Group Project: Dekota Brown-Diaz, Daniel Thomas, Max Kubiack, Joseph Pace

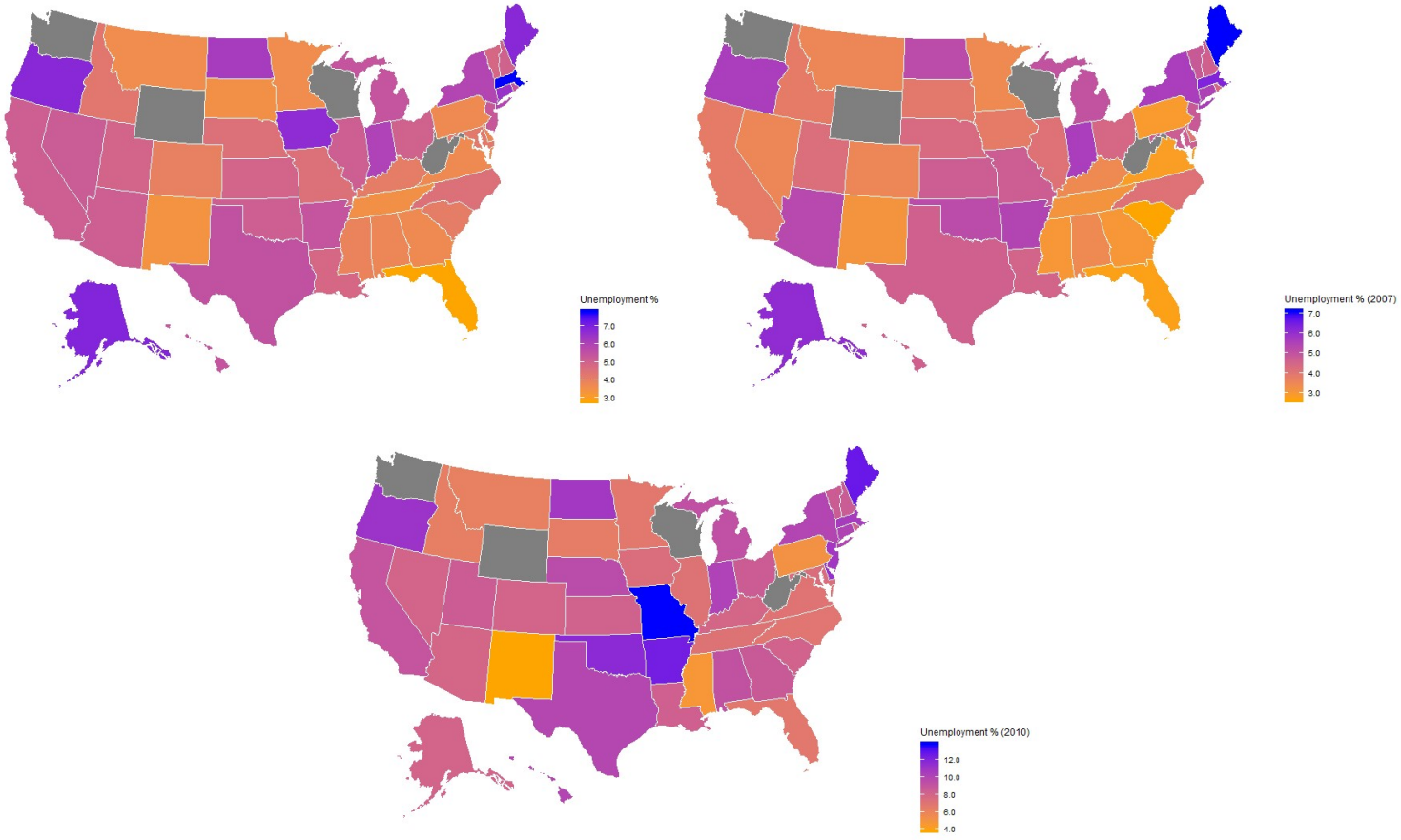
One of the most debated topics in the United States is Minimum wage. We picked this topic because we all have different views on minimum wage and what it should be. With presidential elections coming up there is not a more perfect time to talk about this than now. We are by no means picking a side. We are just proving whether certain claims are true or not. What we are aiming to answer are the following questions: Does minimum wage really effect unemployment? If so which states and why? (2 part) What kind of effect does minimum wage have on states (inflation, deflation, better cost of living)? Does minimum wage lower or raise crime, and if it raises crime what kind of crime is committed more? After looking at everything, is it more or less beneficial to raise or keep minimum wage where it is at today whether state or federal level?

