Government Should Raise The Minimum Wage

Compensating employees through financial payments in exchange for their labor and time is how wages are defined. An hourly rate of pay is determined as the amount of compensation paid to an employee in return for their services. The rate at which the employee is paid is determined by the market force and is thought of as a competitive market. In a perfect marketplace, it could be assumed that many organizations will offer identical employment opportunities to employees with an identical set of skills. The supply and demand of labor forces create the equilibrium for the amount paid in wages. Organizations eager to maximize profitability will offer compensation at the lowest rate permissible, given the market of employees. For this reason, a minimum wage has been established to ensure that no employee is working for less than a suitable wage for sustaining a reasonable compensation as originally outlined in the Fair Labor Standards Act in 1938. It is argued that raising the current minimum wage would allow employees to earn a suitable wage by the rising cost of living. However, there is opposition claiming that raising the minimum wage will be detrimental to the employees as the organizations will find other means to limit the amount paid out in wages (Noe, Hollenbeck, Gerhart, & Wright, 2018).

Minimum Wage

Minimum wage is considered to be the least amount an organization can pay an employee no matter if the rate of pay is hourly, weekly, or monthly salary. Minimum wage is considered to be the starting point for entry-level employment, most commonly constituting unskilled or low-skilled labor. Before the enactment of the minimum wage, organizations would take advantage of young employees and women, in particular, paying them far less than they should be making. Employees now are protected under law to receive no less than the specified amount of lowest allowable wages to perform their work. New Zealand was the first country to enforce a minimum wage in 1894, and other countries followed shortly after. While there is no uniform minimum wage throughout the world, each country establishes its own minimum wage based on several factors such as cost of living, skill level, and if the employment opportunity depends on gratuities or not (Noe, Hollenbeck, Gerhart, & Wright, 2018).

Effects of Raising the Minimum Wages

The largest benefit of raising the minimum wage would be to the affected workers, most of whom live in poor or low-income conditions. The largest downside to a raise in minimum wages would be to the organizations having to pay out more in compensation to un-skilled or low-skilled workers. Raising the minimum wage could result in the loss of employment to many workers in this class, as employment at minimum wages was never intended to be a means of support beyond that of entry-level employment. While the research is incomplete in the United States, there is a suggestion that raising the minimum wages will result in a reduction of available employment to low-skilled or non-skilled employees (Cengiz, Dube, Lindner, & Zipperer, 2019). While paying a higher minimum wage is becoming the norm in other countries, the premise of a minimum wage is to ensure that a minimal standard of living can be achieved. Raising the minimum wage could have unintended consequences and undermine the effectiveness of the program. Research has shown that an increase to the minimum wage results in fewer employees or employees having fewer hours resulting in the employee making the same amount or less than they would have at the original rate of pay. Research has shown that there are other mechanisms to assist those working for minimum wages such as more affordable college tuition, or trade schools to gain a skill set, or tax credits to those working for minimum wages have shown to be more effective (Clemens, & Wither, 2019).

The Benefits of Raising the Minimum Wage

Employees who are paid well prosper from better physical and mental health. Healthy employees are shown to have better performance, are happier, and are more motivated to improve their skill set. Organizations benefit when employees are happy, as motivated employees make fewer mistakes and tend to be more concerned with the welfare of the organization rather than just performing enough to collect a paycheck. For this reason, some organizations already pay employees more than the stated minimum wage. Research has shown that employees who are motivated seek more advancements in their current organization rather than looking elsewhere, resulting in less turnover with a better offer. This results in fewer organizations that are required to pay for training and seeking replacements for the employees leaving (Neumark, 2019).

Another benefit to minimum wages is the effects it has on improving the economy. A significant portion of an employee's paycheck goes right back into the economy as they pay rent or a mortgage, and buy products and services they want as well as the necessities they need. The more a person makes, the more they are inclined to spend. As people make more money while they may not spend more on rent or buy a bigger house, they are spending on entertainment, travel, and other consumer goods. Organizations prosper when consumers are confident enough in the economy to spend rather than save. Another economic note is that organizations that are prospering tend to hire more employees, whereas organizations that are breaking even or losing money tend to reduce the number of employees they have. The economy grows as more people become employed (Neumark, 2019).

Another benefit of having a realistic minimum wage is social stability. Employees making a realistic working wage are more likely to remain in their current jobs. Organizations with stable employment do not have to endure the inconveniences of a high rate of turnover. Employees who are earning a suitable living wage are also less likely to leave their communities in search of better opportunities elsewhere. By allowing employees to remain in their communities helps to stabilize neighborhoods, which is a benefit to everyone who lives there, as well as the organizations that conduct business there (Neumark, 2019).

