

Mitchell’s Musings 11-23-15: Currency Matters (with Regard to Wages)

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Whenever someone references the “global economy,” it tends to be a preface to advocating something unpleasant domestically. We need to do something or not do something at home because otherwise we will be rendered uncompetitive in world markets. Last week’s musing was entitled “Currency Matters” and referred to issues of exchange rates. Exchange rates create a vehicle for international commerce to occur by allowing conversion of prices in one country’s currency into that of another’s. Put another way, currency exchange rates are important in determining the degree of global competitiveness.

Wage and salary workers paid hourly rates with earnings at or below the prevailing federal minimum wage, by industry, 2014 annual averages

Industry	Number of workers (in thousands)				Percent distribution			
	Total paid hourly rates	At or below minimum wage			Total paid hourly rates	At or below minimum wage		
		Total	At minimum wage	Below minimum wage		Total	At minimum wage	Below minimum wage
Total, 16 years and older.....	77,207	2,992	1,255	1,737	100.0	100.0	100.0	100.0
Private sector.....	67,956	2,843	1,178	1,665	88.0	95.0	93.9	95.9
Agriculture and related industries.....	767	19	9	10	1.0	0.6	0.7	0.6
Nonagricultural industries.....	67,189	2,825	1,170	1,655	87.0	94.4	93.2	95.3
Mining.....	601	3	–	3	0.8	0.1	–	0.2
Construction.....	4,796	19	7	12	6.2	0.6	0.6	0.7
Manufacturing.....	9,205	83	48	35	11.9	2.8	3.8	2.0
Durable goods.....	5,621	33	21	12	7.3	1.1	1.7	0.7
Nondurable goods.....	3,585	50	28	22	4.6	1.7	2.2	1.3
Wholesale and retail trade.....	12,697	417	298	119	16.4	13.9	23.7	6.9
Wholesale trade.....	1,605	19	13	6	2.1	0.6	1.0	0.3
Retail trade.....	11,091	398	285	113	14.4	13.3	22.7	6.5
Transportation and utilities.....	3,405	43	21	22	4.4	1.4	1.7	1.3
Information.....	1,175	28	19	9	1.5	0.9	1.5	0.5
Financial activities.....	3,281	28	12	16	4.2	0.9	1.0	0.9
Professional and business services.....	6,220	111	63	48	8.1	3.7	5.0	2.8
Education and health services.....	13,123	243	130	113	17.0	8.1	10.4	6.5
Leisure and hospitality.....	9,525	1,710	515	1,195	12.3	57.2	41.0	68.8
Other services.....	3,162	136	54	82	4.1	4.5	4.3	4.7
Public sector.....	9,251	149	77	72	12.0	5.0	6.1	4.1
Federal.....	1,677	12	4	8	2.2	0.4	0.3	0.5
State.....	2,596	46	23	23	3.4	1.5	1.8	1.3
Local.....	4,977	92	50	42	6.4	3.1	4.0	2.4

Note: Data exclude all self-employed persons whether or not their businesses are incorporated. Dash indicates no data.

Source: U.S. Bureau of Labor Statistics.

<http://www.bls.gov/opub/reports/cps/characteristics-of-minimum-wage-workers-2014.pdf>

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However, costs with regard to world competitiveness are of concern mainly for products and services that are bought and sold in international markets. So it was surprising to see the issue of raising the federal minimum wage – currently \$7.25/hour – arise in that context. At a recent Republican presidential candidates’ debate, Donald Trump received considerable media attention when he said that he opposed raising the minimum wage because of international competitiveness concerns.¹ Yet, as the table above shows, the vast majority of workers earning at or below the minimum wage are in sectors that are largely outside of international commerce. The effects of the minimum wage domestically can be debated (and often are), but the minimum has little to do with global competition.

The largest grouping of minimum wage workers on the table is in leisure and hospitality. Relatively few are in manufacturing where wage costs might actually matter for international competition. In short, unless you think there are strong ripple (imitation) effects of a minimum wage increase across industries, it’s hard to connect the minimum wage to global competition. You would have to believe that a hike in wages in fast food would somehow lead, say, auto or aircraft manufacturers (whose wages are well above the minimum) to enact similar pay increases.

At one time, the U.S. Bureau of Labor Statistics (BLS) had a robust international data program that included wage comparisons with other countries. Despite all of the interest in the global economy, however, the BLS program was discontinued for budgetary reasons and taken over by the private Conference Board. So we don’t have up-to-date data. The Conference Board chart below provides U.S. vs. foreign data on hourly compensation (wages, payroll taxes, and benefits) in manufacturing in 2010 and 2013.² The first thing to note is that compared to other developed countries, the U.S. is not an especially high wage country. The second thing to note is that all of the pay comparisons involve a conversion of foreign wages to U.S. dollars using prevailing exchange rates.