To begin let us start with a quick rundown of minimum wage. Minimum wage became federal law in 1938 with the passage of The Fair Labor Standards Act of 1938. Since 1938, minimum wage has been raised 22 times from $.25 in 1938 all the way to $7.25 in 2009. But twenty-nine states, have their State minimum wage higher than the current Federal wage and two states have it lower (Wyoming and Georgia) but they use the Federal wage. For our project we will keep a focus on Federal minimum wage since that is the price floor, but we will point out states with higher wages, so we can explain the outliers and show how they are affected too.

The first thing we wanted to take a look at was the effect of minimum wage on unemployment. As a group we all came up with the general idea that minimum wage raises unemployment. When we were gathering our data, we wanted to find the most recent raises in minimum wage and use those years as our controls. So, we found that in 2007 congress initiated a three-step process to increase minimum wage from $5.15 to $7.25 an hour by the end of 2009. So how exactly would this effect unemployment? Well according to journalist Greg Depersio, “When forced to pay workers more per hour, companies have to hire fewer workers or assign the same number of workers fewer hours to keep from going over their predetermined wage expense limits. Many companies do just that or, when

possible, they ship jobs overseas, where the per-hour expense of an employee is significantly lower."

We put this view into perspective and according to our data we have found that in 2007 to 2009 all



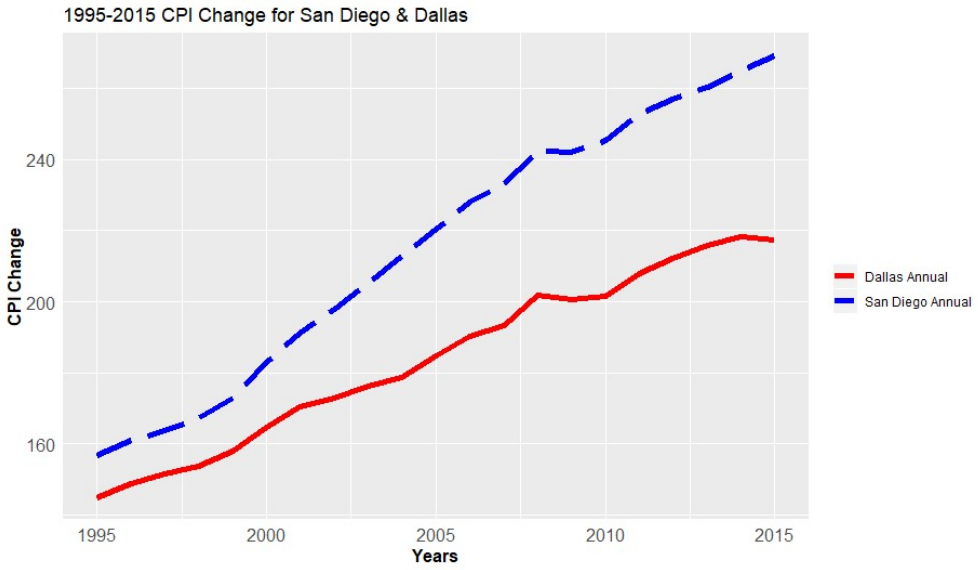
states had an increase in unemployment, and they all peaked at 2010. Based on the data, we can see how the orange areas (low unemployment) is gradually disappearing from 2005 to 2010 which helps prove our point that unemployment is affected by minimum wage and it raises unemployment.

