

Minimum wage

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A **minimum wage** is the lowest hourly, daily or monthly remuneration that employers may legally pay to workers. Equivalently, it is the lowest wage at which workers may sell their labour. Although minimum wage laws are in effect in many jurisdictions, differences of opinion exist about the benefits and drawbacks of a minimum wage.

Supporters of the minimum wage say it increases the standard of living of workers, reduces poverty, reduces inequality, boosts morale and forces businesses to be more efficient.^[1] In contrast, opponents of the minimum wage say it increases poverty, increases unemployment (particularly among low productivity workers) and is damaging to businesses.^{[2][3][4]}

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History

Main article: History of the minimum wage

Statutory minimum wage regulation was first introduced in New Zealand in 1894 and the Australian colony of Victoria in 1896.^[5] Some attempt to control wages had been present since trade unions were progressively

decriminalised during the nineteenth century, through collective agreement. However, this meant that a uniform minimum wage was not possible. In *Principles of Political Economy* in 1848, John Stuart Mill argued that because of the collective action problems that workers faced in organisation, it was a justified departure from *laissez faire* policies (or freedom of contract) to regulate people's wages and hours by law. However, it was not until the turn of the twentieth century that the first attempts to do this were seen.

The movement for a minimum wage was initially targeted at stopping sweatshop labour.

- Trade Boards Act 1909
- Sidney Webb and Beatrice Webb, *Industrial Democracy* (1890)

Minimum wage law

Main article: Minimum wage law

First enacted in New Zealand in 1894,^[7] there is now legislation or binding collective bargaining regarding minimum wage in more than 90% of all countries.^[8] Minimum wage rates vary greatly across many different jurisdictions, not only in setting a particular amount of money (e.g. US\$9.25 per hour under certain states' law (or \$2.13 for employees who receive tips, known as the tipped minimum wage), \$9.19 in the U.S. state of Washington (and scheduled to rise to \$9.32 in 2014),^{[9][10]} and £6.31 (for those aged 21+) in the United Kingdom^[11]), but also in terms of which pay period (e.g. Russia and China set monthly minimums) or the scope of coverage. Some jurisdictions allow employers to count tips given to their workers as credit towards the minimum wage level. India is one of the first developing countries to introduce minimum wage policy. It is also one of the most complicated systems with more than 1200 minimum wage rates.^[12]

Informal minimum wages

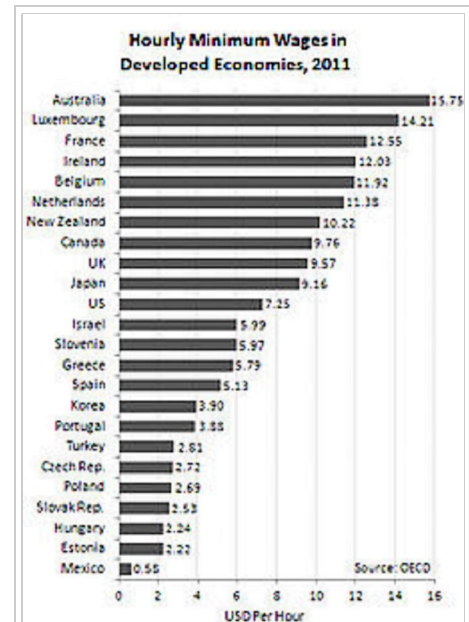
Sometimes a minimum wage exists without a law. Custom and extra-legal pressures from governments or labour unions can produce a *de facto* minimum wage. So can international public opinion, by pressuring multinational companies to pay Third World workers wages usually found in more industrialised countries. The latter situation in Southeast Asia and Latin America was publicised in the 2000s, but it existed with companies in West Africa in the middle of the twentieth century.^[13] Blanket minimum wage levels for all industries could also be set as a fixed percentage of the GDP per capita or the income tax threshold of the nation.^[citation needed]

Setting minimum wage

Among the indicators that might be used to establish an initial minimum wage rate are ones that minimize the



A sweatshop in Chicago, Illinois in 1903



Hourly minimum wages in select developed economies in 2011. Wages are given in US\$ exchange rates.^[6]

loss of jobs while preserving international competitiveness.^[14] Among these are general economic conditions as measured by real and nominal gross domestic product; inflation; labor supply and demand; wage levels, distribution and differentials; employment terms; productivity growth; labor costs; business operating costs; the number and trend of bankruptcies; economic freedom rankings; standards of living and the prevailing average wage rate.

