

Raising the Minimum Wage Increases Employment

Byron A. Ellis – March 4, 2021



The US Bureau of Labor Statistics (BLS)ⁱ in 2014 reported that 77.2 million workers, age 16 and older in the United States (US), were paid at hourly rates; about 1.3 million workers were paid at the federal minimum of \$7.25 per hour and about 1.7 million below the federal minimum. Therefore, about 3.9 percent of hourly workers earned at or below the federal minimum wage in 2014; more women than men earning at or below the minimum.

Five years later, in 2019, 82.3 million workers, age 16 and older were paid hourly rates, and the federal minimum wage remained at \$7.25 per hour, but the number of workers earning the minimum federal rate fell to 392,000 workers, and workers earning wages below the federal minimum also fell to 1.2 million. So, about 1.9 percent of US hourly workers earned wages at or below the federal minimum in 2019 as reported by the U.S. Bureau of Labor Statistics (BLS).ⁱⁱ

The minimum wage is a controversial subject among the public, policymakers, and economists in the US and it was once declared unconstitutional by the Supreme Court.ⁱⁱⁱ The minimum wage is a wage floor, the lowest legal wage per hour that can be paid for labor in the US with some exceptions. The minimum wage for tipped workers is \$2.13 per hour.^{iv} The minimum wage stems from the normative view that full-time employees should be able to afford a basic standard of living. It helps the unskilled and minorities.^v

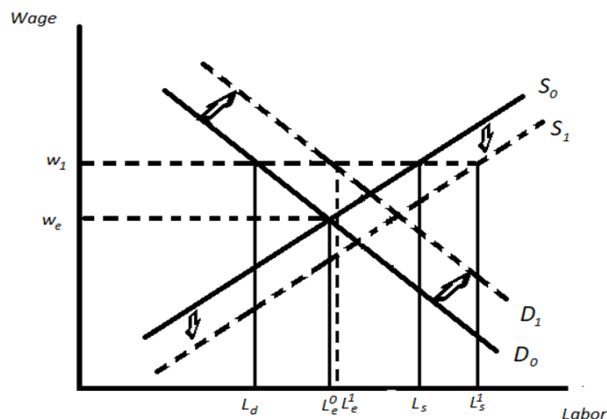
The Fair Labor Standards Act (FLSA) contains the federal minimum wage provisions. It establishes minimum wage, overtime pay, recordkeeping, and youth employment standards affecting employees in the private sector and in Federal, State, and local governments. Covered nonexempt workers are entitled to a federal minimum wage of not less than \$7.25 per hour effective July 24, 2009.^{vi} Thus, the \$7.25 an hour minimum wage has been in place for almost 11 years; some states and businesses pay higher minimums. Costco's minimum is \$16.00 per hour.

The higher minimum by states and businesses appears to reduce the number of workers earning the federal minimum wage of \$7.25. It gives low-wage workers alternatives to evade the meager federal minimum wage. Paycor^{vii} and Glassdoor provide a listing of states and businesses paying higher minimum wages.

Some conservative economists and politicians use the neoclassical theory to argue that if the minimum wage exceeds market-clearing prices, where the demand and supply of minimum wage labor are equal, businesses will reduce the number of minimum wage employees. However, if a business requires two minimum wage employees to accomplish an 8-hour shift, labor reduction would reduce profits, except if the business is overstaffed or mechanization is cost-effective.

Increasing the minimum wage of 1.7 million low-wage workers to \$15.00 per hour would increase US gross domestic product (GDP) by approximately \$27.4 billion per year $\{=2080 \text{ Hrs./Yr.} \times (\$15.00 - \$7.25) \times 1,700,000\}$.

The controversy with the minimum wage is puzzling, since other hourly workers, such as plumbers, pipefitters, and steamfitters often have locational/regional hourly wage rates (minimums) and when their wages rise the public, politicians and economists do not argue that employers will reduce their employment. It might be that these occupations have fewer minority workers.



The neoclassical analysis for minimum wage is static, it does not incorporate any dynamic shifts in the demand or supply curves due to the additional purchasing power from increased wages of the 1.7 billion minimum wage earners.

The static analysis predicts a disemployment effect from the wage floor at W_1 , where labor demand, L_d , is less than L_e^0 , at the original low wage, W_e .

A dynamic analysis predicts an outward shift of the demand curve from D_0 to D_1 due to minimum wage earners using their additional earnings of \$27.4 billion to purchase more goods and services and establishing a new quantity of labor at L_e^1 .

Additionally, because of the higher minimum wage, more low-wage workers will enter the market, shifting the supply curve downwards, from S_0 to S_1 ; leading to a new minimum wage labor surplus, of $L_s^1 - L_e^1$.

Thus, an increase in the minimum wage is unlikely to cause significant short-term unemployment and in the long term, it will increase minimum wage employment, as well as the supply of minimum wage workers. Additionally, if states and businesses keep raising their minimum wage, the federal rate will become irrelevant.

It is telling when politicians use false narratives to disadvantage their poorest constituents by denying them an increase in the federal minimum wage. Thus, constituents should use their votes to prevent such politicians from holding government offices.

ⁱ [US Bureau of Labor Statistics.](#)

ⁱⁱ [US Bureau of Labor Statistics.](#)

ⁱⁱⁱ D. Neumark W. Wascher (2006), Minimum Wage and Employment: A Review of Evidence from the Minimum Wage Review.

^{iv} USA Facts, Minimum wage in America: How many people are earning \$7.25 an hour?

^v A. Alchian and W.R. Allen (1977), Exchange and Production: Competition, Coordination and Control.

vi [U.S. Dept. of Labor.](#)

vii [Paycor.](#)

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