

## Raising Minimum Wage

Since the introduction of minimum wage, there has always been the question of whether it is enough to live on. Minimum Wage has been raised several times since its inception to try to keep up with rising costs associated with just day to day living. With no federal increase in 10 years, many are left wondering if that time is now. Support is growing for a \$15/hr minimum wage but are those people being too short sighted? Is it possible that raising the minimum wage this high could have some ill effects on the economy? There are plenty of other questions that will be answered here as well but let us first look at how the economy has reacted to past increases to get an idea of how this increase could affect our daily lives.

For most, if not all businesses, labor is one of the largest costs that weighs on their bottom line. Increases to this expense means that there will need to either need to be a directly proportionate increase in sales or increases in the prices of their goods and services, or maybe even both. If the boost in revenue does not occur, then you will see an increase in prices. This can often lead to a drop in sales forcing management to either reduce hours or layoff employees altogether. Many companies are already electing to have automated services, replacing employees to fix costs. McDonalds, Home Depot, Target, Meijer are just a small handful of companies that are reducing their labor costs by using self-checkouts. At many of these stores 1 cashier can oversee 10-12 check out lanes versus 1 using a traditional system.

You can go into McDonalds and the only person you may interact with is the one handing you your order. The Meijer I shop at catches a lot of flak over only having 2-3 check lanes open at a time but, they have about 20 self-checkout lanes open at any given time. This is a huge advantage over traditional methods as the business becomes less reliant on employees. This allows them to schedule 6 people per shift as opposed to the 15-20 they would have needed otherwise. Computers do have their drawbacks as they do crash periodically. However, when everything is running full speed, they can outperform cashiers and when you only need 2-3 people instead of 15, you can drastically lower your overhead costs.

Nobody in their heart of hearts, honestly believes that some people deserve to be poor. With that in mind if we keep pushing for larger and larger wages. Companies will find ways to reduce or eliminate the need for the position. It is not speculation; it is happening right now at 7.25/hr. wait and see how motivated these businesses become at \$15/hr. This problem is also not limited to people making minimum wage but all people that are currently below \$15/hr wages. Most of them might end up fine and may see an uptick in their salaries which is great. However, what do we do with the thousands who were not so lucky? If one grocery store can eliminate 20-30 jobs, how many can several chains eliminate through automation?

Revisiting the idea of raising costs of goods and/or services brings up some interesting points. Imagine you are currently making \$11/hr full-time. After taxes and other deductions, this could be somewhere around \$343 a week in your paycheck. You have managed to keep your expenses below your income and have even managed to save a little money. At 22 years old, you are

doing the best you can. This minimum wage law rolls in and you are now entitled to \$15/hr (\$468 a week after taxes). This is surely good news. For the first few months, you are buying the nicer TP, getting the big bag of Doritos, maybe going out to eat occasionally, it is great. But something is happening during this time. Companies are adjusting their bottom lines and it will show its face sooner rather than later. You have an extra \$145 a week to play with but how long will that \$145 last when prices are going up accordingly? But what about the people whose hours are reduced or even eliminated? While you make an extra \$145 a week, several of your coworkers were laid off.

If you have a company that was not paying minimum wage maybe \$12-13 but now with the \$15 minimum, they have a huge decision. Do they raise prices or begin lay-offs? With the smaller workforce, they may see lower outputs and with an increased demand, prices may raise again to help balance out the supply and demand of the product. Sure, you yourself are making more money, but the cost of living is going to move right along with it. It is not simply your income, but your Purchasing Power.

The Congressional Budget Office released a report in July 2019 showing that the wage increase would affect 27 million jobs. This includes 1.3 million people being lifted out of poverty while they estimate another 1.3-3.7 million will become unemployed due to such a drastic increase in minimum wage. The remainder would see a negligible effect due to their hours being cut proportionately to their increased hourly wages. House Democrats countered by saying small gradual increases tend to stimulate the economy long term. I do not think a 107% increase at one crack is a small or gradual increase.

