Minimum wage should be raised and should automatically increase with inflation

Literature, Russian Literature

Minimum Wage and Inflation Introduction The debate on whether to tie minimum wage to inflation has been going on for some time now. The issue has reached the corridors of powers if the recent move by President Obama is anything to go by. President Obama announced his support for the bill, currently in the senate, which proposes to hike the federal minimum wage to $10. 10 per hour from the current $7. 25 - this is also indexed for inflation. The figure is still way below the estimated income, which is supposed to keep households out of poverty (Kosters, 2005). It is estimated that up to a minimum wage of $11 per hour is required to keep families out of poverty. There are two opposing opinions to the debate on whether to tie the minimum wage to inflation. Opponents claim that the move to increase minimum wage could result to job loss while proponents believe that this is a good move that will improve the purchasing power of the households. My position is that minimum wage should be raised and should automatically increase with inflation. Proponents Several reasons have been fronted by the proponents of the debate on tying wage on inflation level in the economy. For instance, a full time worker in America earns about $14500, which is way below the minimum wage required to strike the poverty line for the household. According to Kosters (2005), the minimum wage required to beat inflation stands at $23, 550. The increase in minimum wage proportionately to inflation level will go a long way to lift several households out of poverty, consequently leading to less social problems and costs associated with poverty. Moreover, research by the Economic Policy Institute points out that increasing minimum wage will ensure that more jobs are created and additional output realized in the economy. This is because increase in wage results to motivation, hence increase in productivity. With increase in productivity in the economy, the growth of the economy is inevitable. It is important to note that increasing the wage bill for employees increases their purchasing power. This means that demand for goods and services increases in the economy. The implication of such a move is that it results into the extra pay being injected back to the economy through increased purchasing power of the worker. For this reason, the spending stimulates growth in the economy (Card, 2008). In fact, research shows that for every $1 added to the minimum wage, the worker will spend on average an additional $2800 in the subsequent year (Card, 2008). The other notable contribution of an increase in minimum wage is that it results to reduced turnover. Motivation is key to retaining workforce and there is no better way to motivate workers than increasing their pay. For instance, a case study conducted at the San Francisco Airport in 2003 unearthed that an increase in wage bill from $6. 45 to $ 10 dollars for security workers resulted into significant reduction in turnover from 95% to just 19% (Flinn, 2010). This was coupled with increased level of performance by up to 35%. Consequently, increased minimum wage is considered to be a cost saving to the business it facilitates avoidance of the high costs associated with creation of turnover. Finally, increase in minimum wage results to more revenue to the government through income tax. The income tax is always proportional to income, hence increase in minimum wage means that people will be taxed more and the government is in a position to acquire the much needed revenues to finance various social programs in the economy. Opponents The opponents of increase of minimum wage front various reasons in their opposition to the arrangement. Top on the list is that increase in minimum wage results to increase in cost of doing business, which in turn results to reduced levels of profits to businesses. The primary goal of any business unit is to make profit and the best way to achieve this goal is through maximizing revenue and minimizing costs (Flinn, 2010). Owners of businesses, in a bid to cut costs and increase profitability, always target low labor costs. By raising the minimum wage, most businesses become less profitability. This move is also likely to scare away potential investors because most local and domestic investors can have a feeling that the cost of doing business in America is high. As a result, they are likely to shift to other economies with friendly wage policies. The other negative aspect of increasing minimum wage proportionately with inflation level is that it could result to layoffs by the companies in a bid to accommodate the new-hiked minimum wage (Flinn, 2010). This, apparently, includes the government’s objective of increasing the levels of employment in the economy, which is already grappling with high unemployment levels. Conclusion Increasing minimum wage is good for an economy in many ways. It has the capacity to solve the social problem of poverty because it can be able to lift majority of Americans out of poverty. Moreover, increased minimum wage automatically results into improved economic performance, due to increased demand for goods and services as a result of improved purchasing power of the workers. Finally, increased minimum wage saves the government the social costs needed to deal with social problem of poverty and its related consequences like crime. Surely, the benefits of increasing minimum wages supersede the disadvantages and, hence, this move should be advocated. ReferencesCard, D. (2008). Myth and

Measurement: The New Economics of the Minimum Wage. New York: Princeton University Press. Flinn, C. (2010). The Minimum Wage and Labor market Outcomes. Massachusetts: MIT Press. Kosters, M. The Effects of Minimum Wage on Employment. New York: AIE Press.