In the business sector, concerns include the expected increased cost of doing business, threats to profitability, rising levels of unemployment (and subsequent higher government expenditure on welfare benefits raising tax rates), and the possible knock-on effects to the wages of more experienced workers who might already be earning the new statutory minimum wage, or slightly more.^[15]

Among workers and their representatives, political consideration weigh in as labor leaders seek to win support by demanding the highest possible rate.^[16] Other concerns include purchasing power, inflation indexing and standardized working hours.

In the United States, the minimum wage promulgated by the Fair Labor Standards Act of 1938 was intentionally set at a high, national level to render low-technology, low-wage factories in the South obsolete.^[17]

According to the Economic Policy Institute, the minimum wage in the United States would have been \$18.28 in 2013 if the minimum wage kept pace with labor productivity.^[18] To adjust for increased rates of worker productivity in the United States, raising the minimum wage to \$22 (or more) an hour has been presented.^{[19][20][21][22]}

Neoclassical economics model

Supply and demand

Main article: Supply and demand

An analysis of supply and demand of the type shown in introductory mainstream economics textbooks implies that by mandating a price floor above the equilibrium wage, minimum wage laws should cause unemployment.^{[23][24]} This is because a greater number of people are willing to work at the higher wage while a smaller numbers of jobs will be available at the higher wage. Companies can be more selective in those whom they employ thus the least skilled and least experienced will typically be excluded. An imposition or increase of a minimum wage will generally only affect employment in the low-skill labor market, as the equilibrium wage is already at or below the minimum wage, whereas in higher skill labor markets the equilibrium wage is too high for a change in minimum wage to affect employment.^[25]

According to the model shown in nearly all introductory textbooks on economics, increasing the minimum wage decreases the employment of minimum-wage workers.^[26] One such textbook says:

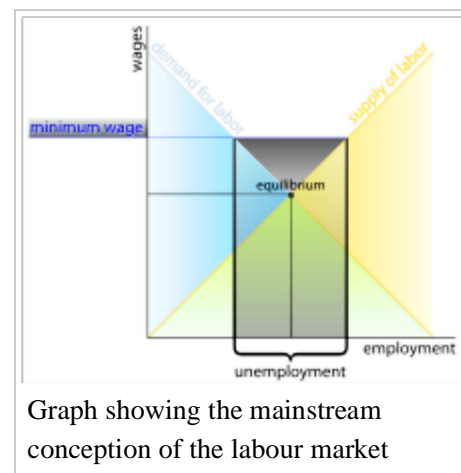
If a higher minimum wage increases the wage rates of unskilled workers above the level that would be established by market forces, the quantity of unskilled workers employed will fall. The minimum wage will price the services of the least productive (and therefore lowest-wage) workers out of the market. í The direct results of minimum wage legislation are clearly mixed. Some workers, most likely those whose previous wages were closest to the minimum, will enjoy higher wages. This is known as the "ripple effect". The ripple effect shows that when you increase the minimum wage the wages of all others will consequently increase due the need for relativity.^[27]

Others, particularly those with the lowest prelegislation wage rates, will be unable to find work. They will be pushed into the ranks of the unemployed or out of the labor force. Some argue that by increasing the federal minimum wage, however, the economy will be adversely affected due to small businesses not being able to keep up with the need to subsequently increase all workers wages.^{[28][29]}

It illustrates the point with a supply and demand diagram similar to the one below.

