

Committee: Economic and Social Council

Issue: The question of the Federal Livable Wage

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Position: President

PERSONAL INTRODUCTION

Hello Delegates,

My name is Tommaso Alocci. I am from Italy, and go to ACS Athens; currently I am in the 11th grade (IB1). I am truly grateful of the honor to serve as the President in the 4th session of Pierce-The American College of Greece MUN conference (ACGMUN). I enjoy politics, current affairs, government, and law. These passions that I have been nurturing for quite some time lead me to MUN. My journey with MUN commenced at a young age and since then I have met many different from many different walks of life, I have opened myself to a vast array of diverse viewpoints, and more importantly had a lot of fun. As student officer I believe it to be my job to transfer my passion to the delegates and create a fun and enjoyable, yet intellectually stimulating conference. The study guide will aid you in your research and should be used as a general resource from which one can draw inspiration; it should be used as a sole source for research as policies and viewpoints differ from country to country. The topic is incredibly fascinating and I will try my best to capture as much of it as I can in this study guide. I can't wait till we all get to work together!

Yours Truly,

Tommaso Alocci

TOPIC INTRODUCTION

The Federal Livable Wage (FLW), or also known as the Minimum Wage, is the minimum salary an employer has to pay an employee. Typically, this low salary is seen in more menial jobs, such as, fast-food worker, janitorial services, delivery services, retail, and more. The Federal Livable Wage implies that the wage is sufficient for maintaining living expenditures, but not more. Thus, one can often see the FLW implemented in lower-tier jobs, which are often given to the younger portion of the working population. There is no world-wide standardized FLW, therefore, each nation has their own. This lack of standardization makes sense as each nation has a different cost of living, hence different wages are necessary. When discussing the FLW there are a number of stakeholders at play. Firstly, there is the employer and employee. A lower minimum wage is more advantageous to the employer whilst the opposite is true for the employee. This opposition leads to debate among the two, which will be further expanded throughout the study guide. These two roles are the major stakeholders, and the one's that the study guide will focus on.

DEFINITION OF KEY TERMS

Federal Livable Wage

“The [Federal Minimum Wage] is the lowest wage per hour that a worker may be paid, as mandated by federal law.”¹

Federal

“Of or relating to the central government of a federation as distinguished from the governments of the constituent units.”

Standard of Living

“A minimum of necessities, comforts, or luxuries held essential to maintaining a person or group in customary or proper status or circumstances.”

Inflation

“A continuing rise in the general price level usually attributed to an increase in the volume of money and credit relative to available goods and services.”

¹ Liberto, Daniel. “What Is a Minimum Wage?” Investopedia, Investopedia, 1 Mar. 2021, www.investopedia.com/terms/m/minimum_wage.asp.

BACKGROUND INFORMATION

History of the Federal Livable Wage

The history of the FLW originates in 1894 in New Zealand. In 1894, New Zealand passed the Industrial Conciliation and Arbitration Act which instituted a Federal minimum wage and was the first nation to do so. After New Zealand, its neighbor, Australia followed suit and implemented a minimum wage in 1896. After these two implementations, establishing a FLW gained traction and moved to Europe and North America. Naturally, the FLW in 1894 was much lower than 2021, and there are a few reasons as to why this occurred. Firstly, inflation. Inflation is an inevitable aspect of an economy and thus to maintain livable FLW nations have accordingly adjusted the minimum wage. However, it is important to understand that whilst the numerical wage has increased the purchasing power of the wage has been conserved. For example, the average minimum wage in the United States is currently at 7.25\$, compared to the 1.00\$ in 1962, which in today's value is around 8.74\$ in today's value. In this case the minimum wage has decreased in value, however, they are still quite similar. It is important to note that the minimum wage in the US is an average, as various states have different minimum wages, due to the diverse standards of living within each state.

