

Macroeconomics: should the minimum wage increase? assignment

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Over the years, the federal minimum wage has increased and has been beneficial up to the minimum wage increase in July 24, 2009 from \$6.55 to \$7.25. After the increase, the unemployment rate has soared and businesses fired workers and increased their prices. For this reason, it would be beneficial to the economy if the minimum wage is reduced back to \$6.55 because it will decrease the unemployment rate, increase GDP, and help youth and unskilled workers in the job industry.

The Great Depression was a devastating time for the United States with families having no income, there was no economic growth, and the poverty rate was at an all-time high. To aid with the matter, President Roosevelt attempted to impose a federal minimum wage but was struck down by the Supreme Court. The Court continued to refuse to have a federal minimum wage over and over again. It was until he chose a presidential nominee, and made a platform that supported minimum wages by the party's presidential nominee, Franklin D. Roosevelt. After this, the Court decided to allow a minimum wage.

Over the years, the government has increased the minimum wage from 25 cents in 1938 to \$7.25 in 2009. The current debate in Congress now is that President Obama wants to raise the minimum wage to \$9.0 which is going to be a bad idea for the economy, decreasing the minimum wage will benefit the economy for reasons that will be stated now. Human labor is very important to businesses even though technology is rapidly improving but if the minimum wage increases, the cost of human labor increases, so to deal with this, businesses must decrease output, increase prices, and ultimately fire employees.

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So if the minimum wage increases, the unemployment will also ultimately increase. Evidence of this occurring is seen through a recent minimum wage increase from \$6.55 to \$7.5. When the minimum wage increased from 2008 to 2009, the unemployment rate almost doubled. In 2008, the unemployment rate was 5.5% and in 2009, it increased to 11.2%.

Decreasing the minimum wage will reverse this because human labor is cheaper, therefore businesses can increase output, lower prices, and hire more employees. This rapid increase unemployment rate is undesirable because of the huge economic cost for GAP.

The economic cost is determined using Skunk's Law which is to double the unemployment rate to find the GAP gap, so the GAP gap for the year 2009 is 22.4%. Multiplying the GAP gap with the potential GAP gives the economic cost. The potential GAP in 2009 was about \$13750 billion and multiplying this with the GAP gap 22.4% gives the economic cost of \$3080 billion (McConnell, 2012, p. 175). The cost of this was way too high and the cost will increase much more if the minimum wage is increased, but if the minimum wage was decreased, maybe the economic cost can be reversed.

If the minimum wage can be decreased, the unemployment rate will also decrease, and GAP can increase. GAP is a monetary measure of the health of the economy. This is calculated by adding up all the expenditures made on final goods and services in the U. S or adding all the income made in the U. S. If minimum wage is decreased, businesses and firms can increase output with more employees and lower prices. Since there are lower prices, there

will be a higher demand so more goods and services can be sold thus increasing GAP making a bigger and healthier economy.

For example, a man sells burgers and hires 10 people at \$7.25 and minimum wage goes up to \$9.50, the cost of ingredients goes up. The labor that is used in bringing the beef to market is aid with minimum wage. If those wages go up the cost of producing the beef will go up, ultimately driving up the price of beef. The man now can't afford the price rise on raw ingredients because it will cause him to run at a deficit. Instead he will have to raise prices and sell less burgers or make less output. Since there is less output to be made, fewer employees are needed so employees are fired.

Since there is less burgers to be sold and it is at higher prices, not a lot of consumers will purchase the burgers and thus GAP will decrease. Decreasing the minimum wage will not just decrease unemployment and increase GAP; it will also benefit the working youth and unskilled workers as well. If the minimum wage decreases, businesses and firms can afford to hire more employees, including youth workers and unskilled workers and can train them. This gives youth and unskilled workers valuable experience which can help them with future job opportunities.

If the youth and unskilled workers can at least get a job, they can work their way up the ladder and use the experience they get from the minimum wage job and use it as they rank up or pursue higher income jobs. There are many reasons for why decreasing the minimum wage would infinite the economy but there are those who oppose this view. Those who oppose this view say that decreasing the minimum wage will hurt the economy because lowering

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the minimum wage decreases the income of families so that they can purchase fewer goods and therefore decrease the GAP growth rate.

There is another argument saying that is only fair to give an employee a ‘living wage’ and can support at least a family Of two for 40 hours a week. This is untrue because most employees that work minimum wage don’t work 40 hours a week anyway so it is already not a living wage but they not take the job for the short run, they do it to gain experience and can in the future work with other businesses that require past experience and will pay the employee a higher wage. As stated before, employees can work their way up the income ladder.