A 2017 study by economists David Neumark and Grace Lordan has found that increases in minimum wage leads to increased rates of automation leading to higher unemployment rates amongst those workers. People who are new to the workforce or at least the youngest members of the workforce feel this effect at a much higher rate than other groups which should come as no surprise; according to the Bureau of Labor Statistics, nearly half of minimum wage workers are between the ages of 16 and 24. (<https://www.nber.org/papers/w23667>)

Pushing young people out of the workforce has multiple effects. One obvious one being the loss of their paychecks. But it can also stunt their future earnings as well. A study by University of Virginia and Middle Tennessee State University economists found that teenagers who held part-time jobs in school had annual earnings that were 20 percent higher than their counterparts without experience six to nine years after graduation.

These entry level jobs such as flipping burgers or taking customers' orders teach teens valuable jobs skills such as customer service and applying basic math skills. Skills that could ultimately lead to the career steppingstones for a working teenager to become an engineer or accountant.

Surprising still is how many Democrat voters are supporting many Socialist practices like Universal Basic Income but would still push for a system to permanently destroy 3.7 Million jobs

just to temporarily raise 1.3 Million out of poverty. They say they are in favor a system to redistribute wealth, but this sounds like the opposite of that. How long will it be before they say \$15 is not enough, we need \$25 and this cycle gets bigger and affects more and more people.

Many people only think of the hourly wage as part of labor costs. There is also. insurance, PTO, training, turnover. According to the BLS, it can take 6-9 months for a new employee to become proficient at their new job. This adds thousands of dollars to the budget as new employees learn the ropes. And what if they do not stay? All the money was wasted, and the company will have to start all over. This too can cause prices to skyrocket.

It is not just businesses; employees are looking for shortcuts too. In Seattle, many employers are having to hire additional staff as pre-existing staff refuse to work more than 18-20 hours. They cite the fact that they make as much if not more from 20 hours at \$15 than the did at 28 hours at \$10 so they do not see the need to work more. So, while the minimum wage increase is making the lives of the individual better, it is creating issues for the businesses that employ them. Can they afford paying people more to do less and hire more people to do the work that the other workers used to do? Many businesses in Seattle have already closed in response to the new wage laws or intend to do so by the end of next year. They simply cannot afford it.

As with many other things, this minimum wage debacle goes in cycles. Immediately after the wage increase, you see a large group of people suddenly gain a marginal increase in their purchasing power. They start spending more money as a group. This increases demand of those goods and services. Since the companies may not be able to catch up with demand overnight, prices of these goods/services will go up since they are considered premium. But with this rise of sales comes the increased labor costs. This labor cost can easily outpace sales and can force further price increases and even the eventual reduction of the workforce. This means that the increased purchasing power of the group is only temporary while it slowly chips away at the purchasing power of other higher income groups.

Right now, \$20/hr seems to be a threshold for a single person having the ability to live comfortably. This of course changes by region and can vary greatly. It is nearly 3x the Federal minimum wage and the people in this \$18-24/hr group are starting to do well for themselves and are beginning to build wealth. If we move the minimum wage to \$15, we will eventually raise the cost of living so much that \$20 will be equivalent to what \$10 was when minimum wage was \$7.25. This means that every time minimum wage increases, everyone's wages need to increase to stay proportionate to the rate of the rise of the cost of living.

There are some new questions arising out of the Minimum Wage hikes that are also getting to be quite concerning. What about people who make more than minimum wage? Doesn't it devalue their work since the minimum is now \$15? What if I make \$18/hr now? Shouldn't I get a \$7.75/hr raise too? Could this move discourage people from looking for better jobs since they can get by doing the bare minimum? Why would someone go to school and work super demanding jobs when they can go sell shoes at Wal-Mart for \$15? I myself have worked some

low paying jobs. Most of them are simply not \$15/hr jobs. They do not do enough work in a day to justify that kind of pay. If businesses must pay \$15, they will either roll the responsibilities into other roles and eliminate the position or they will find a way to make it so 1 or 2 people can do the work of 6.

I understand the current minimum wage is not enough but raising to \$15 is only a temporary fix. It will be like putting a band-aid on a gunshot wound. What I would like to see is a system where the Federal Corporate tax rate is 35-40% and these businesses are offered incentives to raise the pay of the employees in exchange for tax breaks. We would need to have some sort of oversight to make sure that they are not giving the raises to the upper tier employees but to their lowest earning employees. The increased wages should be taxed enough to make up for the losses occurred through the corporate tax breaks. This will also help keep companies from needing to increase prices and lay-off staff to cover the increased labor costs since the money will be coming from their taxes instead of their revenue stream.