/minwage%26unemp.xls>

Before you get sucked into a whirlpool of political baffle-gas and reactionary (not conservative) ideological cant and rhetoric I suggest careful examination of the available data, namely unemployment, current year and inflation adjusted minimum wage rates. I have entered most of this data in an excel spread sheet which can be downloaded at the above referenced URL. WinStat, an excel statistics add-in, was used to perform several regression analysis to determine the correlation between the aggregate unemployment rate and the minimum wage in both current year and constant value [inflation adjusted] dollars for the period January 1954 (inclusive) through December 2006 (inclusive). The month number was also included to allow some comparison of the size of any effects due to changes in the minimum wage to be compared with the "march of time." Basically, there is no more effect on the unemployment rate due to the current year or inflation adjusted minimum wage than there is from the "march of time" and there is no statistically significant correlation. This is not to say there would never be an increase in unemployment if the minimum wage rate were raised high and rapidly enough, but rather the VERY LIMITED historical increases have had no significant effect on the aggregated unemployment rate, despite the many plausible arguments there should be such an effect.

In terms of current year (nominal) dollars historical increases have been:

| Month/Year | Old | New | % increase |
|------------|------|-------|------------|
| Jan 1954 | 0.75 | ----- | ----- |
| Mar 1956 | 0.75 | 1.00 | 33% |
| Sep 1961 | 1.00 | 1.15 | 15% |
| Sep 1963 | 1.15 | 1.25 | 09% |
| Feb 1967 | 1.25 | 1.40 | 12% |
| Feb 1968 | 1.40 | 1.60 | 14% |
| May 1974 | 1.60 | 2.00 | 20% |
| Jan 1975 | 2.00 | 2.10 | 05% |
| Jan 1976 | 2.10 | 2.30 | 10% |

| | | | |
|----------|------|------|-----|
| Jan 1978 | 2.30 | 2.65 | 15% |
| Jan 1979 | 2.65 | 2.90 | 13% |
| Jan 1980 | 2.90 | 3.10 | 07% |
| Jan 1981 | 3.10 | 3.35 | 08% |
| Apr 1990 | 3.35 | 3.80 | 13% |
| Apr 1991 | 3.80 | 4.25 | 12% |
| Oct 1996 | 4.25 | 4.75 | 12% |
| Sep 1997 | 4.75 | 5.15 | 08% |

Note that the CPI-U inflation adjusted peak minimum wage rate for this period was \$9.49 per hour in April 1968 in September 2006 CPI-U inflation adjusted dollars. While the nominal dollar minimum wage appears to be reasonable, the CPI-U inflation adjusted minimum wage shows that in Sep 2006 it was *LESS* than the starting (Jan 1954) minimum wage in the data table. See <CV\$ MinWage cht> in above referenced spread sheet.

The SOTU proposed minimum wage increase is

| | | | |
|----------|------|-------|-----|
| Jly 2009 | 7.25 | --- | |
| proposed | 7.25 | 10.00 | 38% |

which may be high for a single step based on the above historical record, and most likely should be phased in two or three steps every 6 months to allow “adjustment” in the economy.

To allow easy comparison with the chart data, the CPI-U index for Sep 2006 was 203.9 and for Dec 2012 (latest available) was 229.6, thus in 2006 CPI-U dollars \$7.25 current is worth \$6.66 and \$10.00 current is worth \$8.88. \$6.66 was the minimum wage in September 1983 and \$8.88 was the minimum wage in July 1969. WE CAN AND MUST DO BETTER!

In addition to the above hard numerical data, there are several other ethical and ideological considerations:

#1: While cheap labor may be necessary for some marginal businesses to survive, operationally the tax payers are subsidizing this cheap labor through SNAP/food stamps, and social services such as medical care, subsidized school lunches, etc. Why should the tax payers give any subsidy at all to these marginal and exploitative employers? Either pay a living wage to your employees (and your fair share of taxes) from the business cash flow or get out of business.

#2: It is 2013 in the United States of America. Why are we still tolerating, and indeed promoting, employment at any price? Over several generations, and with immense effort, high mortality employers such as mining, steel mills, and the railroads have been brought to generally tolerable levels of employee fatality, and when egregious management actions result in fatalities, the individuals accountable are prosecuted, e.g. Upper Big Branch [http://www.sourcewatch.org/index.php?title=West_Virginia_and_coal] Why then as a society do we continue tolerate equally abusive and exploitative compensation practices? The test should be “would you want your son or daughter to work for the wages and benefits some employers want to pay?”