It is assumed that workers are willing to labor for more hours if paid a higher wage. Economists graph this relationship with the wage on the vertical axis and the quantity (hours) of labor supplied on the horizontal axis. Since higher wages increase the quantity supplied, the supply of labor curve is upward sloping, and is shown as a line moving up and to the right.^[30]

A firm's cost is a function of the wage rate. It is assumed that the higher the wage, the fewer hours an employer will demand of an employee. This is because, as the wage rate rises, it becomes more expensive for firms to hire workers and so firms hire fewer workers (or hire them for fewer hours). The demand of labor curve is therefore shown as a line moving down and to the right.^[30]



Combining the demand and supply curves for labor allows us to examine the effect of the minimum wage. We will start by assuming that the supply and demand curves for labor will not change as a result of raising the minimum wage. This assumption has been questioned.^[31] If no minimum wage is in place, workers and employers will continue to adjust the quantity of labor supplied according to price until the quantity of labor demanded is equal to the quantity of labor supplied, reaching equilibrium price, where the supply and demand curves intersect. Minimum wage behaves as a classical price floor on labor. Standard theory says that, if set above the equilibrium price, more labor will be willing to be provided by workers than will be demanded by employers, creating a surplus of labor, *i.e.*, unemployment.^[30]

In other words, the simplest and most basic economics says this about commodities like labor (and wheat, for example): Artificially raising the price of the commodity tends to cause the supply of it to increase and the demand for it to lessen. The result is a surplus of the commodity. When there is a wheat surplus, the government buys it. Since the government doesn't hire surplus labor, the labor surplus takes the form of unemployment, which tends to be higher with minimum wage laws than without them.^[13]

So the basic theory says that raising the minimum wage helps workers whose wages are raised, and hurts people who are not hired (or lose their jobs) because companies cut back on employment. But proponents of the minimum wage hold that the situation is much more complicated than the basic theory can account for.

One complicating factor is possible monopsony in the labor market, whereby the individual employer has some market power in determining wages paid. Thus it is at least theoretically possible that the minimum wage may boost employment. Though single employer market power is unlikely to exist in most labor markets in the sense of the traditional 'company town,' asymmetric information, imperfect mobility, and the 'personal' element of the labor transaction give some degree of wage-setting power to most firms.^[32]

Criticism of the neoclassical model

The argument that minimum wages decrease employment is based on a simple supply and demand model of the labor market. A number of economists (for example Pierangelo Garegnani,^[33] Robert L. Vienneau,^[34] and Arrigo Opocher & Ian Steedman^[35]), building on the work of Piero Sraffa, argue that that model, even given all its assumptions, is logically incoherent. Michael Anyadike-Danes and Wyne Godley^[36] argue, based on simulation results, that little of the empirical work done with the textbook model constitutes a potentially falsifying test, and, consequently, empirical evidence hardly exists for that model. Graham White^[37] argues, partially on the basis of Sraffianism, that the policy of increased labor market flexibility, including the reduction of minimum wages, does not have an "intellectually coherent" argument in economic theory.

Gary Fields, Professor of Labor Economics and Economics at Cornell University, argues that the standard "textbook model" for the minimum wage is "ambiguous", and that the standard theoretical arguments incorrectly measure only a one-sector market. Fields says a two-sector market, where "the self-employed, service workers, and farm workers are typically excluded from minimum-wage coverage... [and with] one sector with minimum-wage coverage and the other without it [and possible mobility between the two]," is the basis for better analysis. Through this model, Fields shows the typical theoretical argument to be ambiguous and says "the predictions derived from the textbook model definitely do not carry over to the two-sector case. Therefore, since a non-covered sector exists nearly everywhere, the predictions of the textbook model simply cannot be relied on."^[38]

An alternate view of the labor market has low-wage labor markets characterized as monopsonistic competition wherein buyers (employers) have significantly more market power than do sellers (workers). This monopsony could be a result of intentional collusion between employers, or naturalistic factors such as segmented markets, search costs, information costs, imperfect mobility and the 'personal' element of labor markets.^[1] In such a case the diagram above would not yield the quantity of labor clearing and the wage rate. This is because while the upward sloping aggregate labor supply would remain unchanged, instead of using the downward labor demand curve shown in the diagram above, monopsonistic employers would use a steeper downward sloping curve corresponding to marginal expenditures to yield the intersection with the supply curve resulting in a wage rate lower than would be the case under competition. Also, the amount of labor sold would also be lower than the competitive optimal allocation.

Such a case is a type of market failure and results in workers being paid less than their marginal value. Under the monopsonistic assumption, an appropriately set minimum wage could increase both wages and employment, with the optimal level being equal to the marginal product of labour.^[39] This view emphasizes the role of minimum wages as a market regulation policy akin to antitrust policies, as opposed to an illusory "free lunch" for low-wage workers.

