Coyote Economist

News from the Department of Economics, CSUSB

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The Political Economics of the Minimum Wage

The Occupy Movement's slogan, "we are the 99%," drew attention to the enormous inequities in the distribution of wealth and income that have been building up in the U.S. for over thirty years. A report by the Congressional Budget Office supported the perspective of the Occupy Movement by showing that in recent decades the upper 1% of income earners in the US grabbed a larger and larger share of the economy's output and that everyone else...the 99%...were left with a smaller slice of the economic pie.

That the rich have become absolutely and relatively richer in the U.S. is no longer debatable.

Public concern over worsening income inequality has promoted renewed attention to the federal minimum wage, something that is of direct importance to many working families at the lower end of the U.S. income scale. Responding to the concern about rising inequality, President Obama recently issued an executive order requiring federal contractors to pay their federally-funded employees at least $10.10 an hour. This executive order, however, will only affect future federal contracts and will cover only a relatively small number of workers. As a symbolic act, however, this executive order was important.

Still languishing in Congress are proposals to increase the federal minimum wage, which covers most workers in the U.S. (and not just those employed through federal contracts). For instance, the Harkin-Miller bill (H.R. 1010), introduced in March of 2013, would increase the federal minimum wage from its current $7.25 an hour to $10.10 an hour in three steps of 95 cents, and then provide for automatic increases in the minimum wage linked to the cost of living. The bill would also gradually raise the minimum wage for tipped workers—which is current stuck at $2.13 an hour—for the

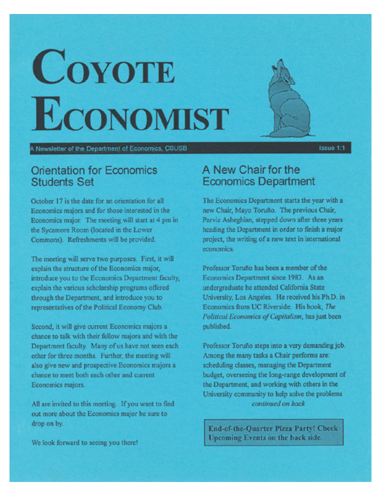
continued on page 2

Coyote Economist Reaches Milestone

The Coyote Economist is now in its twentieth year, and this particular issue (issue 20, number 2) is the 59th issue to appear in print.

The first issue (image to the right) appeared in Fall 1994 when a gallon of gas cost a bit over $1, Nelson Mandela was recently elected as the President of South Africa (see page 3 of this issue for a quote from Mandela), the most popular movie was *Forrest Gump,* and Alan Greenspan was Chairman of the Fed.

The two-page issue had articles on a planned student orientation, the new department chair (Mayo Toruño), and the Political Economy Club.



COYOTE ECONOMIST

A Newsletter of the Department of Economics, CSUSB | Issue 1:1

Orientation for Economics Students Set

October 17 is the date for an orientation for all Economics majors and for those interested in the Economics major. The meeting will start at 4 pm in the Sycamore Room (located in the Lower Commons). Refreshments will be provided.

The meeting will serve two purposes. First, it will explain the structure of the Economics major, introduce you to the Economics Department faculty, explain the various scholarship programs offered through the Department, and introduce you to representatives of the Political Economy Club.

Second, it will give current Economics majors a chance to talk with their fellow majors and with the Department faculty. Many of us have not seen each other for three months. Further, the meeting will also give new and prospective Economics majors a chance to meet both each other and current Economics majors.

All are invited to this meeting. If you want to find out more about the Economics major be sure to drop on by.

We look forward to seeing you there!

A New Chair for the Economics Department

The Economics Department starts the year with a new Chair, Mayo Toruño. The previous Chair, Parviz Asheghian, stepped down after three years heading the Department in order to finish a major project, the writing of a new text in international economics.

Professor Toruño has been a member of the Economics Department since 1983. As an undergraduate he attended California State University, Los Angeles. He received his Ph.D. in Economics from UC Riverside. His book, *The Political Economics of Capitalism*, has just been published.

Professor Toruño steps into a very demanding job. Among the many tasks a Chair performs are: scheduling classes, managing the Department budget, overseeing the long-range development of the Department, and working with others in the University community to help solve the problems

continued on back

End-of-the-Quarter Pizza Party! Check Upcoming Events on the back side.