Federal Livable Wage impact on the economy

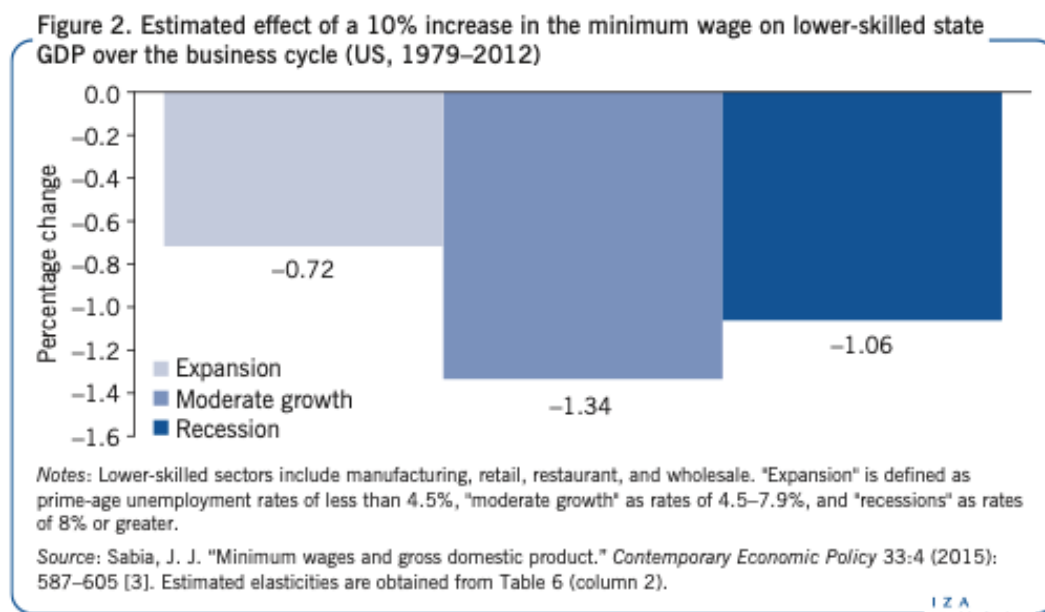
There is great political discourse behind the FLW which is based upon economic theory presented by both sides of the aisle. The largest argument behind the objection to increasing the FLW is that in turn, it would decrease the number of available positions. The majority of empirical studies show that a 10% increase to the minimum wage would lead to a decrease of 1-3% of rate of employment of teenager which compose around 70% of the working force which are paid minimum wage. A 10% increase is an increase of the minimum wage (in the US) is around 70 cents USD. This lower availability of jobs is also used to argue that increase the minimum wage does not lift individuals out of poverty. This is due to the fact that less jobs are available and thus less people will have access to a wage, and those tend to be the more experienced and educated individuals which is inconsistent with the demographic of the poorer portion of the population. This argument contains serious validity as it concurs with the statistics presented above and simple economic logic.

Furthermore, increasing the minimum wage does not only decrease the amount of jobs available, but put businesses in the position to further decrease the number of positions available, disincentivizing employment. This decrease in supply

of jobs leads to a higher unemployment rate which in turn further increase the problem that the increase of a minimum wage aims to solve.

On the flipside, increasing the minimum wage would aid in solving wealth inequality. Wealth inequality is an increasingly popular issue as the wealth gap increases. Increasing the FLW is a valid solution to the issue, and one needed to be considered formulating resolutions. So, whom does the increase of the FLW affect the most? Businesses are typically separated into two categories: Small and medium-sized enterprises (SME), and other larger businesses. SME are business with up to 250 employees. SME’s would be more affected on the increase of a FLW this is due to the fact that they have lower revenue and cash flow, and would not be able to sustain the same amount of employees with an increased wage. Whilst larger corporations such as Amazon, Apple, and Facebook would be able to sustain such an increase in the minimum. This has led to legislation being proposed that the FLW be increased but with the exemption of SME’s. Even though this might seem productive in theory, many minimum wage workers are found in SMEs as they are unable to pay their employees higher wages and because SME’s require less experienced workers.

At the macroeconomic scale, there are studies suggesting that an increase in the minimum wage would lead to an increase in GDP. For example, a study by Doug Hall and David cooper stated that if the minimum wage would be raised by 2.55\$ in the United States, would increase the earnings of FLW workers by 40\$ Billion and thus lead to a severe increase in GDP. However, there are contrasting opinions and studies as the figure below suggests.



