

Gerard, Jennie

From: Kernighan, Pat
Sent: Monday, April 14, 2014 5:49 PM
To: Gerard, Jennie
Subject: FW: Double the minnum wage -- and raise demand -- smoke and mirrors or eighth-grade math?

Pat Kernighan

Oakland City Council President
And Councilmember for District 2
1 Frank H. Ogawa Plaza
Oakland, CA 94612
510-238-7002
pkernighan@oaklandnet.com

From: Denis Drew [mailto:ddrew2u@sbcglobal.net]
Sent: Tuesday, January 21, 2014 11:24 AM
To: Kernighan, Pat
Subject: Double the minnum wage -- and raise demand -- smoke and mirrors or eighth-grade math?

Progressive economists should readily admit -- shout, scream -- that a “moderate” federal wage increase, typically 10% cited in conservative studies, should indeed have little or no effect on poverty rates. Why would an extra 1/4 of one percent of GDP added to low wage pay checks be expected to clear a broad swath through poverty? That is what a \$1 an hour increase in the federal minimum wage equates to -- about \$40 billion out of a \$16 trillion economy. (E.I.T.C. shifts \$55 billion.)

A \$15 an hour minimum wage OTH would send about 3.5% of GDP the way of 45% of American workers -- about \$560 billion (much of it to bottom 20 percentile incomes who today take only 2% of overall income).

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Could raising the wages of 45% of the workforce actually raise demand for the goods and services they produce? Sounds sensible at some level; raising wages so much ought to add demand somewhere – but, is it all smoke and mirrors? Before the 45% -- who would get a wage hike to \$15 an hour -- can raise demand anywhere, they would need to

get the extra cash from somewhere else – meaning the 55%. (Bottom 45 percentile incomes – not wages – currently take [10%](#) of overall income – so, at no time are we talking giant chunks of the economy here.)

The 45% can get higher pay even as "numerical" (to coin a phrase?) demand for their output declines due to higher prices -- as long as labor gets an bigger enough slice of the new price tags. This can be compared to a leveraged buyout or buying stocks on margin.

Products produced by low-wage labor tend to be staples whose demand tends to be inelastic. Demand for food is inelastic – maybe even fast food. If the price of your Saturday family jaunt to McDonald's rises from \$24 to \$30, are you really going to eat at home (the kiddies haven't forgotten the fundamental theorem of economics: money grows on trees :-)]? And fast food should be the most worrisome example: lowest wages to start with; even so, highest labor costs, 25%.

Wal-Mart is the lowest price raising example (surprise) with 7% labor costs. Jump Wal-Mart pay 50% and its prices go up all of 3.5%.

If low wage labor costs average 15% across the board and go up 50%, overall prices increase only 7.5% -- and that is for low wage made products only; nobody's car note, mortgage payment or health premium is affected. If demand drops just enough for price increases to maintain the same gross receipts (conservative, even without inelasticity), low wage income should improve appreciably.

Allow me to cite: from a 1/11/14, NYT article ["The Vicious Circle of Income Inequality"](#) by Professor Robert H. Frank of Cornell:

“... higher incomes of top earners have been shifting consumer demand in favor of goods whose value stems from the talents of other top earners. ... as the rich get richer, the talented people they patronize get richer, too. Their spending, in turn, increases the incomes of other elite practitioners, and so on.”

The same species of wheels-within-wheels multiplier ought to work the at both ends of the income spectrum -- and likely in the middle. A minimum wage raise to \$15 an hour is not going to send most low-wage earners in pursuit of upper end autos, extra bedrooms or gold seal medical plans. Wal-Mart and Mickey D's should do just fine, OTH – which in turn should keep Wal-Mart and Mickey D's doing even better.

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Did I forget to mention ... ? The poverty line that a "moderate" minimum wage could not help anybody cross -- \$20,000 for a family of three – is only about half as high a hurdle as a realistically worked out minimum needs line should be. .

A practical line would be more like \$40,000 a year. Today's official federal formula is an early 1960s creation: multiplying the price of an emergency diet by three (dried beans only, please; no expensive canned) – no current basket of goods. For a reasonable basket of goods consult page, 44, of the, 2001 (2008), MS Foundation book [“Raise the Floor.”](#)

So, a so-called "moderate" increase in the minimum wage will not even clear a half-height hurdle.

Final thought: Why does everyone obsess so over the "hazards" of raising one price in our economy -- low wage labor's. Nobody shudders when the Teamster Union raises its price. It is not like the price of low wage labor has been habitually tested against market willingness to pay and been barely holding its own. It is more -- it is exactly -- like the price of low wage labor has sunk further and further below market willingness -- precisely for lack of testing -- as the ability to pay has [grown and grown](#) -- for almost half a century now. To see, click my everything-adjusted-for-everything [minimum wage history chart](#).

Denis Drew

Chicago

ddrew2u@sbcglobal.net

www.ontodayspage.blogspot.com