

Increasing the minimum wage to lift incomes among low-wage workers

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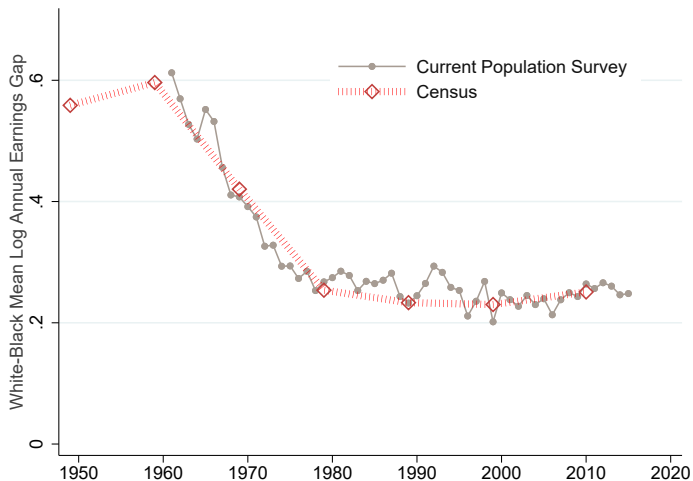
Federal Reserve Board, August 3rd 2021

Toward an Inclusive Recovery
Panel 2: Financial Security

Increasing the minimum wage

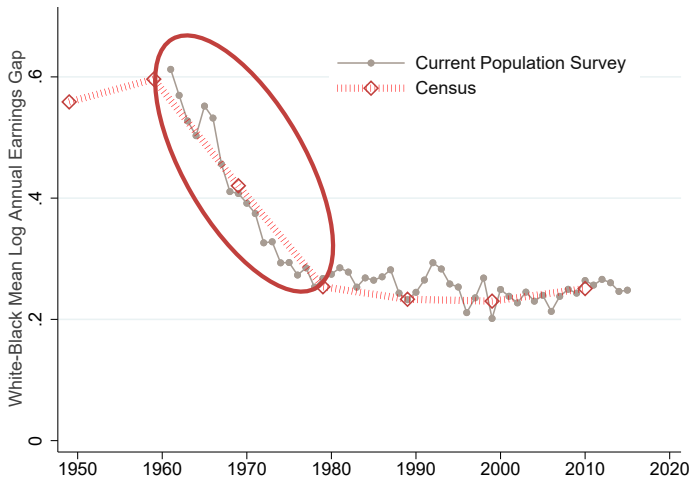
- ▶ Federal minimum wage set at its lowest level (relative to productivity) since its creation.
- ▶ The last time the min. wage was substantially increased, it helped close the racial earnings gap ([Derenoncourt, Montialoux \(QJE 2021\)](#))

White-Black Earnings Gap



Persistence of large racial economic disparities:
striking dimension of inequality in the US.

White-Black Earnings Gap

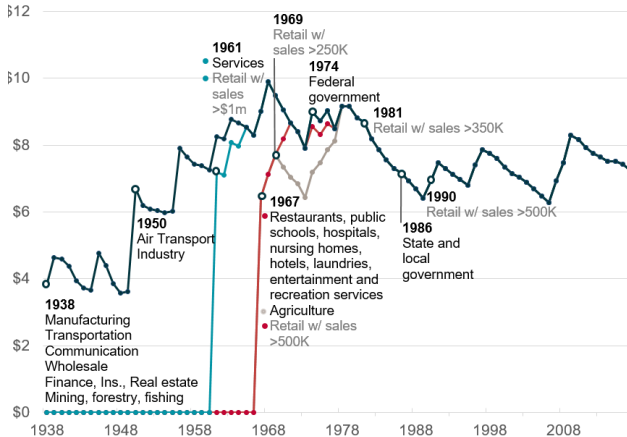


Why did the racial gap fall in 1960s and 1970s?

→ **New explanation:** intro of min. wage in new sectors

→ Explains $\sim 20\%$ of \searrow in racial gap

1967 min. wage ↗: introduces min. wage in new sectors



→ Min. wage introduced in new sectors where black workers were overrepresented: hotels, restaurants, schools, hospitals, nursing homes, laundries & other services.

MARCH ON WASHINGTON FOR JOBS AND FREEDOM

AUGUST 28, 1963



WHAT WE DEMAND*

1. Comprehensive and effective *civil rights* legislation from the present Congress—without compromise or filibuster—to guarantee all Americans access to all public accommodations
decent housing
adequate and integrated education
the right to vote
2. Withholding of Federal funds from all programs in which discrimination exists.
3. *Desegregation of all school districts in 1963.*
4. Enforcement of the *Fourteenth Amendment*—reducing Congressional representation of states where citizens are disfranchised.
5. A new *Executive Order* banning discrimination in all housing supported by federal funds.
6. Authority for the Attorney General to institute *injunctive suits* when any constitutional right is violated.
7. A massive federal program to train and place all unemployed workers—Negro and white—on meaningful and dignified jobs at decent wages.
8. A national *minimum wage* act that will give all Americans a decent standard of living. (Government surveys show that anything less than \$2.00 an hour fails to do this.)
9. A broadened *Fair Labor Standards Act* to include all areas of employment which are presently excluded.
10. A federal *Fair Employment Practices Act* barring discrimination by federal, state and municipal governments, and by employers, contractors, employment agencies, and trade unions.

- 1967 reform is part of Civil Rights Movement.
- Effect on earnings twice as large for black workers.
- No employment effects (bc high degree of occupational seg.)

What caused the decline in racial gap?

Explanation	Reference	Contribution	
Supply	School quantity	Smith & Welch (1980)	20%
	School quality	Card & Krueger (1992)	20%
	Other factors	Heckman & Payner (1989)	10%
MW		Derenoncourt & Montialoux (2018)	20%
Demand	Anti-discrim. policies	Donohue & Heckman (1991)	30%
Total			100%

→ 1967 reform had first-order effect on racial inequality,
as large as improvements in relative school quality.

Increasing the minimum wage

- ▶ Federal minimum wage set at its lowest level (relative to productivity) since its creation.
- ▶ The last time the min. wage was substantially increased, it helped close the racial earnings gap ([Derenoncourt, Montialoux \(QJE 2021\)](#))
- ▶ Minority workers and women still overrepresented at the min. wage today.
- ▶ Increasing the min. wage would help reduce between-group inequalities.