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Money in Whose Pockets?

A Brief Insight on Current Minimum Wage Discussions

By Ayric Westfall
Minimum wage policies in the United States have existed on a national level since 1938. Since its introduction at the federal level, minimum wage has sparked discussion almost every year. Different opinions and viewpoints on the issue (from abolition of the wage to increasing it) have impacted businesses which has led to changes in policy on a corporate and political level. As shown in Figure 1, the minimum wage has varied immensely since its inception.

The changes over 80 years have allowed us to reevaluate the status of a set minimum wage, as shown by the fluctuation from a $4 low to an $11 high. Such changes have presented questions for businesses that employ minimum wage workers. The idea behind a minimum wage is that no matter where one may work, he or she is required to be paid at least a certain amount for every hour of labor. So, how can we as every day citizens and business leaders be better informed about minimum wage?

First, business leaders must understand the arguments for and against minimum wage.

Second, leaders must understand wage floors and how wage inequality affects businesses is critical for the business.

Lastly, by knowing about a national versus state or local minimum wage, leaders can influence a company’s position on the issue.

**Understanding the Pros and Cons**

Minimum wage is considered by some to be a key component of American industrialization, as it allows for a minimum income standardization. In reality, only about 2% of workers in the US earn exactly the minimum wage. Even within the young adult/teenage demographic group (a group commonly associated with the minimum wage), more than 80% of workers earn more than the minimum wage.
The current U.S. federal minimum wage is set at $7.25 an hour, but that amount, and the idea that businesses can be told how much or how little to pay their employees, are hot topics of debate among economists and business owners alike. The basis for this argument lies within a simplified trade-off of goods: people vs. money.

Recent polls suggest that evidence exists in favor of raising the minimum wage. Proponents for this increase in wage claim that a change “would help struggling low-income families, nudge down poverty and increase consumer demand, all with minimal loss of jobs.” Essentially, advocates suggest that through earning more money, workers in turn will have more to spend in the economy.

Contrasting research suggests that such an increase in the minimum wage “would lead employers to automate workplaces and reduce job opportunities for the lowest-skilled workers, while doing nothing to reduce poverty or help the economy.” Increasing the minimum wage increases business overhead which could potentially lead to employee layoffs. A 2014 estimate made by the Heritage Foundation (a think tank in Washington, D.C.) predicted that a raise in minimum wage to just $10.10 per hour would lead to a loss of approximately 300,000 jobs and $40 billion from the national GDP.

Additional research also suggests that increasing the minimum wage actually has a negative impact on prices. Using examples of McDonald’s and pizza companies, Emek Basker of the University of Missouri stated that “McDonald’s burger prices increase by about 0.9% for every 10% increase in . . . minimum wage. [There is] about [an] 0.8% [increase] for a 10% increase in . . . minimum wage, for the price of pizza.”

Both arguments have valid support, making the decisions around the minimum wage tough ones. Understanding how to implement an effective wage is key to finding a solution.

Wage Floor and Wage Inequality

A minimum wage can also be defined as a wage floor, meaning pay cannot be lower than the set minimum limit (the opposite of a wage ceiling or maximum wage). Wage inequality refers to uneven income distribution within a population. A set wage floor, when not adjusted in accordance with rise in cost of living or inflation, is a major source for modern social division and wage inequality.

Historically, wage/income inequality was attributed to a difference in wages between men and women. Due to varying circumstances and beliefs, the societal pretense suggested that men should constitute the majority of the workforce. As shown in Figure 2, this notion is still present, with a working woman making about $0.79 for every $1.00 that the average man makes. However, due to changing beliefs and a more equality-focused workplace, this claim is becoming less relevant in today’s society, with the source now more eco-demographically based.

In the 1990s, a gap began to form between what workers were making and a “living” wage, or what would be generally accepted as necessary to cover the basic needs of life. One example was in the city of Boston, which established a living wage of $8.23/hr. and followed with a state minimum of $5.25/hr. Just two years later this living wage was raised to $9.11/hr. while the state-imposed minimum wage was only lifted to $6.75/hr. In addition, a study determined that a family of two working adults with two children would need a minimum of $13.03/hr. just to meet basic needs.

