Minimum wage increase has a maximum impact

Business, Employment

It sounds like good news for the low-income workers and their families whenever the government increases the minimum wage. The United States Congress adopted the Fair Labor Standards Act in 1938. Congress created the minimum wage toward the end of the Depression era to ensure a " minimum standard of living necessary for health, efficiency, and general well-being for workers" (Wages). The Fair Labor Standard Act establishes minimum wage, overtime pay, recordkeeping, and child labor standards affecting full-time and part-time workers in the private sector and in Federal, State, and local governments. Covered nonexempt workers are entitled to a minimum wage of not less than $5. 15 an hour. Minimum wage is an example of government intervention. The government has put a minimum on the dollar amount that employers can pay their employees. Unfortunately, when we implement solutions like raising the minimum wage, it is too late to actually fix the problem, so in most cases it has effects that we cannot foresee as it is a reaction instead of a prevention method. However, upon closer analytical examination, it can be seen that raising the minimum wage has a perverse effect and examining the minimum wage law itself can show a dynamic effect when raising the wage floors. On the surface minimum wage laws seem like the best prescription to treat poverty and improve living standards of the working poor. Advocates first defense of the minimum wage floor and its increase is that the firm can pass the costs occurred by the wage hike to its customers. Another defense is that advacates deny claims of links between the minimum wage and the impacts upon employment, and suggest that in any event, greater social benefit derives from minimum wage laws. For example, Santa Fe employers affected by the city minimum-wage law increased the number of employees overall by . 35 employees when compared to the year before the ordinance took effect. During the same period, overall employment levels in Albuquerque fell by 2. 4 employees without an increase in minimum wage (Lopez). Promoters of minimum wage laws are also taking positions that such laws alleviate poverty and improve the conditions of life of the working poor (" Making Work Pay"). According to the Department of Labor, nearly 6. 45 percent of the labor force is earning minimum wages. By having minimum wage laws the government is trying to ensure that everyone has a better standard of living and a more equal chance of competing with the higher income families and a fairer chance to improve their economic condition. According to the Employment Policies Institute, the average family affected by the minimum wage has an annual income of $43, 000 because seven out of 10 minimum-wage workers live with a working spouse or relatives. Furthermore, the average income of minimum-wage workers increases by 30% within one year of employment on the basis of learned skills. Wage increases due to increased skill levels explain the fact that only 2. 8% of workers over the age of 30 are receiving the minimum wage (Crane). The argument that the firm can pass the costs occurred by the wage hike to its customers is not a valid one. Robert Shapiro, lead economist at the Progressive Policy Institute says that about 80 percent of the costs of an increase in the minimum wage are passed on in the form of higher prices. A survey of small businesses found that after a wage increase 28 percent raised prices, 26 percent postponed expansion plans, 14 percent terminated at least one employee, and 9 percent did two of the preceding. Many firms have also turned to automation to reduce the threat of wage increases (Hamond & Hogan). If minimum wage is raised, unemployment will grow. The reason for this is that the supply exceeds the demand. A wage is simply a special type of price, specifically the price of labor services. The most universally accepted application in economics is the Law of Demand. When other things are held constant, if prices go up, buyers will buy less. Thus if labor becomes more expensive, employers will hire fewer workers (Posner 346). That is because some workers who would have been profitable to hire become unprofitable. A second well-accepted proposition is the Law of Supply. The higher the price suppliers receive, the more they will supply. Putting the two laws of economics together, higher wages increase the number of workers willing to work but decrease the number of workers employers will hire. Artificially raising wages by governmental law creates a surplus of labor, better known as unemployment. Low-wage workers are most affected by these laws. Some workers will gain from the wage increase through higher income; however, these gains come at the expense of other workers. Groups with the lowest levels of productivity suffer the greatest loss. Low-wage workers will be forced into second-best employment or into unemployment, which often include the teens, minorities, elderly, handicapped, and those without skills (Turner). Minimum wage actually helps very few people. The only ones that benefit from minimum wage are those unskilled workers who are currently employed. Minimum wage restricts employment opportunities for the young, inexperienced, and those people with educational disadvantages. They will continue to find themselves handicapped in the job market as long as the minimum wage increases. The increase in minimum wage laws do not alleviate low-wage and unskilled workers from poverty. They