Minimum Wage

Continued from page 1

first time in over twenty years.

The minimum wage was first introduced in 1938 during the New Deal. Its initial level was 25 cents per hour. While it has been increased numerous times since then... and even managed to grow in real terms until the late 1960s...it has not kept up with inflation since 1968. As a result,

> *...increasing the minimum wage to $10.10 would improve the standard of living of many people...*

the *real* minimum wage (that is, the nominal minimum wage adjusted for eroding effects of inflation) is lower now than it was in 1968.

The graph to the upper right, taken from the Economic Policy Institute, shows the real minimum wage expressed as an annual income for employees working 40 hours per week, 52 weeks per year.

As can be seen, the annual real income for a full-time employee earning the minimum wage (expressed in 2013 dollars) has declined from a high of $19,553 in 1968 to $15,080 in 2013. This near $4,500 decline in real income (for a family earning less than $20,000 a year) is quite huge.

Someone working full time today at the minimum wage might still be unable to break out of poverty. The graph underscores this by showing that a working class family of two (one adult and one child), a family of three, or a family of four would remain in poverty even if the breadwinner worked full time at the current minimum wage.

Indeed, as can be seen by the graph, families relying on a single full-time minimum wage workers have been living in poverty since the early 1980s.

If the minimum wage was increased to $10.10 an hour, a full-time worker earning this wage would receive $21,000 per year. Such an income is not a princely sum...far from it..since it would still be below the poverty threshold for a family of four. Yet, it would be enough to break the poverty threshold for a family of two and three.

According to the Economic Policy Institute, raising the minimum wage during the phase-in period proposed by the Harkin-Miller bill, would either directly or indirectly increase the pay of 27.8 million workers, provide them with $35 billion in additional wages, cause GDP to grow by $22 billion, and create 85,000 net new jobs.

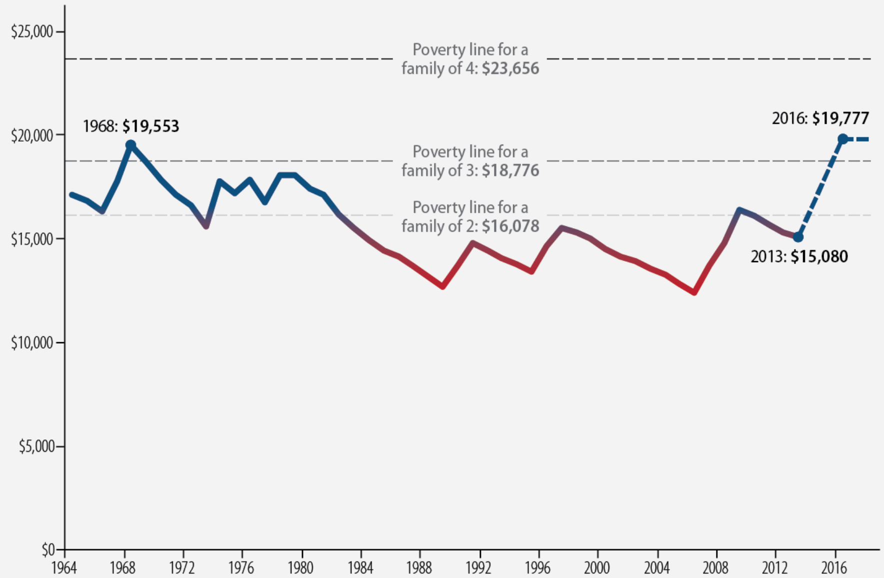
> *...one reason some minimum wage workers have low productivity is that they are poorly paid...*

What's more, the workers affected by this proposal are not exclusively teenagers, as is commonly assumed. The average minimum wage worker in this group is 35 years old, and more than a third are at least 40 years old. In addition, about 54 percent work full time and 69 percent come from families with family incomes less than $60,000 per year.

continued on page 3

The Minimum Wage Is Not Enough For Workers To Get Out of Poverty

Annual minimum-wage earnings and poverty line for families of two to four, 1964-2018 (projected) and proposed federal minimum wage (2013 dollars)



Note: Poverty thresholds for 2013 for family of two (one adult, one child) and three (two adults, one child) are inflated from 2012 U.S. Census Bureau thresholds, based upon CBO projected inflation for 2013. Poverty threshold for one adult, two children is slightly higher ($18,794). Projections based upon CBO inflation projections and proposal to raise minimum wage to $10.10 by 2016. Annual earnings calculated assuming workers work 40 hours per week, 52 weeks per year.