For today’s workers, an inequality in wages occurs when those with low incomes are unable to advance enough to obtain middle-class status because of changes in inflation and cost of living. Many advocates for an increase in minimum wage claim that a higher wage will help low-income workers. However, by raising the minimum wage, border-line poverty workers can be artificially lifted to compete with the higher-income workers. Douglas Holtz-Eakin, a CQ Researcher contributor, stated, “the minimum wage is a poor tool to fight poverty because it does not target those in poverty. Only 2 percent of workers earn the minimum wage, and only 20 percent of those are in poverty.”

The reality is that minimum wage more directly affects day-to-day living for workers, and not necessarily the overall income earned. Since only 2% of the workforce earns this minimum and only 20% of those workers are considered to be in poverty, perhaps the focus needs to be on other contributors to such a circumstance.

When a control on minimum wage is coupled with other resources such as financial education and technical skills training, the underprivileged are more substantially benefitted, much like the process of a home or building renovation. Contractors do not focus on solely redoing flooring or repainting; rather, they keep in mind that the scope of the project includes all aspects of the building, such as design, coding, flooring, painting, and modernization. Just as a renovation would not be complete by only changing the wall color, workers can be seriously harmed if the only tool used to help them is a minimum wage policy change.

**Federal versus State Minimums**

The discrepancy between federal and state-mandated minimum wages also influences the way businesses and workers would react to a potential change. In 2014, 21 states had a higher state minimum wage than that of the federal government, with the state of Washington being the highest at $9.32 an hour. The possibility of turning over the final decision to raise or lower the minimum wage to the states rather than the federal government is yet another heavily debated aspect of minimum wage policy. For areas with higher standards of living such as Los Angeles and New York, a higher wage could be a potential solution to many economic problems. However, subjecting rural and less expensive areas to this high wage floor could potentially drive away small businesses that thrive in small-town settings.

Figure 3 is a visual representation of how individual states within the U.S. have implemented their own
policies respecting minimum wage. Most notable is the quantity of states and cities that have set their minimum wages according to regional demands; however, other states have equated the federal minimum wage as the state minimum.

Recently, the city of Seattle became one of the first in the nation to impose a $15 minimum wage city-wide. The city anticipates this change to be integrated gradually, with the current minimum of $13 an hour increasing periodically until it reaches $15 an hour. In a study by the University of Washington, researchers found that “wages rose about 3 percent, but the number of hours worked by those in low-wage jobs dropped about 9 percent.”\(^{11}\) A local business owner was also interviewed and stated that her restaurant “had not reduced hiring because of the higher employee costs, though it has increased some menu prices and instituted a 20 percent service fee.”\(^{12}\)

While it may be too early to tell exactly how this change in policy will affect Seattle, it certainly shows how establishing region-specific minimum wage policies could have a potential impact on workers and the economy. Currently, businesses have reacted positively to this change in Seattle, supporting a need to have such geo-targeted minimum wage policies.

**Conclusion**

Minimum wage is a polarizing subject. Various factors should be considered when discussing potential transformations in policy that would affect millions of people in the country. While this article focuses on empirical evidences, minimum wage discussions must also include human and moral evidences. Workers have lives, families, and bills to pay. Businesses also have an obligation to generate profit for shareholders or owners. However, workers are not paid simply because they

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have a job and companies do not exist simply to make money. The relationship is symbiotic; workers need businesses to survive and businesses need workers to make a profit.

Until an equilibrium can be reached, the debate continues on both sides. However, the answer is not found in promoting the interests of a business over a worker’s, or vice versa. Ultimately, the end decision is not to please one while damaging the other. Mutual benefits for all that are involved are key to achieving an understanding of how minimum wage policies should be treated.

Notes
4 Mantel, “Minimum Wage,” 75.
5 Mantel, “Minimum Wage,” 75.
9 Mantel, “Minimum Wage,” 89.
10 Mantel, “Minimum Wage,” 75.
12 Schreiber, “Rising”

“The relationship is symbiotic; workers need businesses to survive and businesses need workers to make a profit.”