Reduction in Poverty

By paying a realistic minimum wage, poverty levels could be reduced. By providing the lowest level of workers to earn a competitive salary provides them with more spending abilities, thus reducing the level of poverty. While some argue that raising the minimum wage will only raise the level of poverty accordingly, having more disposable income should result in greater spending and lifting some individuals out of poverty (Cengiz, Dube, Lindner, & Zipperer, 2019).

Increases in Productivity and Incentives

Increasing the minimum wage will increase overall productivity, and provide an incentive for those unemployed to find employment. According to the Efficient Wage Theory, higher wages motivate employees to work harder, make fewer mistakes, and results in greater productivity and profitability for the organization. Employees who make a good salary work harder and perform better in fear of losing their job. Raising the minimum wage to a level that there is a noticeable difference between unemployment compensation and minimum wage employment will provide an incentive for those unemployed to seek employment. Raising the minimum wage will also help to encourage people to seek out legal employment as the minimum wage would be a competitive salary with a guaranteed minimum income (Cengiz, Dube, Lindner, & Zipperer, 2019).

Decrease Government Spending

An increase in minimum wage will affect government spending as more people become employed, programs such as social welfare and unemployment compensation will be reduced. Employees earning a competitive minimum salary will have the ability to provide for their needs and reduce their dependency on government aids (Neumark, 2019).

Disadvantages of Increasing the Minimum Wage

Some of the biggest disadvantages to an increase in the minimum wage are unemployment rates, inflation, and the increased cost of investment to the organization. Increasing the minimum wage organizations run the risk of no longer being able to afford to keep the employees they have at the level of employment, resulting in a reduction of the workforce or a reduction in the hours of employees resulting in the employee making less than before the minimum wage was increased. Seattle Washington is an example of the effects of increasing the minimum wages. The minimum wage was increased from the standard of $11.00 per hour to $15.00 per hour. This increase forced the organization to reduce the hours the employees worked from 40 to less than 30 on average, resulting in the employee making less than they did at the lower rate (Romich, Allard, Obara, Althauser, & Buszkiewicz, 2018). Another way organizations are overcoming the demands to raise the minimum wage is to utilize self-checkouts reducing the need for numerous employees where one employee can oversee several self-checkout lanes. Another disadvantage is the economy itself. As employees make more per hour, organizations are forced to raise retail prices, as the cost of investment increases. The economy undergoes a snowball effect where the cost to produce the product increases; thus, the cost to deliver the goods increases, paying the employees more to load/unload, stock shelves, and manage these goods also increases the costs to the consumer. Consider the Seattle Washington dilemma once again. An employee at a Mcdonald's was making $11.00 per hour, and a hamburger would cost $2.00. With an increase in the minimum wage to $15.00 per hour, the same hamburger would now cost $2.50 or more (Romich, Allard, Obara, Althauser, & Buszkiewicz, 2018).

Unemployment

With a perfectly competitive market, raising the minimum wage will cause greater unemployment. When the minimum wage rises above the market equilibrium, the supply and demand for labor are no longer balanced, resulting in greater supply than there is a demand. As this excess in supply is not required by the organizations, higher unemployment will result. By increasing the minimum wage, organizations will simply reduce the number of employees and raise the cost of goods resulting in increased unemployment. This was evident in the case of Seattle Washington with the increased minimum wage unemployment rose to its highest point ever (Neumark, 2019).

Inflation

The concept of inflation is a simple one, as there is an increase in income people spend more, resulting in the organizations raising prices to help offset the rise in the cost of production. Because people will have more money to spend, organizations will seek to maximize profits and raise prices. As a result, the workers will lose the benefits of an increased minimum wage due to the higher prices being charged by the organizations for goods and services (Neumark, 2019).

Conclusion

Raising the minimum wage has both benefits and disadvantages to the United States. The minimum wage stimulates economic growth by increased consumption. While it could improve the overall quality of life of those working un-skilled or low-skilled jobs, the benefits will be dependent on the structure of the labor market. While minimal increases to the minimum wages may not have the devastating effects of employment, a significant increase could cause severe unemployment and contribute to a decreasing economy. The best course of action to increase the minimum wage would be a gradual increase to ensure stability in both the economy and the employment rate. Creating a suitable living wage as a minimum wage could help to stimulate economic growth within the United States, as well as the overall quality of life.