serve a purpose of keeping the poor people poor. The minimum wage laws make unskilled workers handicapped forever by taking the element of incentive away from them. One's labor is the most valuable property one has to sell. Variance in wages and earnings among workers at different levels of skill provide an incentive system of investment in skill acquisition. Wages are used to compensate workers for their time, skill, and money that they have invested into themselves. The trend is for higher education, which in return receives higher wages. The reservation wage of skilled workers is higher then unskilled workers because they would like to receive some return on their investment, their education. College students should be able to relate to this concept as they have put more time, effort and money in to themselves then some others, like high school students, and they should be compensated for this by a better rate of pay. After one year of college you should receive more than minimum wage as you have bettered your skills and invested at least $3000 to do so. This is the only the direct cost; you also have to take into consideration the opportunity costs the college student would have. The opportunity costs for a college student is the wages one could have been earning instead of attending school as well as the time one could be traveling or starting a family, or whatever one gave up to go to college, and they want to be compensated. Different occupations have different wages. In society today the demand for " unskilled" workers is low and the supply is high, therefore there is a surplus of unskilled workers in the job market. The effect of a surplus drives down an individual's reservation wage, as they are willing to do and take anything for work. Minimum wage only makes this fact more severe, as it increases the supply of workers. A minimum wage has the greatest impact on those with low skills whose normal wage would be less than or near the legally established minimum. If you speak to any small business owner you would find that they would rather employ one skilled worker that can do the job in one day than hire three unskilled workers that can do the job in one day. The reasoning behind this is that one skilled worker requires less monitoring than the unskilled workers. The extra money paid to the skilled worker is worth the time of training and monitoring the unskilled workers. If minimum wages compress that spread and cause the differences between the wage rates in unskilled and skilled occupations to be too small, the average quality of the labor force is diminished, output is lower, and poverty tends to be intensified. Some of this may seem a bit technical, so let us put it in perspective. Let us assume a business has 20 high school aged employees working for it. Each employee is making minimum wage, because unfortunately the business can not afford to pay all its employees a higher wage, and all employees work at the same time. The employer understands the value its five more experienced employees bring and has been encouraged to give them a $1. 50 raise at the beginning of the next year to help with their retention. This raise brings the total cost of their labor from $103 an hour to $110. 50 an hour. The new labor cost is at the maximum the company is able to afford. Unfortunately for the business an unforeseen event has happened and the government has raised the minimum wage by $0. 50. This increase has now changed their current cost of labor to $113 an hour. This new wage rate is above their maximum ability and instead of giving a raise to its more experienced workers the company is forced to downsize and lay off two of its less experienced employees. Not only has this created two unemployed workers, it has also made the company less productive. Minimum wage increases the cost of doing business, and unfortunately in today's economic conditions employers are not able to pass on the extra costs to the consumer. Minimum wage is not helping workers, it is hurting businesses, and to maintain any profit and follow legislation companies have to cut labor costs somehow. Companies are being forced to take other alternatives because of higher labor costs for unskilled workers. Businesses are forced to cut back current employees hours, not hire any more employees, and let employees go. Removing the minimum wage laws would have an effect, positive and negative, that can not be explained in this short paper and therefore was not discussed. Although, a raise in minimum wages does not insure that low-income consumers will not be at a disadvantage. If minimum wage is raised then people are put out of work in the process of downsizing or replaced by more efficient machines. Let us let the market decide the value of its labor and stop increasing minimum wage. Without the minimum wage raises businesses will expand because they have more capital. Along with this expansion businesses will hire more people and create more jobs, thus putting more money into the economy, which will reduce inflation and keep prices on items relatively low. If businesses can not expand and can not afford to hire people then the businesses will raise their prices. The raised prices will hurt people working for minimum wage. Therefore when minimum wages are raised all the prices of goods are going to go up, so the consumer may be making more money but is also paying more money for goods. Simply, the minimum wage floor is not a way to help the poor Americans.

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