DOES RAISING MINIMUM WAGE RATE CONTRIBUTE TO GREATER INCOME INEQUALITY?

Some years ago eighty percent of economists surveyed agreed that increasing the minimum wage rate hurt those that were the primary intended beneficiaries, i.e., the least educated, the least skilled and the least experienced. However, all others benefit such as those workers fortunate enough to keep their jobs (or hours worked), union members (none of which make the minimum wage but receive commensurate increases in pay) and all other hourly workers earning something above the minimum wage. Those benefiting are far more numerous and much more likely to vote than those harmed. Little wonder the public and their elected representatives generally support a higher minimum wage.

Opposition from economists stems, in part, from the contradiction between the purported goal of a higher minimum wage and its consequences. Popular arguments to raise the minimum include the inadequacy of the existing wage rate to provide a ‘livable’ income. Never mind the confusion of wage rates with income, the intended beneficiaries are those who are harmed while everyone else benefits. Those at the lowest end of the income scale bear the brunt of fewer jobs, fewer hours worked and higher high school dropout rates. The end result is greater income inequality as the difference between the very lowest income and the very highest increases. This result is mostly overlooked when the focus shifts to the difference between those lucky enough to keep their jobs and hours worked and those enjoying the highest incomes.

As a general rule, most people find economic issues credible that are consistent with their intuition. Economists say such issues have ‘face’ validity, e.g., increases in the federal minimum wage. After all, if people are paid more they have more to spend making life easier for the recipients meanwhile the increase in expenditures will increase GDP and economic growth or so they reason.

Economists create confusion by arguing otherwise or if they exhibit a split opinion on some topical issues including raising the federal minimum wage rate. This split opinion gives rise to the old adage that if you place ten economists in the same room they will come up with at least eleven different opinions on any given subject.

Research indicates that an increase in the high school dropout rate is coincidental with increases in the federal minimum wage rate. Pair that finding with the increase in the cost of hiring high school dropouts (higher minimum wage) and higher youth unemployment rate raises its ugly head. Moreover, the harm caused by raising the minimum wage is difficult to discern (or overlooked) while the benefits are obvious thus enhancing the issue’s face validity.

The above analysis subsumes the perverse effects on employers’ decisions to hire, layoff, or reduce workers’ hours. The increase in costs necessitated by the increased minimum wage will, by and large, be passed on to their customers as well as their workers.

Proponents of increasing the minimum wage are well aware of its drawbacks and argue that such increases can be mitigated, in part, by fazing them in and later indexing future increases to the CPI. These concessions are an effort to keep the minimum wage rate in line with other economic forces thus negating the need for Congress to periodically change the law.

Despite these arguments raising the minimum wage benefits a large enough proportion of the electorate to ensure its survival. In an effort to mitigate its perverse effects, I propose a different solution at least in the near term. Because some states and localities impose their own minimum wage rates, I suggest that Congress declare a moratorium on changes to the federal minimum wage rate while these states, and others who will undoubtedly follow, raise their rates. After a sufficient period of time (three to five years?) econometric studies could measure the relative affects among the various states. Recall, those states that do not raise their rates will still be bound by the current federal minimum. The result is an opportunity for a type of controlled group experiment. Because of differing circumstances among the 50 states it would seem to make sense for each state (or region) to have its own tailored minimum wage. The same minimum wage rate for Hawaii and Mississippi does not pass the smell test. It would seem best if Hawaii and Mississippi determined their own minimum wage rates rather than one imposed upon them by the United States Congress.