Another reason minimum wage may not affect employment in certain industries is that the demand for the product the employees produce is highly inelastic.^[40] For example, if management is forced to increase wages, management can pass on the increase in wage to consumers in the form of higher prices. Since demand for the product is highly inelastic, consumers continue to buy the product at the higher price and so the manager is not forced to lay off workers. Economist Paul Krugman argues this explanation neglects to explain why the firm was not charging this higher price absent the minimum wage.^[41]

Three other possible reasons minimum wages do not affect employment were suggested by Alan Blinder: higher wages may reduce turnover, and hence training costs; raising the minimum wage may "render moot" the potential problem of recruiting workers at a higher wage than current workers; and minimum wage workers might represent such a small proportion of a business's cost that the increase is too small to matter. He admits that he does not know if these are correct, but argues that "the list demonstrates that one can accept the new empirical findings and still be a card-carrying economist."^[42]

Empirical studies

Economists disagree as to the measurable impact of minimum wages in the 'real world'. This disagreement usually takes the form of competing empirical tests of the elasticities of demand and supply in labor markets and the degree to which markets differ from the efficiency that models of perfect competition predict.

Economists have done empirical studies on numerous aspects of the minimum wage, prominently including:^[44]

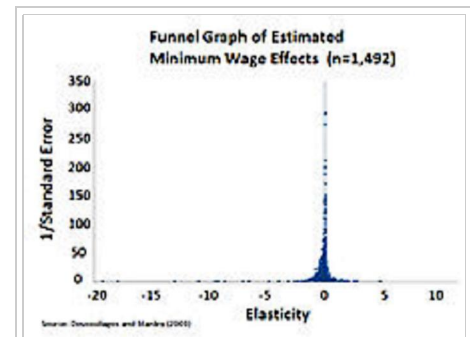
- Employment effects, the most frequently studied aspect
- Effects on the distribution of wages and earnings among low-paid and higher-paid *workers*
- Effects on the distribution of incomes among low-income and higher-income *families*
- Effects on the skills of workers through job training and the deferring of work to acquire education
- Effects on prices and profits
- Effects on on-the-job training

Until the mid-1990s, a strong consensus existed among economists, both conservative and liberal, that the minimum wage reduced employment, especially among younger and low-skill workers.^[26] In addition to the basic supply-demand intuition, there were a number of empirical studies that supported this view. For example, Gramlich (1976) found that many of the benefits went to higher income families, and in particular that teenagers were made worse off by the unemployment associated with the minimum wage.^[45]

Brown et al. (1983) note that time series studies to that point had found that for a 10 percent increase in the minimum wage, there was a decrease in teenage employment of 16.3 percent. However, for the effect on the teenage unemployment rate, the studies exhibited wider variation in their estimates, from zero to over 3 percent. In contrast to the simple supply/demand figure above, it was commonly found that teenagers withdrew from the labor force in response to the minimum wage, which produced the possibility of equal reductions in the supply as well as the demand for labor at a higher minimum wage and hence no impact on the unemployment rate. Using a variety of specifications of the employment and unemployment equations (using ordinary least squares vs. generalized least squares regression procedures, and linear vs. logarithmic specifications), they found that a 10 percent increase in the minimum wage caused a 1 percent decrease in teenage employment, and no change in the teenage unemployment rate. The study also found a small, but statistically significant, increase in unemployment for adults aged 20-24.^[46]

Wellington (1991) updated Brown et al.'s research with data through 1986 to provide new estimates encompassing a period when the real (i.e., inflation-adjusted) value of the minimum wage was declining, because it had not increased since 1981. She found that a 10% increase in the minimum wage decreased the absolute teenage employment by 0.6%, with no effect on the teen or young adult unemployment rates.^[47]

Some research suggests that the unemployment effects of small minimum wage increases are dominated by other factors.^[48] In Florida, where voters approved an increase in 2004, a follow-up comprehensive study confirms a strong economy with increased employment above previous years in Florida and better than in the



Estimated minimum wage effects on employment from a meta-study of 64 other studies showed insignificant employment effect (both practically and statistically) from minimum-wage raises. The most precise estimates were heavily clustered at or near zero employment effects (elasticity = 0).^[43]

