

Mr. Lane
Economics

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The Minimum Wage: Does It Matter?

http://www.investopedia.com/articles/07/minimum_wage.asp

The International Labor Office in Geneva, Switzerland reports that some 90% of countries around the world have legislation supporting a minimum wage. The minimum wage in countries that rank within the lowest 20% of the pay scale is less than \$2 per day, or about \$57 per month. The minimum wage in the countries that represent the highest 20% of the pay scale is about \$40 per day, or about \$1,185 per month.

Despite paying one of the highest minimum wages in the world, the minimum wage is a perpetual hot potato among politicians in the United States. The last time the minimum wage was federally increased in the United States was 2009. Since the minimum wage is not indexed to inflation, it does not systematically increase in proportion to changes in the costs of living.

Arguments in Favor

Those in favor of increasing the minimum wage argue that such an increase lifts people out of poverty, helps low-income families make ends meet and narrows the gap between the rich and poor. That last argument is underscored by the exorbitant salaries earned by CEOs and other corporate titans, which are also the same people generally arguing against an increase in the minimum wage. The idea of an increase also has a strong populist appeal, particularly in a nation where discussions about social class, when they are held at all, are nearly always framed in terms of the rich versus the poor.

Arguments Against

On the other side of the discussion is the argument that increasing the minimum wage hurts small businesses, squeezes profit margins, leads to inflation, encourages employers to downsize their staff and increases the cost of goods to the end consumer. Interestingly, the arguments against an increase rarely focus on the fact that a good portion of states already mandate a wage that is higher than the federal minimum wage.

By the Numbers

Economically speaking, the theory of supply and demand suggests that the imposition of an artificial value on wages that is higher than the value that would be dictated in a free market system creates an inefficient market and leads to unemployment. The inefficiency occurs when there are a greater number of workers that want the higher paying jobs than there are employers willing to pay the higher wages. Critics disagree.

What is generally agreed upon by all parties is that the number of individuals relying on the minimum wage in the United States is less than 5%. However, this statistic is largely ignored in favor of citations regarding the number of people that live in poverty. Keep in mind that earning more than minimum wages does not necessarily mean that one is not living in poverty. According to estimates from the CIA World Fact Book, some 13% of the U.S. population lives in poverty. That's 37 million people.

To put this in perspective, the federal poverty level for a working adult was \$9,800 in 2006 according to the United States Department of Health and Human Services. At \$5.25 per hour a minimum wage worker earns \$10,920 per year, which is already greater than the federally determined poverty level. If the worker's pay jumps to \$7.25, yearly earnings would move to \$15,080 per year for a 40-hour week. From a mathematical and logical perspective, increasing the minimum wage does not lift anyone out of poverty because the prior minimum wage already paid more than the official poverty rate.

The numbers would seem to put the minimum wage argument to rest, but only because of the misaligned focus on the phrase "minimum wage". When referring to that phrase, many people actually seem to be seeking a living wage, which is generally defined as the amount required to raise a family on a single wage-earner's salary.

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Pegging that number to the poverty rate for a family of four moves the bar to \$20,000 per year. Looking at the argument from this perspective, neither the current minimum wage nor the proposed increased wage will provide a living wage. Even if an increase would move the salary of every worker in the country to this level, it would make little difference in the statistical comparison of the earnings of the average worker to those of the highest paid CEOs.

No Easy Answers

Is there a solution to the minimum wage/living wage issue? Statistics can be gathered to support both sides of the argument. While there are no easy answers, a good first step is to frame the debate in realistic terms. Referring to the minimum wage as a wage designed to support a family confuses the issue. Families need a living wage, not a minimum wage. With that said, working at McDonald's or the local gas station isn't a career. These are jobs designed to help entry-level workers join the workforce, not to support the financial needs of a family.

Based on the information provided in this article do you believe Congress's idea of raising the minimum wage from \$7.25 an hour to \$9.00 an hour would be helpful to low income earners? Why do you believe this?

How do feel about the proposed change based on the information provided in the videos? Why?