The exchange rate effect is apparent, particularly for Japan, on the chart. The chart indicates that Japanese manufacturing wages were higher in 2010 than they were in 2013. But the drop doesn’t mean that Japanese employers cut nominal wages measured in yen between those two years. It simply reflects the fact that in 2013, the yen was generally cheaper in U.S. dollar terms than it was in 2010.³ So Japanese yen-denominated wages *in dollar terms* declined. In the cases of other countries where it

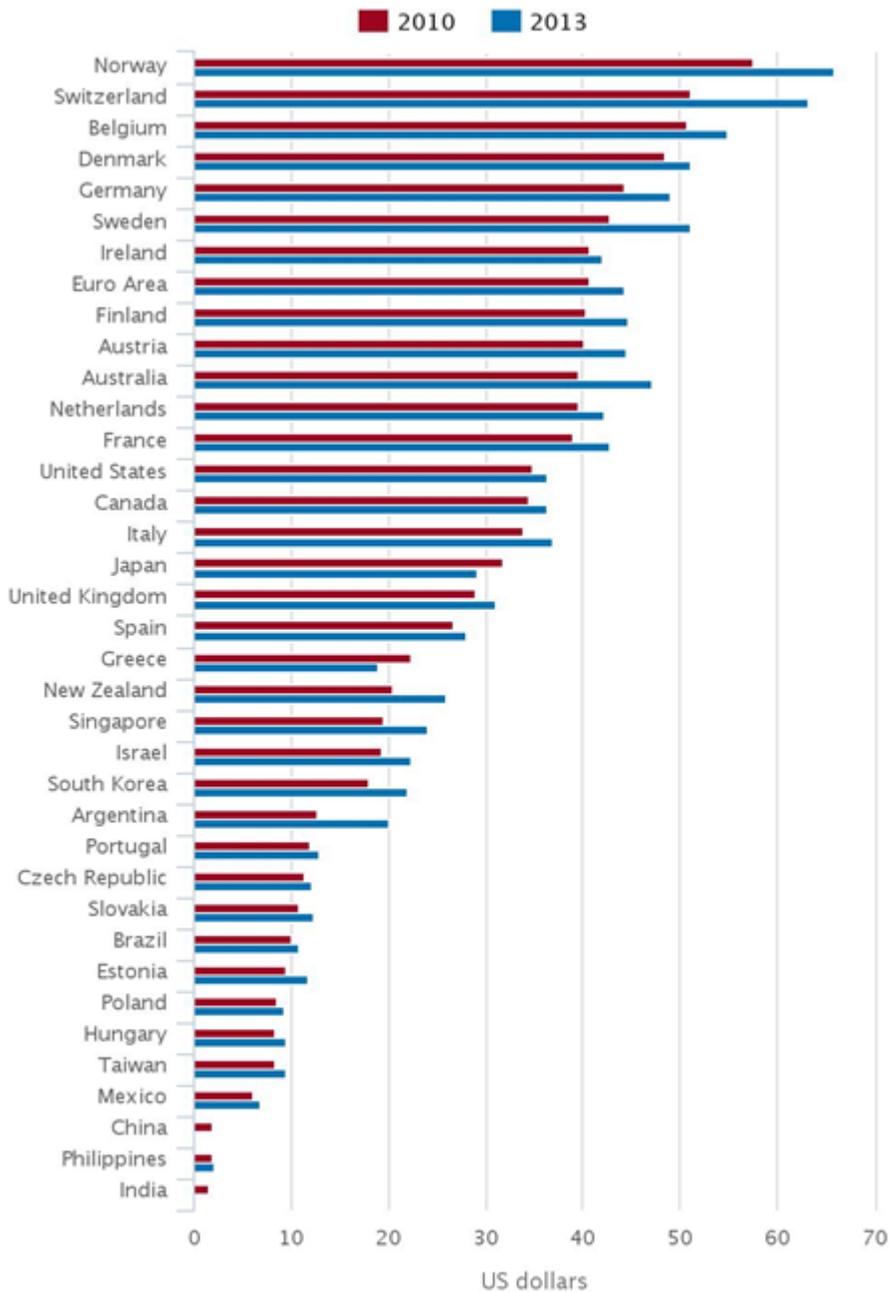
¹<http://www.politico.com/story/2015/11/donald-trump-minimum-wage-215787>. Other Republican candidates also opposed an increase in the minimum. But Trump tied his opposition to international competitiveness.

²<https://www.conference-board.org/ilcprogram/index.cfm?id=28269>

³During 2010, the yen/US\$ ratio fluctuated in the 70-94 range. In 2013, it fluctuated in the 90-105 range.

appears the foreign wage rose in substantially, there may simply have been an appreciation of those countries' currencies.

Hourly compensation costs in manufacturing, US Dollars, 2010 and 2013



Note: Compensation costs include direct pay, social insurance expenditures, and labor-related taxes. Data for China and India are not strictly comparable with each other or with data for other countries.

Source: The Conference Board, International Labor Comparisons program

The issue of the role of global competition in affecting U.S. wages is actually a complicated one, albeit largely unrelated to the minimum wage. Some theoretical economic models predict that wages across countries would tend to equalize. The chart suggests that there is hardly anything resembling equality, however. But it could nonetheless be the case that the addition of China, India, and other very low-wage economies into world markets is a drag on U.S. wages.

Perhaps that is the case. But most models assume more or less balanced trade, i.e., value of exports = value of imports. The U.S., however, has gone for decades with imbalanced trade, imports well above exports. That imbalance tends to push employment out of higher-paying international trading sectors and into such lower-wage areas as non-trading retail. Ultimately, the imbalance is a monetary and currency phenomenon and exchange rates have much to do with it. So before focusing on the minimum wage, or – indeed – on wages at all, it would be best to start with changes in exchange rate policy that would produce trade balance.