U.S. as a whole.^[49]

When it comes to on-the-job training, some believe the increase in wages is taken out of training expenses. A 2001 empirical study found that there is "no evidence that minimum wages reduce training, and little evidence that they tend to increase training."^[50]

Some empirical studies have tried to ascertain the benefits of a minimum wage beyond employment effects. In an analysis of Census data, Dr. Joseph J. Sabia and Dr. Robert P. Nielson found no statistically significant evidence that minimum wage increases helped reduce financial, housing, health, or food insecurity.^[51] This study was undertaken by the Employment Policy Institute, a think tank funded by the food, beverage and hospitality industries.^[52] In 2012, Michael Reich published an economic analysis that suggested that a proposed minimum wage hike in San Diego might stimulate the city's economy by about \$190 million.^[53]

The Economist wrote in December 2013: "A minimum wage, providing it is not set too high, could thus boost pay with no ill effects on jobs....America's federal minimum wage, at 38% of median income, is one of the rich world's lowest. Some studies find no harm to employment from federal or state minimum wages, others see a small one, but none finds any serious damage."^[54]

Card and Krueger

In 1992, the minimum wage in New Jersey increased from \$4.25 to \$5.05 per hour (an 18.8% increase) while the adjacent state of Pennsylvania remained at \$4.25. David Card and Alan Krueger gathered information on fast food restaurants in New Jersey and eastern Pennsylvania in an attempt to see what effect this increase had on employment within New Jersey. Basic economic theory would have implied that relative employment should have decreased in New Jersey. Card and Krueger surveyed employers before the April 1992 New Jersey increase, and again in November/December 1992, asking managers for data on the full-time equivalent staff level of their restaurants both times.^[55] Based on data from the employers' responses, the authors concluded that the increase in the minimum wage increased employment in the New Jersey restaurants.^[55]

One possible explanation for why the current minimum wage laws may not affect unemployment in the United States is that the minimum wage is set close to the equilibrium point for low and unskilled workers. Thus, according to this explanation, in the absence of the minimum wage law unskilled workers would be paid approximately the same amount and an increase above this equilibrium point could likely bring about increased unemployment for the low and unskilled workers.^[30]

Card and Krueger expanded on this initial article in their 1995 book *Myth and Measurement: The New Economics of the Minimum Wage*.^[56] They argued that the negative employment effects of minimum wage laws are minimal if not non-existent. For example, they look at the 1992 increase in New Jersey's minimum wage, the 1988 rise in California's minimum wage, and the 1990/91 increases in the federal minimum wage. In addition to their own findings, they reanalyzed earlier studies with updated data, generally finding that the older results of a negative employment effect did not hold up in the larger datasets.^[citation needed]

Research subsequent to Card and Krueger's work

In subsequent research, David Neumark and William Wascher attempted to verify Card and Krueger's results by using administrative payroll records from a sample of large fast food restaurant chains in order to verify employment. They found that the minimum wage increases were followed by decreases in employment. On the other hand, an assessment of data collected and analyzed by Neumark and Wascher did not initially contradict

the Card/Krueger results,^[57] but in a later edited version they found a four percent decrease in employment, and reported that "the estimated disemployment effects in the payroll data are often statistically significant at the 5- or 10- percent level although there are some estimators and subsamples that yield insignificant although almost always negative" employment effects.^{[58][59]} A 2000 paper has reconciled the difference between Card and Krueger's survey data and Neumark and Wascher's payroll-based data. The paper shows that both datasets evidence conditional employment effects that are positive for small restaurants, but are negative for large fast-food restaurants.^[60]

In 1996 and 1997, the federal minimum wage was increased from \$4.25 to \$5.15, thereby increasing the minimum wage by \$0.90 in PA but by just \$0.10 in NJ; this allowed for an examination of the effects of minimum wage increases in the same area, subsequent to the 1992 change studied by Card and Krueger. A study by Hoffman and Trace found the result anticipated by traditional theory: a detrimental effect on employment.^[61]