This also brought us to our second assumption that states with higher than Federal wage (California, Massachusetts, Connecticut, etc.) typically had a much higher unemployment rate by 2010. Even extending further on this point, we come to find out that up to date California (49,986), Massachusetts (34,046) and New York (40,588) all have the most job lost in their states. Now that might sound a little bias considering the size of their population but let's look at it in this perspective that California, Texas, Florida, New York and Georgia combined make about 36% of the U.S. population and

capture about 50% of job growth according to The Bureau of Labor and Statistic. Using the data from The Bureau of Labor and Statistics and some research let us look at this closer. Georgia's minimum wage $5.15 (but must pay $7.25), Texas minimum wage is $7.25, Florida's minimum wage is $8.56, New York's minimum wage is $11.80, and California's is $13.00. Now, thanks to Foxbuisness, they took all 50 states and valued a single dollar across them all and here are the results for the 5: Georgia has a value of $1.09, Texas has a value of $1.03, Florida has a value of $1.00, and both California and New York have a value of $0.87. Statistically it defiantly looks like paying less is more beneficial than paying more for wage. I do know that cost of living, inflation, and deflation does play a huge factor in this.

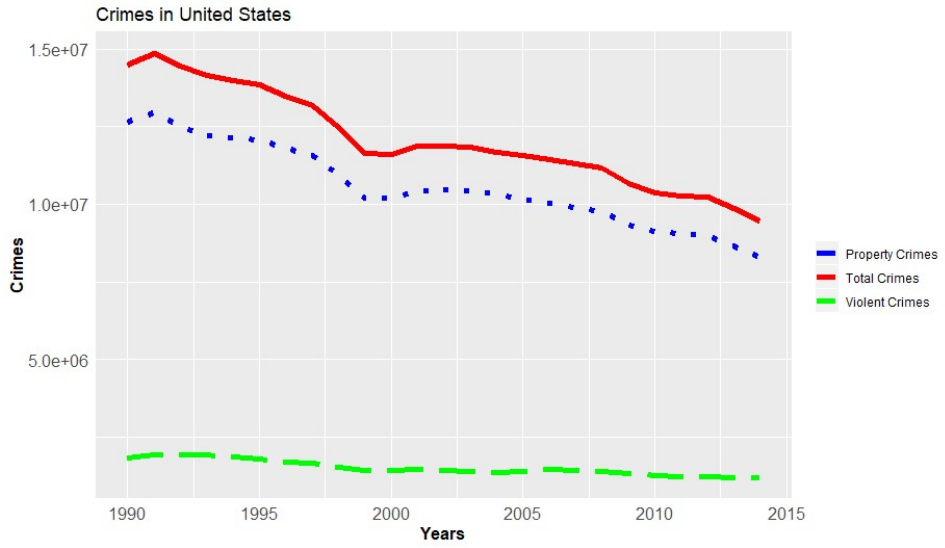
So, like I was talking about, cost of living, inflation and deflation, all play a big role into our project. What we decided to do is to pick two cities' relatively close in population and income to be our two deciding factors. From what we could find those two cities are San Diego and Dallas. San Diego has a population of about 1.41 million and has an hourly wage of about $29. As for Dallas, the population size is about 1.32 million, and has an hourly wage of about $25. Using data from The Bureau of Economic Analysis, cost of living, Dallas cost of living is 1.7% higher than national average while San Diego is 38% higher than national average. Now, Consumer Price Index (CPI) plays a big part into our data because we cannot compare the state of Michigan to California , it is like comparing apples to bananas. Pulling in this data we used the Consumer Price Index, which is an index that measures price increases and decreases of goods and services in the economy and computes a percentage change. Now using our CPI data, we calculated the rate of inflation (Formula: ((CPI2-CPI1)/CP1)*100) for each city and it came out that Dallas from 1995-2015 had an inflation rate of 50% and San Diego had a inflation rate of about 72%. As we can see from the chart below, Dallas relatively close in size, has a lower average hourly rate than San Diego, also has a lower inflation rate than San Diego and Cost of living is way better

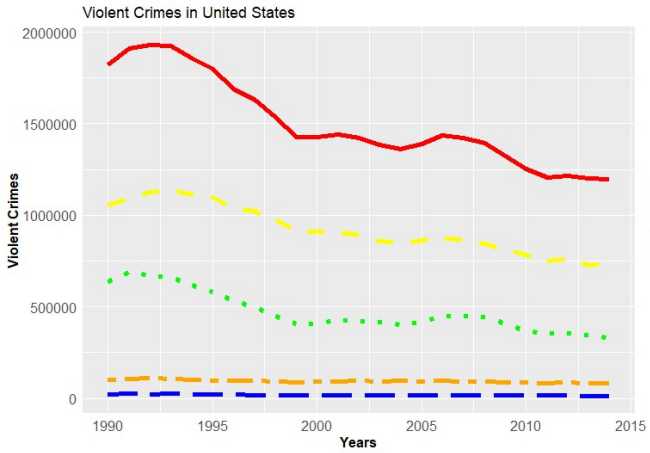
in Dallas than in San Diego. So, we can assume that lower wages lead to less inflation and a better standard of living.

