

Minimum Wage Policy Memo:

Should the minimum wage be raised to \$15/hour nationwide?

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Increasing the minimum wage holds the potential to elevate earnings for low-wage workers, serving as a potent tool for reducing income inequality and enhancing the quality of life for low-income households. There are possible drawbacks of increases in the minimum wage such as decreases in employment, but these effects are variable. In light of this, I propose a shift towards indexing the minimum wage to the cost of living at the state or county level, reconsidering it every 5 to 10 years, rather than opting for a static \$15 minimum.

This policy has two main benefits over a flat increase. First, both the positive and negative effects will be consistent across largely variable areas of the United States. A flat increase will likely lead to certain disadvantaged/poor areas bearing large adverse effects stemming from a disproportionate increase relative to their local costs. Similarly, a flat increase may not cover the needs of more affluent areas where costs have risen more acutely. Secondly, indexing the minimum wage is a forward-looking policy with set renewal times, lessening the need for frequent attention and approval that could be time-consuming and costly. Moreover, it reduces vulnerability to political interference and bureaucratic hurdles.

Experiments in multiple places including Seattle, New York, California, and Massachusetts have shown that generally, the positive gains from an increase in the minimum wage are concentrated in increased overall earnings. In Seattle, over a year after the first phase of increases to \$15/hr was enacted, there were significant changes in all areas besides employment which tended to be negative. Workers saw reductions in hours worked but not total earnings, implying that wage growth outpaced declines in total employment (Jardim et al). Cengiz et al corroborate these findings on an expanded scale using 138 instances of minimum wage increases from 1979-2016. Low-wage workers affected by the wage floor saw a significant increase in earnings of ~ 7%.

However, the impact of increased earnings depends on the availability of jobs for workers to benefit from higher wages. Theory predicts that firms respond to increases in wages by decreasing labor in competitive markets. In reality, there is uncertainty in the magnitude and area of disemployment following an increase in the minimum wage. Jardim et al found no significant decreases in manpower but significant losses in hours per worker. Low-skill workers seem to bear the majority of these costs as firms shift towards more experienced labor. Cengiz

et al do not find similar results. They find no significant employment effects except in competitive markets with high levels of trade, where firms do not have the room to eat higher labor costs while maintaining the same level of production. Low-skill workers also seem to benefit similarly to higher-skilled workers in the aggregated data. In general, the number of new jobs above or at the minimum wage seems to offset the number of jobs lost below it.

One important caveat to the discussion of employment effects is their duration. If negative employment effects fall away over time, there is less of a challenge to implementing a good minimum wage policy. In his paper “Are There Long-Run Effects of the Minimum Wage?” Isaac Sorkin predicts that the effects might be more drastic in the long run. “In the model, observed long-run effects of temporary minimum wage increases are also small, **though the long-run effect on employment of a permanent change in the real value of the minimum wage is large and equilibrium employment is below what it would have been were it not for the minimum wage**” (Sorkin). The study is focused primarily on the restaurant industry, meaning these estimates are for an industry that sustains the largest drops in employment; these results could be less extreme in industries with lower levels of competition.

Overall, the benefits of minimum wage changes seem to outweigh the costs, except in highly competitive markets where more caution must be utilized. I propose that reevaluating the minimum wage every 5 or 10 years would benefit low-wage workers. This approach allows for adjustments in response to growing gaps between the cost of living and earnings while aiming to mitigate the negative employment impacts of annual raises.

References

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