

Xukun (Frank) LIU
www.xukun-liu.com
Kaulkin Ginsberg Co.
Oct 2018

To see the full blog: <http://www.kaulkin.com/>

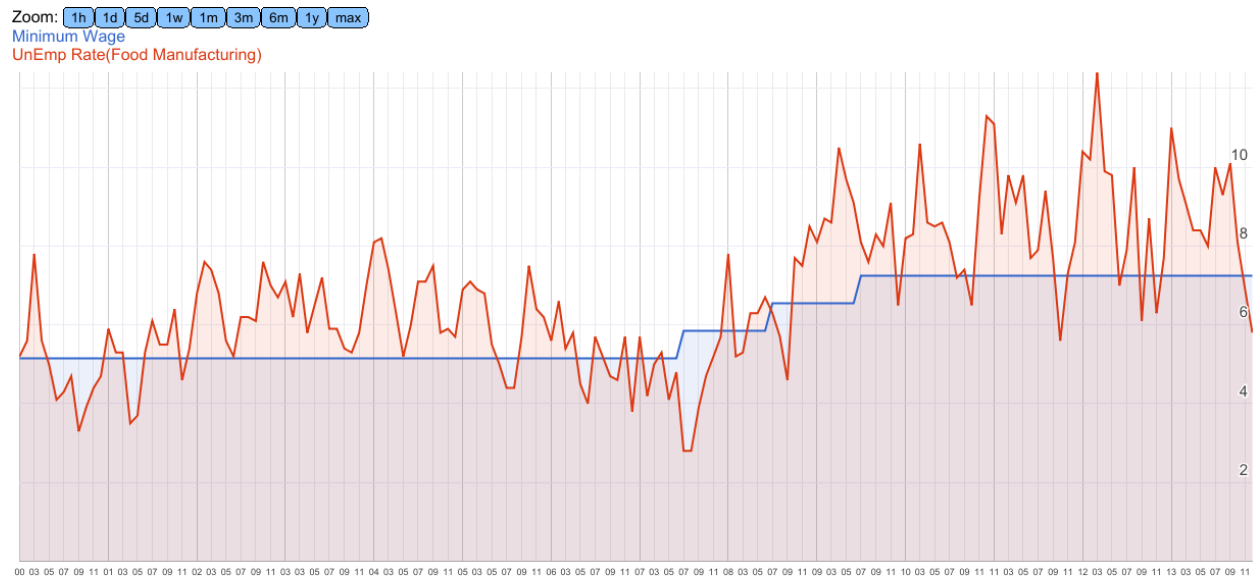
Increase Minimum Wage & Unemployment Rate of Low-wage Industries

With November Midterms election approaching, the minimum wage is becoming an even hotter topic than before. Two states – Arkansas and Missouri – will feature initiatives to raise the minimum wage on their respective ballots, and candidates like Rashida Tlaib and Alexandria Ocasio-Cortez include national \$15 minimum wage in their platforms. The Minimum wage is an issue directly related to millions of people, which is also the reason why lots of candidates would love to express their will to increase the minimum wage to attract more voters. Increasing the minimum wage would quite attractive to certain low-income individuals, who believe this act will protect them and increase their income. At first look, it seems evident that a higher minimum wage would protect lower-income people by make sure employers pay whatever the workers deserved. However, sometimes, the truth is not so simple. According to a survey conducted by Greg Mankiw, 79% percent of economists believe that: “Increase the minimum wage will increase unemployment rate among young and unskilled workers.” And higher unemployment rate might protentional benefits the ARM industry.

A minimum wage - \$7.25 is required by US labor law and various states laws [1]. Some cities also have a specific regulation regarding the minimum salary. An employer is required to meet whichever the minimum is greater. A simple approach to understanding this issue is thinking like an economist. In a labor market framework, the employees are selling their working hours, and they want to sell it at a higher price. The employers wish to buy the working hours with the lowest price. In a free market, when the demand equals the supply, the price of the goods will also reach an equilibrium, or balanced status. This price is also the fair wage. An ideal minimum wage should be equal to this fair wage and could protect the employees.

However, in a real labor market, things are more complicated. The equilibrium point is always changing. Manually marking this equilibrium point might not be efficient and might ignore many undergoing changes in this market. Increasing minimum wage won't affect the high-income and high-education workers since their salaries are usually already much higher than the minimum wage required by law. But the low-skilled or younger workers, especially for those whose wages are near or slightly higher than the required minimum wage, will be most affected by an increase in the minimum wage. In response to the higher labor cost, the employees might reduce working hours or just lay off the workers. Compared with the highly-educated workers, unskilled works don't have robust individual bargaining power when they face companies reducing the working hours or laying off the employees.

According to a Congressional Budget Office (CBO) report: *The Effects of a Minimum-Wage Increase on Employment and Family Income* [2], There will be two principal effects on low-wage workers. Some of them would receive a higher total income, but part of the low-wage jobs would be eliminated, and their income will fall substantially. Take the food manufacturing industry as an example, most jobs in this industry require little formal education or training; many can be learned in a few days. Only a few managerial positions require a bachelor or master's degree. The national average salary of this industry is around \$9.5 for operators. [3][4]



[5][6]

When comparing the unemployment rate in this particular industry with the historical minimum wage, it's hard to ignore the fact that each time - in July 2007, July 2008, and July 2009 - the increase in the minimum wage is associated with a sharp unemployment rate increase in the following months. If we look into other low-skilled workers concentrated industries, it's likely we would find a similar pattern.

There are variety of efforts aimed at increasing the minimum wage at notional, states, local, and even company level. For instance, on August 26, 2018, the Disney World workers Union reached an agreement with Walt Disney company, to gradually increase its minimum wage from currently \$10.25 per hour to \$15 per hour by the end of 2021 [7]. On Oct 2, 2018, Amazon announced \$15 minimum wage for all US employees, effect one month later [8]. Although, there is no clear signal that the federal government will concern making any change in the current Fair Wage Act, the last time the federal government changed the minimum wage was in July 2009. Till now (2018), there are already 29 states' minimum wages that are higher than the Federal minimum. It could be just a matter of time before the Federal Government return to this topic.

With an increase in the minimum wage, we could expect a positive effect on the ARM industry in a short term. After the increase of the minimum wage, the unemployment rate (especially for unskilled and youth workers) would increase sharply in the following months. For the factories and companies, if they do not layoff more employees, to balance the impact on the labor cost caused by wage increase, they would also consider cutting down the workers working hours. As a result, the total income for the workers will not increase significantly. In the worst case, their actual income will even fall. Consequentially, a higher percentage of this group of people would be unable to pay off their debt or pay on time, which will potentially create more opportunities for the ARM industry. In a long term, the impact of the minimum wage increase will be diminished or fade away, since the minimum wage increase will not have a massive impact for the unemployment rate in a national level. Besides that, for the unskilled and young workers concentrated industry, the factories and companies will gradually consume and adapt to the increase in the cost. The unemployment rate and income will reach a new stable level eventually.

- [1] <https://www.dol.gov/whd/minwage/america.htm>
- [2] <https://www.cbo.gov/publication/44995>
- [3] <https://www.indeed.com/cmp/Food-Manufacturing/salaries>
- [4] <https://collegegrad.com/industries/food-manufacturing>
- [5] <https://www.dol.gov/whd/minwage/chart.htm>
- [6] <https://beta.bls.gov/dataViewer/view/timeseries/LNU04034131>
- [7] <http://fortune.com/2018/08/26/walt-disney-world-workers-win-15-dollar-minimum-wage/>
- [8] <https://money.cnn.com/2018/10/02/technology/amazon-minimum-wage/index.html>