Source: Author's analysis of U.S. Census Bureau and U.S. Department of Labor data

ECONOMIC POLICY INSTITUTE

We're Still on Facebook!

Joining us on Facebook is an important way of keeping up with Departmental news and events, as well as getting information on political economy.

Simply search for The CSUSB Department of Economics on Facebook and you'll find us. We're easy to find. If you've not already done this, do it today!

Minimum Wage

Continued from page 2

Increasing the minimum wage to $10.10 per hour would improve the standard of living of many people, and would help to reduce, by a modest but important amount, the enormous inequity that currently exists in the distribution of income within the United States.

Yet, loud voices are protesting any proposed increase in the minimum wage. These voices come, as would be expected, from the business class and/or their representatives and lobbyists. Here, we'll address the most common complaint against raising the minimum wage.

The main complaint against an increase in the minimum wage is that it will actually hurt those who it is intended to help, and does so by reducing the number of minimum wage jobs.

... a moderate increase in the minimum wage will lead, at worst, to a relatively small reduction in employment...

The argument to support this complaint is straightforward: if the minimum wage is increased employers will find that some of the workers they employ are not productive enough to warrant their continued employment at the new, higher wage...and, so, the employer will get rid of these employees.

The argument is important enough to consider in more detail. Suppose an employee produces, in each hour, 9 units of output that is sold at $1 each. This employee brings to the employer $9 per hour in income. If the employee is paid only $7.25 then the employer is left with $1.75 in profit per hour (ignoring all other costs, of course). In this case, a profit maximizing employer will want to keep this employee as it increase his/her profit.

The argument against an increase in the minimum wage to, say, $10.10 per hour is based upon the assertion that this new, higher wage exceeds the revenue the employee we considered above brings to the employer (only $9 per hour). The employer will now fire this employee. This job is lost because of the new, higher minimum wage.

This story appears, at first glance, to be solid, and appears consistent with what is taught in Principles of Microeconomics.

Unfortunately this story is misleading because it ignores many real world factors that economists have found to be important in determining the impact of minimum wage changes. When these real world factors are considered, we arrive at a different conclusion about the employment impact of an increase in the minimum wage.

... Wal-Mart says that it is considering supporting a higher minimum wage because low-wage workers make up a significant portion of their customers and a higher minimum wage means these people have more money to spend at Wal-Mart...

Before talking about the impact on employment, we'll consider some of these real world factors that need to be considered.

First, recent studies indicate that businesses who pay a low minimum wage experience high rates of labor turnover (as their workers quit frequently and the business must then hire new workers).

In turn, this high labor turnover raises business costs because every time a worker quits, the business must spend money finding a new worker and, perhaps, spend money to train the worker. Further, the business is now saddled with a worker who has yet to figure out how to do the job as well as the worker who had left because the pay was so low.

These studies suggest that a moderate increase in the minimum wage reduces turnover costs (as workers quit less frequently because of the higher pay) and this reduction in costs reduces the cost the business experiences because of the higher minimum wage. That is, a $1 per hour increase in the minimum wage might reduce turnover by 25 cents per hour. Any increase in the minimum wage

continued on page 4

Overcoming poverty is not a gesture of charity. It is an act of justice. It is the protection of a fundamental human right, the right to dignity and a decent life. While poverty persists, there is no true freedom.

-Nelson Mandela

Minimum Wage

Continued from page 3

gives an exaggerated indication of the true increase in employers' costs due to an increase in the minimum wage.

Further, studies have also suggested that one reason some minimum wage workers have low productivity is that they are poorly paid! Poorly paid workers have little incentive to work hard or well because they don't care too much about keeping the job.

... a higher minimum wage will reduce turnover costs...

An increase in the minimum wage might not make these jobs suddenly "good," but it provides a greater incentive for workers to work harder and better than they did before, and worker productivity should grow as a result.

Returning to the hypothetical example above: if a worker has productivity level of 9 units of output per hour when he/she is paid $7.25, this same worker might have a productivity level of 11 units per hour when their pay is increased to $10.00 per hour. Higher pay can generate higher productivity.