Further application of the methodology used by Card and Krueger by other researchers yielded results similar to their original findings, across additional data sets.^[62] A 2010 study by three economists (Arindrajit Dube of the University of Massachusetts Amherst, T. William Lester of the University of North Carolina at Chapel Hill, and Michael Reich of the University of California, Berkeley), compared adjacent counties in different states where the minimum wage had been raised in one of the states. They analyzed employment trends for several categories of low-wage workers from 1990 to 2006 and found that increases in minimum wages had no negative effects on low-wage employment and successfully increased the income of workers in food services and retail employment, as well as the narrower category of workers in restaurants.^{[62][63]}

However, a 2011 study by Baskaya and Rubinstein of Brown University found that at the federal level, "a rise in minimum wage have [*sic*] an instantaneous impact on wage rates and a corresponding negative impact on employment", stating, "Minimum wage increases boost teenage wage rates and reduce teenage employment."^[64] Another 2011 study by Sen, Rybczynski, and Van De Waal found that "a 10% increase in the minimum wage is significantly correlated with a 3%-5% drop in teen employment."^[65] A 2012 study by Sabia, Hansen, and Burkhauser found that "minimum wage increases can have substantial adverse labor demand effects for low-skilled individuals", with the largest effects on those aged 16 to 24.^[66] A 2013 study by Meer and West concluded that "the minimum wage reduces net job growth, primarily through its effect on job creation by expanding establishments ... most pronounced for younger workers and in industries with a higher proportion of low-wage workers."^{[67][68]} A 2013 study by Suzana Lapor-ek of the University of Primorska, on youth unemployment in Europe, reached a similar conclusion, finding "a negative, statistically significant impact of minimum wage on youth employment."^[69] A 2013 study by labor economists Tony Fang and Carl Lin which studied minimum wages and employment in China, found that "minimum wage changes have significant adverse effects on employment in the Eastern and Central regions of China, and result in disemployment for females, young adults, and low-skilled workers".^[70]

Statistical meta-analyses

Several researchers have conducted statistical meta-analyses of the employment effects of the minimum wage. In 1995, Card and Krueger analyzed 14 earlier time-series studies on minimum wages and concluded that there was clear evidence of publication bias (in favor of studies that found a statistically significant negative employment effect). They point out that later studies, which had more data and lower standard errors, did not show the expected increase in t-statistic (almost all the studies had a t-statistic of about two, just above the level of statistical significance at the .05 level).^[71] Though a serious methodological indictment, opponents of the minimum wage largely ignored this issue; as Thomas C. Leonard noted, "The silence is fairly deafening."^[72]

In 2005, T.D. Stanley showed that Card and Krueger's results could signify either publication bias or the absence of a minimum wage effect. However, using a different methodology, Stanley concludes that there is evidence of publication bias, and that correction of this bias shows no relationship between the minimum wage and unemployment.^[73] In 2008, Hristos Doucouliagos and T.D. Stanley conducted a similar meta-analysis of 64 U.S. studies on dis-employment effects and concluded that Card and Krueger's initial claim of publication bias is still correct. Moreover, they concluded, "Once this publication selection is corrected, little or no evidence of a negative association between minimum wages and employment remains."^[74]

Consistent with the results from Doucouliagos and Stanley, and Card and Krueger, Baskaya and Rubinstein's 2011 study, which analyzed 24 papers on the minimum wage, found "mild positive, yet statistically insignificant association between the change in the employment of teenagers" at state minimum wage levels. However, when minimum wage is set at the federal level, they found "notable wage impacts and large corresponding disemployment effects".^[64]

Debate over consequences

Minimum wage laws have usually been judged against the criterion of reducing poverty.^[75]

Minimum wage laws affect workers in most low-paid fields of employment.^[44]

Minimum wages receive less support from economists than from the general public. Despite decades of experience and economic research, debates about the costs and benefits of minimum wages continue today.^[44]

Various groups have great ideological, political, financial, and emotional investments in issues surrounding minimum wage laws. For example, agencies that administer the laws have a vested interest in showing that "their" laws do not create unemployment, as do labour unions, whose members' jobs are protected by minimum wage laws. On the other side of the issue, low-wage employers such as restaurants finance the Employment Policies Institute, which has released numerous studies opposing the minimum wage.^{[76][77]} The presence of these powerful groups and factors means that the debate on the issue is not always based on dispassionate analysis. Additionally, it is extraordinarily difficult to separate the effects of minimum wage from all the other variables that affect employment.^[13]