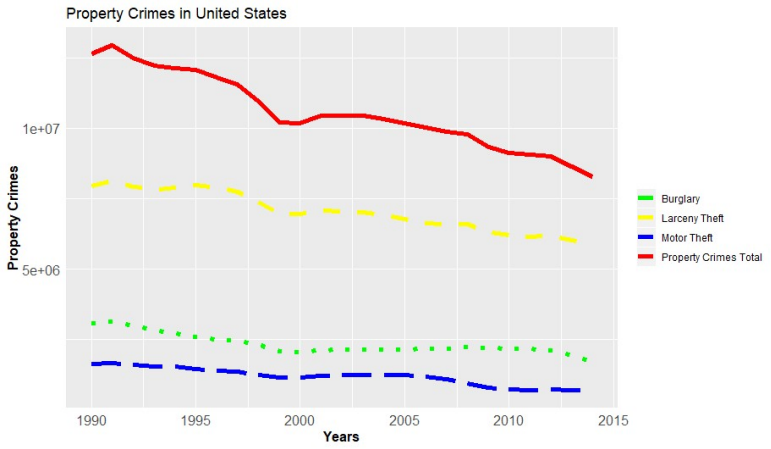


The next thing we wanted to take a look at was if the minimum wage has an effect on crime rates. What we expected was that the higher the minimum wage, the more property crimes, but what we found was surprising. What we have found from the crime statistics is that since the year 1990, our starting year, crimes in every category have steadily decreased as time has gone on. Using the Uniform Crime Reporting Statistics website data, collected by the FBI, in the year 1990 there are as nearly two million violent crimes and almost 13 million property crimes. Violent crimes are defined on the website by five main categories which are murder, manslaughter, assault, rape, and robbery which all had a noticeable trend downwards since 1990 where there were once nearly two million violent crimes in the U.S. The FBI has reported that that number is now closer to just a million which comparatively is a great trend to see. Property crimes are defined by the following category's: burglary, larceny/theft, and Motor-vehicle theft, which have also seen the downward trend that violent crimes have. Where once property crimes were hovering around nearly 13 million crimes a year, that number has been reduced to almost 8 million, which again comparatively is a fantastic trend. So, what does all this mean for the economy? And how does the minimum wage effect this? Given our data and what we know about the

minimum wage, it seems that as the minimum wage has been increased over the selected years, the crimes rate for both property and violent crimes has been decreased. This would fit the graphs as every federal increase in the minimum wage since 1990 has coincided with a large dip in the crime rate graphs from our data. A study from the Council of Economic Advisors state that should the minimum wage keep this trend and reach $12 by 2020, it could add roughly $8-17 billion dollars in social benefit. Additionally, the council also saw that states with more flexible labor market conditions for those with criminal records or disadvantages may have lower recidivism rates. When people have greater opportunities and a chance to earn a more livable wage, that seems to work as a better deterrent from crime than incarceration. Increasing the minimum wage is not just about creating a better standard of living but impacting the nations crime.







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With all the work we have done so far brings us to our final question about minimum wage. Is it economically more efficient to raise minimum wage or does it hurt us in the long run? The answer from our data is that it is neutral, because on one hand higher minimum wage leads to less employment but also less crime. Minimum wage also has an effect on standard of living on both sides of the story. As a group we all had our own opinion on minimum wage and each person had a different view and that is what our data perfectly illustrated is that there is more than one view and that is why we said minimum wage is neutral in the effect for all. Which now leads us to better ideas, like maybe we should not focus on raising minimum wage but offering more employs incentives like health care and better retirement options. Increased employee benefits may be a possible answer to this minimum wage neutrality, larger employee benefits may not give us the reduced employment while still leading to the reduction in crime that we saw in our data. This of course would need its own study and data to conclude any decision, but, we feel that we can safely rule changes in the minimum wage has a net neutral effect economically speaking.

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