Still other studies have suggested that a higher minimum wage shifts income away from higher income earners to low-wage workers. Because those earning low wages tend to spend a larger fraction of their income on consumption, economy-wide demand will grow, which leads to higher employment for workers across the income spectrum.

Even some business who themselves pay low wages, and who are not seen as very progressive, acknowledge the stimulative effect of an increase in the minimum wage. For instance, Wal-Mart says that it is considering supporting a higher minimum wage because low-wage workers make up a significant portion of their customers and a higher minimum wage means these people have more money to spend at Wal-Mart ("Wal-Mart Says 'Looking' at Support of Minimum Wage Raise," Bloomberg.com, February 19, 2014).

... the growth in economy-wide demand works to reduce any negative impact a higher minimum wage might have...

Other real world factors have been proposed that are relevant to the analysis of the impact of a higher minimum wage on employment. But the above three are among the most important ones discussed in the recent economics literature.

So how do these three factors shape the employment impact of an increase in the minimum wage? First, a higher minimum wage will reduce turnover costs and this tends to reduce any negative impact a higher minimum wage might have on employment. Second, the greater productivity of workers following an increase in the minimum wage makes some workers still employable even with a higher minimum wage (as their productivity has grown in tandem). Third, the growth in economy-wide demand reduces any negative impact a higher minimum wage might have on employment.

The conclusion many economists have reached is that the above real world factors can have a big enough positive impact on employment of minimum wage workers that it reduces, or possibly even eliminates, any negative impact on employment a minimum wage increase might otherwise have.

We can't say for sure, as a matter of abstract theory, what impact an increase in the minimum wage will have on employment. The issue of whether a higher minimum wage leads to a drop in employment ism then, an *empirical question*.

And recent empirical work on the impact of higher minimum wage on employment has reached an apparently consensus: a moderate increase in the minimum wage leads to either no drop in employment or to only a small drop in employment.

The literature supporting this perspective is large. The classic study in this literature is Card and Krueger, *Myth and Measurement: The New Economics of the Minimum Wage*, 1995. A helpful review of relevant

continued on page 5

Staying Informed about Department Events and News

If you're receiving the *Coyote Economist*, then you're on our mailing list and everything is as it should be. But, if you know of an Economics Major, or an Econ Fellow Traveler, who is not receiving the *Coyote Economist* through email, then please have him/her inform our Administrative Support Coordinator, Ms. Jacqueline Carrillo, or the Chair of the Economics Department, Professor Mayo Toruño. Our phone number is 909-537-5511.

You can stay informed by consulting:

Our Website - http://economics.csusb.edu/

Our Facebook Page- http://www.facebook.com/pages/CSUSB-Department-of-Economics/109500729082841

Chair of the Economics Department – mtoruno@csusb.edu

Minimum Wage

Continued from page 4

empirical studies is Schmitt, "Why Does the Minimum Wage Have No Discernible Effect on Employment?" Center for Economic and Policy Research, 2013.

The evidence also suggests that while some businesses do shut down in the face of a higher minimum wage, new, more efficient businesses selling higher quality products open up to replace them (see Aaronson, French, and Sorkin, "Firm Dynamics and the Minimum Wage: A Putty-Clay Approach," Federal Reserve Bank of Chicago Working Paper, 2013).

An increase in the minimum wage has many complex consequences, and only the most simplistic analysis concludes such an increase obviously reduces employment significantly.

A plausible perspective, consistent with the empirical literature, is that a moderate increase in the minimum wage will lead, *at worst*, to a relatively small reduction in employment for these workers. It might lead to no reduction in employment at the aggregate level.

But the possibility that an increased minimum wage might possibly cause some job loss must be balanced by the key benefit offered by a minimum wage increase: a reduction in poverty.

Empirical studies indicate that increases in the minimum wage contribute to noticeably higher incomes for families at the bottom of the income distribution (see, for instance, Dube, "Minimum Wage and the Distribution of Family Incomes," 2013, unpublished working paper).

When one considers all the costs and benefits of an increase in the minimum wage, it is reasonable to believe a minimum wage increase leads to a net benefit for society. Beyond that, a case can be made that such an increase is also just and fair.

Recent Professional Activities of Department Faculty

Professor Parviz Asheghian:

"Economic Growth in Brazil: Granger Causality," *Journal of Statistical and Econometric Methods*, Vol. 3(1), 2014 (forthcoming).