The following table summarizes the arguments made by those for and against minimum wage laws:

Arguments in favour of minimum wage laws

Supporters of the minimum wage claim it has these effects:

- Increases the standard of living for the poorest and most vulnerable class in society and raises average.^[78]
- Motivates and encourages employees to work harder^[79]
- Stimulates consumption, by putting more money in the hands of low-income people who spend their entire paychecks. Hence

Arguments against minimum wage laws

Opponents of the minimum wage claim it has these effects:

- As a labor market analogue of political-economic protectionism, it excludes low cost competitors from labor markets and hampers firms in reducing wage costs during trade downturns. This generates various industrial-economic inefficiencies.^[86]
- Hurts small business more than large business.^[87]

- increases circulation of money through the economy.^[78]
- Increases the work ethic of those who earn very little, as employers demand more return from the higher cost of hiring these employees.^[78]
- Decreases the cost of government social welfare programs by increasing incomes for the lowest-paid.^[78]
- Encourages people to join the workforce rather than pursuing money through illegal means, e.g., selling illegal drugs^{[80][81]}
- Encourages efficiency and automation of industry.^[82]
- Removes low paying jobs, forcing workers to train for, and move to, higher paying jobs.^{[83][84]}
- Increases technological development. Costly technology that increases business efficiency is more appealing as the price of labour increases.^[85]
- One way it can increase employment: When wages are very low, a worker often has to work very long hours to earn enough to live on. If wages are increased, then the worker can afford to work fewer hours. This frees up employment for another person.
- Most of the lowest-wage jobs are in services such as cleaning, security and carework. It is difficult to outsource many of these direct service jobs to other areas or countries with lower-cost labor. Hence there is a weakness in the argument that higher wages would mean that jobs would be lost to lower-wage areas.
- A minimum wage is arguably a simpler, more direct and less bureaucratic way to ensure the lowest paid have a decent income compared to methods such as tax credits.
- Reduces quantity demanded of workers, either through a reduction in the number of hours worked by individuals, or through a reduction in the number of jobs.^{[88][89]}
- May cause price inflation as businesses try to compensate by raising the prices of the goods being sold.^{[90][91]}
- Benefits some workers at the expense of the poorest and least productive.^[92]
- Can result in the exclusion of certain groups (ethnic, gender etc.) from the labor force.^[93]
- Small firms with limited payroll budgets cannot offer their most valuable employees fair and attractive wages above unskilled workers paid the artificially high minimum, and see a rising hurdle-cost of adding workers.^[87]
- Is less effective than other methods (e.g. the Earned Income Tax Credit) at reducing poverty, and is more damaging to businesses than those other methods.^[94]
- Discourages further education among the poor by enticing people to enter the job market.^[94]
- Discriminates against, through pricing out, less qualified workers (including newcomers to the labor market, e.g. young workers) by keeping them from accumulating work experience and qualifications, hence potentially graduating to higher wages later.^[3]
- Results in jobs moving to other areas or countries which allow lower-cost labor.
[citation needed]

A widely circulated argument that the minimum wage was ineffective at reducing poverty was provided by George Stigler in 1949:

- Employment may fall more than in proportion to the wage increase, thereby reducing overall earnings;
- As uncovered sectors of the economy absorb workers released from the covered sectors, the decrease in wages in the uncovered sectors may exceed the increase in wages in the covered ones;
- The impact of the minimum wage on family income distribution may be negative unless the fewer but

better jobs are allocated to members of needy families rather than to, for example, teenagers from families not in poverty.;

- Forbidding employers to pay less than a legal minimum is equivalent to forbidding workers to sell their labour for less than the minimum wage. The legal restriction that employers cannot pay less than a legislated wage is equivalent to the legal restriction that workers cannot work at all in the protected sector unless they can find employers willing to hire them at that wage.^[75]

In 2006, the International Labour Organization (ILO)^[8] argued that the minimum wage could not be directly linked to unemployment in countries that have suffered job losses. In April 2010, the Organisation for Economic Co-operation and Development (OECD)^[95] released a report arguing that countries could alleviate teen unemployment by "lowering the cost of employing low-skilled youth" through a sub-minimum training wage. A study of U.S. states showed that businesses' annual and average payrolls grow faster and employment grew at a faster rate in states with a minimum wage.^[96] The study showed a correlation, but did not claim to prove causation.

