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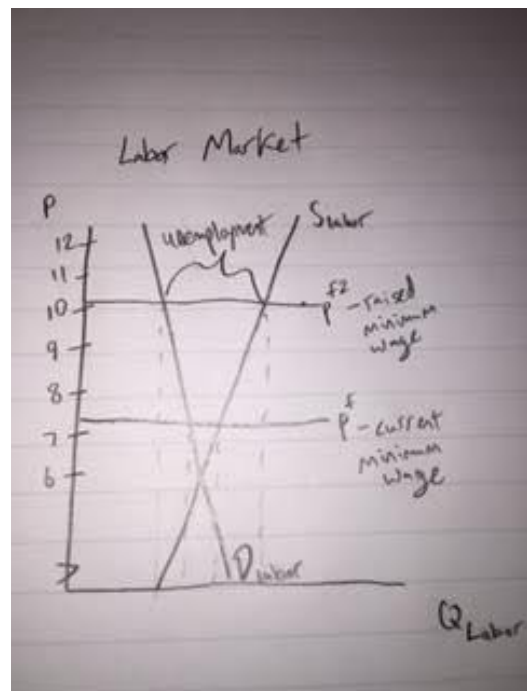
Minimum Wage

Should the minimum wage be increased or remain the same? This question has been a topic of debate for a long time. Even right after it gets raised, some want it to get raised more, causing the debate to continue. The people in favor of raising it are either those currently working for minimum wage who want to make more money, or economists or politicians who want to reduce poverty. The people against increasing minimum wage claim that by raising it, it will cause higher unemployment because companies will fire more workers due to the increase in the wages. In reality both sides are right, but studies show that raising the minimum wage is better than leaving it what it is.

There are many legitimate reasons for not wanting to raise the minimum wage. Chief among them is that the unemployment will rise.

However, it will not rise as much as most people think.

“For example, in their recent analysis of the impact of the proposed increase to \$10.10, the Congressional Budget Office finds that 24.5 million workers would get a raise from the proposed increase, while employment would fall by 500,000, implying that 49 low-wage workers get a pay boost from the proposal for every one job lost” (Bernstein). So, even though many people will lose their jobs, it pales in comparison to



how many more would benefit from it. As the graph shows, in the labor market, the supply and demand of labor are steep slopes. As a result, when the minimum wage is increased, unemployment does not increase by that much. The reason there would not be a significant number of job losses is because there are other ways for companies to compensate for the added costs due to a minimum wage increase. As Schmitt explains, there are many different ways for businesses to overcome this extra expense. Some of them are: a reduction in hours worked, a reduction in non-wage benefits, improvements in efficiency, and efficiency wage responses from workers. They are pretty self explanatory and they all show how and why companies do not just fire workers right off the bat. Another reason for not raising the minimum wage is because they think that there will be a lot of inflation. This is wrong because the customers of that business are unaffected by the increase. So if they raise prices, they would lose customers which would result in a loss of profits. Therefore, the firm would do one of the methods stated above to get rid of the extra expense. Prices might rise a little, but not dramatically.

There are also many reasons why the minimum wage should be increased. First, all of the people working at minimum wage currently will see an increase in income. With their extra income they will do one of two things: consume or save. Both are beneficial for an economy. When consumption and/or investing goes up, the aggregate demand increases (shifts to the right) which is economic expansion. Second, since many more people benefit from the increase than do not, it will lessen poverty. This also will be beneficial to the economy for the same reason as above. Finally, it should be raised because businesses can afford it, while the low end workers need it. Workers need it for the reasons stated prior in this paragraph. Businesses can afford it because “the cost shock of the minimum wage is small relative to most firms’ overall costs and only modest relative to the wages paid to low-wage workers” (Schmitt). This

means that the amount of their budget that will increase with the raised minimum wage is small that they will not be as likely to fire some workers as to make a smaller change.

Many people do not want to raise the minimum wage from fear of higher unemployment and inflation. What they do not realize is that both of these will occur, albeit in small amounts. Small enough that the benefits surpass them. Not only will it be the obvious benefit for the workers who are being paid more, but also the economy as a whole will benefit more. From less poverty to economic expansion, next time the question, should the minimum wage be increased is asked, the answer should be yes.

Works Cited

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- Schmitt, J. (2013, February 1). Why Does the Minimum Wage Have No Discernible Effect on Unemployment? Retrieved February 18, 2015, from <http://www.cepr.net/documents/publications/min-wage-2013-02.pdf>