Social and political aspects of the Federal Livable Wage

As previously mentioned, unemployment could be heavily affected by an increase of the FLW. In this area of the topic, one can again find contrasting opinions on its effect on unemployment. The United States Congressional Budget Office concluded on the effects of a higher FLW on employment and they go as follows. Firstly, an increase of the minimum wage to 10\$ would lead 3.5\$ million increase in earnings at the expense of no jobs. A 12\$ minimum wage would lead a loss of approximately 300,000 jobs. A 15\$ minimum wage would lead to a loss of 1.3 million jobs. This data is disputed by both sides of the political aisle. The conservative American Enterprise Institute states that the CBO “overstates the poverty-reducing effects.” Whilst the progressive Economic Policy institute states that it “substantially overestimates the costs.” The costs being the loss of jobs.

These two organizations are concurrent to the current political climate on the issue raising the FLW. The right-wing conservative side believes that the minimum wage should stay as in, and in some cases arguments for the abolishment of the minimum wage occur. The main tenet behind the argument of abolishing the minimum wage is because it is disincentivizing. An employee knows that it is mandatory they receive a certain and wage, and for that reason are not incentivized to grow in their position and carry out their work properly. An example, can be seen with the restaurant service business in the United States. Differently from the majority of other countries in the world, waiters in the United States pay is largely passed on their tips, and they procure their tips by doing their job, thus incentivizing them to be good employees. On the contrary, the left-wing progressives argue that a minimum wage is necessary. They argue that a minimum wage prohibits employers from exploiting their workers from not giving a fair and livable wage.

MAJOR COUNTRIES AND ORGANISATIONS INVOLVED

United States of America

As it has been referenced multiple times on this guide, the United States is heavily pressed on the issue of a minimum wage. As a nation, the USA is extremely divided upon the issue of the FLW. With the transition from President Trump to President Biden, the White House policy on minimum wage as been strengthened. President Trump claimed that he was open to considering a 15\$ minimum wage, while Biden used to raise the FLW to 15\$ as a main talking point. In terms of legislation, the

Democrat party decided to reintroduce the Raise the Wage Act, which is a bill that would change the FLW to 15\$ by 2025. The timing of the bill is unfortunate for the democrat party as during the pandemic profitability of SME's was really put to the test and increased expenses in the terms of wages would be a serious issue for them. However, as the democrat party gained control of both the House of Representatives and the Senate, the legislation will likely pass in the near future.

Italy

Italy is among the few nations in Europe that does not have a FLW. Instead, unions procure minimum wages in different sectors of the economy. Unions, or in other words, collective bargaining are how Italian citizens are able to procure a livable wage. Article 36 of the Italian constitution states that wages “must be proportionate to the quality and quantity of work done and also high enough to provide a minimum subsistence for the worker and his family.” Due to the importance of collective bargaining in Italy, around 50% of the Italian workforce has their wages set through collective bargaining. Within there has been discussion on implementing a minimum wage. The largest voice in this struggle is from Deputy Prime Minister Luigi Di Maio. Di Maio wants to establish a minimum wage of 9 euros per hour which would target 3 million underpaid workers. However, as of right now, there has been no legislative change in Italy.

China

Similarly, to the United States, China does not have an FLW but instead a minimum wage that differs between provinces. Among the 31 Chinese provinces Shanghai has the highest monthly minimum wage of 382\$ per month, whilst Beijing has the highest hourly minimum wage at 3.7\$ per hour. These wages are minute compared to those of certain states in the United States that are well over 10\$, thus explaining the concentration of factory labor in China. Factory workers require little to no skill and therefore are typically paid minimum wage, outsourcing jobs to a nation like China with a low minimum wage is highly beneficial for a company. Notwithstanding, it raises a question of ethics in regard to the pay of factory workers which is often an argument for increasing the minimum wage, and a facet necessary to consider when writing a resolution. Another important aspect of minimum wage legislation in China is how the minimum wage differs based on the characteristics of a location. Even if within the same province, wages for people in rural are less than those in urbanized zones. This aspect of the legislation concurs with the principle of the minimum wage being the least amount of money to survive with, as expenses are higher in urbanized areas. Similarly, to other nations, the pandemic placed a halt on the increase of minimum wages in the interest of businesses maintaining their employees. China's advantageous minimum wage for foreign investment is an important case study to

consider and analyze as it highlights some of the concerns with maintain a low minimum wage.