"The Comparative Financial Managerial Performance of U.S. Firms and Chinese Firms," *Journal of Finance and Investment Analysis*, Vol.1(20), 2012: 119-135.

"Managerial Efficiencies of Indian Firms as Compared to American Firms," *Journal of Economics and Management Sciences*, Vol. 1(6), 2012: 45-55.

Professor R. J. Charkins:

Guest editor, *Social Studies Review*, Spring-Summer, 2013, Vol 53(1).

"The Case for Economic Education in the K-12 Classroom," *Social Studies Review*, Spring-Summer, Vol 53(1), 2013: pp. 2 – 7.

"What's Wrong and What's Missing from the High School Economics Course?" *Social Studies Review*, Spring-Summer, Vol. 53(1), 2013: pp. 9-16.

"Economics: It's Not Just for High School Anymore," *Education Magazine*, #8 (online), Issue 8, https://s3.amazonaws.com/EducationMagazineIssue8/Issue_8_PDF.pdf.

In October of 2013 Professor Charkins was honored with the Adam Smith Award by the Council for Economic Education for his work in championing the cause of effective education in economic principles.

Professor Kazim Konyar:

Co-authored with George Frisvold. "Climate Change Mitigation Policies: Implication for Agriculture," *Journal of Contemporary Water Research & Education*, 151: 27-42, August 2013.

Professor Daniel MacDonald:

"Labor productivity Growth," *The Oxford Encyclopedia of American Business, Labor, and Economic History*, 2013.

In January of 2013 Professor MacDonald was awarded a William Waters Grant in the amount of $5,000 from the Association for Social Economics. The William Waters Grant is awarded to young scholars whose work promotes research in social economics and the social economy.

Professor Nancy Rose:

"Bring Back the WPA: Lessons from the Job Creation Programs of the 1930s," in Michael J. Murray and Mathew Forstater, eds., *Employment Guarantee Schemes* (New York: Palgrave, 2012).

Professor Thomas Pierce:

Gave a talk entitled "The Recession's Over, Isn't It?" to the Palm Desert Campus Associates on Tuesday, October 8, 2013.

Published four World Book Encyclopedia articles in 2012: "Economic Depression," "National Budget," "National Debt," and "Income".

Was awarded the Outstanding Faculty Member of the Year Award, 2012-2013 by the CSUSB Panhellenic Council.

Professor Mayo Toruño:

Was elected, in December of 2013, to serve on the Board of Directors of the Association for Evolutionary Economics.

TENTATIVE Fall Schedule

COURSE	TITLE	DAYS	HOURS	AM/PM	INSTRUCTOR
104	ECONOMICS OF SOCIAL ISSUES	MWF	1200-0110	PM	ROSE
200	PRIN MICROECON	MWF	0920-1030	AM	MACDONALD
200	PRIN MICROECON	MWF	0120-0230	PM	MACDONALD
200	PRIN MICROECON	TR	1000-1150	AM	STAFF
200	PRIN MICROECON		ONLINE		ALDANA
202	PRIN MACROECON	MW	0400-0550	PM	KONYAR
202	PRIN MACROECON	TR	1000-1150	AM	ASHEGHIAN
202	PRIN MACROECON	MW	1200-0150	PM	NILSSON
202	PRIN MACROECON		ONLINE		ALDANA
302	INTER MICROECONOMICS	TR	0400-0550	PM	TORUNO
311	ECON K-8	TR	1000-1150	AM	CHARKINS
333	POLITICAL ECONOMY OF WOMEN	MWF	1040-1150	AM	ROSE
335	TOOLS OF ECON ANALYSIS	MW	0400-0550	PM	STAFF
357	POLITICAL ECONOMY OF LGBT	MWF	0120-0230	PM	ROSE
410	MONEY & BANKING	TR	1200-0150	PM	PIERCE
421	ECON HISTORY OF THE US	MWF	1200-0110	PM	MACDONALD
435	MULTINATIONAL CORPORATIONS	TR	0200-0350	PM	ASHEGHIAN
443	ORIGINS OF POLITICAL ECONOMY	MW	0800-0950	AM	NILSSON
480	QUANTITATIVE METHODS	MW	0600-0750	PM	KONYAR
SSCI320	UNDERSTANDING CAPITALISM	TR	0800-0950	AM	PIERCE