International Labor Organization (ILO)

The International Labor Organization was founded in 1919 by Part XIII of the Versailles Peace Treaty. It outgrew nineteenth-century work and social developments which finished in far reaching requests for social equity everyday comforts for the world's working individuals. In 1946, after the collapse of the League of Nations, the ILO turned into the first specialized agency of the United Nations. The ILO structure is diverse from that of other organizations. The uniqueness can be found in the workers and employers having an equal voice to that of governments forming policy. Every year the ILO holds the annual International Labor Conference, and each nation is allowed four representatives which are comprised of two government officials, one employer and one worker. The governing body of the ILO is composed of “twenty-four government, twelve worker and twelve employer members, plus twelve deputy members from each of these three groups.”

The ILO has three major tasks:

1. Adoption of international labor standards

These labor standards are known as Conventions and Recommendations, and include topics from protection of women workers to holidays with pay.

2. Technical cooperation to assist developing nations

The ILO utilizes more than half of its annual resources on this task and concentrates on four major areas: “development of human resources; employment planning and promotion; the development of social institutions in such fields as labor administration, labor relations, cooperatives, and rural development; conditions of work and life.”

3. Research, training, education, and publications program

Aside from simply aiding in situation’s that are already under duress, the ILO itself is an institution that publishes important documentation on labor issues.

TIMELINE OF EVENTS

| Date | Description of event |
|-------------|---|
| 1894 | Implementation of the first FLW in the world, in New Zealand. |

| | |
|-------------|---|
| 1919 | Formation of the ILO |
| 1938 | First implementation of the minimum wage in the United States |
| 2007 – 2009 | Most recent legislation on minimum wage in the United States (Gradual increase from 5.15 to 7.25). |
| 2012 | Commencement of the ‘Fight for 15’ minimum wage movement. |
| 2021 | Most recent legislation on minimum wage in China (Jiangxi, Heilongjiang, and Shaanxi have all raised their minimum wage). |

RELEVANT RESOLUTIONS, TREATIES AND EVENTS

1. ECOSOC resolution: Promoting full employment and decent work for all
 - a. <https://documents-dds-ny.un.org/doc/UNDOC/GEN/N08/462/46/PDF/N0846246.pdf?OpenElement>

The above resolution is the only UN resolution that discusses the minimum wage at its forefront.

PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

Due to the highly individualized approach that each nation has to take to ‘combat’ the issue of the minimum wage, there are no clear international attempts to solve the issue. However, the study guide has discussed and analyzed the most prominent attempts.

POSSIBLE SOLUTIONS

One possible solution to the issue of FLW is for employers to guarantee or increase benefits instead of increasing the minimum wage. Benefits include healthcare, paid holidays, insurance, and other perks that employers can provide to their employees. Through this method, businesses can find options for benefits that are more cost-effective as opposed to simply handing more cash to the employee. Naturally, this solution would be more preferred by employers than employees. For this solution it is also important to understand the nations within which it is being implemented, and that is due to the fact that many countries provide these benefits to the citizens already and thus it would be redundant for the employer to provide with the same benefits.

The large burden placed on businesses from an increase of the minimum wage could be subsidized by the government. Governments could be able to help subsidize an increase in pay. However, this solution does hold some controversiality. The power

and role of government in the private sector is heavily debated upon. Thus, it is important to understand the type of economy in one's nation. For example, more Laissez faire economies such as those of the United States might have great reluctance to subsidize an increase in the minimum wage. However, more left leaning and socialist countries might encourage something similar to this.

Government subsidies might lean too far into a government's role in the economy, hence, offering tax breaks for businesses that raise wages might serve as a cost-effective incentive for businesses to support higher wages. Out of the aforementioned solutions, this is most probably the most effective. Tax breaks would lead to an increase in profits that would be used to foot the increase of the minimum wage. Furthermore, the money the government does not receive in taxes from the corporation it can receive from employees spending the money, as well as the fact that the government would necessitate less money if the money was in the hands of the workers.

In conclusion, all three solutions explore the issue at a surface level and need expansion when formulating a resolution. However, these three themes which include government intervention and a diversification of contenting employees will be necessary to be discussed during the conference.

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