Although strongly opposed by both the business community and the Conservative Party when introduced in 1999, the minimum wage introduced in the UK is no longer controversial and the Conservatives reversed their opposition in 2000.^[97] Accounts differ as to the effects of the effects. The Centre for Economic Performance found no discernible impact on employment levels from the wage increases,^[98] while the Low Pay Commission found that employers had reduced their rate of hiring and employee hours employed, and found ways to cause current workers to be more productive (especially service companies).^[99] The Institute for the Study of Labor found prices in the minimum wage sector rose significantly faster than prices in non-minimum wage sectors, in the four years following the implementation of the minimum wage.^[100] Neither trade unions nor employer organizations contest the minimum wage, although the latter had especially done so heavily until 1999.

Supporters of minimum wage in the business journal Bloomberg Businessweek point out that the country of Denmark has a minimum pay rate of the equivalent of about \$20 an hour, but its business climate is sufficiently healthy for the World Bank to ranked it as the easiest place in Europe to do business in 2011, 2012, and 2013. Denmark is also "among the leading countries in income equality and national happiness."^[101] Denmark also had a lower unemployment rate (6.8%) and higher labor participation rate (64.4%) than the United States (7.4%, 63.6% as of September 2013) where the minimum wage is far lower (\$7.25).^[102]

Surveys of economists

According to a 1978 article in the *American Economic Review*, 90% of the economists surveyed agreed that the minimum wage increases unemployment among low-skilled workers.^[103] By 1992 the survey found 79% of economists in agreement with that statement^[104] and by 2000 the percentage was 45.6 in full agreement with the statement and 27.9% agreeing with provisos (73.5% total).^{[105][106]}

The authors of the 2000 study also reweighted data from a 1990 sample to show that at that time 62.4% of academic economists agreed with the statement above, while 19.5% agreed with provisos and 17.5% disagreed. They state that the reduction on consensus on this question is "likely" due to the Card and Krueger research and subsequent debate.^[107]

A similar survey in 2006 by Robert Whaples polled PhD members of the American Economic Association. Whaples found that 46.8% respondents wanted the minimum wage eliminated, 37.7% supported an increase, 14.3% wanted it kept at the current level, and 1.3% wanted it decreased.^[108]

Another survey in 2007 conducted by the University of New Hampshire Survey Center found that 73% of labor economists surveyed in the United States believed 150% of the then-current minimum wage would result in employment losses and 68% believed a mandated minimum wage would cause an increase in hiring of workers with greater skills. 31% felt that no hiring changes would result.^[109]

Surveys of labor economists have found a sharp split on the minimum wage. Fuchs et al. (1998) polled labor economists at the top 40 research universities in the United States on a variety of questions in the summer of 1996. Their 65 respondents were nearly evenly divided when asked if the minimum wage should be increased. They argued that the different policy views were not related to views on whether raising the minimum wage would reduce teen employment (the median economist said there would be a reduction of 1%), but on value differences such as income redistribution.^[110] Daniel B. Klein and Stewart Dompe conclude, on the basis of previous surveys, "the average level of support for the minimum wage is somewhat higher among labor economists than among AEA members."^[111]

In 2007, Klein and Dompe conducted a non-anonymous survey of supporters of the minimum wage who had signed the "Raise the Minimum Wage" statement published by the Economic Policy Institute. 95 of the 605 signatories responded. They found that a majority signed on the grounds that it transferred income from employers to workers, or equalized bargaining power between them in the labor market. In addition, a majority considered disemployment to be a moderate potential drawback to the increase they supported.^[111]

In 2013, a diverse group of economics experts was surveyed on their view of the minimum wage's impact on employment. 34% of respondents agreed with the statement, "Raising the federal minimum wage to \$9 per hour would make it noticeably harder for low-skilled workers to find employment." 32% disagreed and the remaining respondents were uncertain or had no opinion on the question. 49% agreed with the statement, "The distortionary costs of raising the federal minimum wage to \$9 per hour and indexing it to inflation are sufficiently small compared with the benefits to low-skilled workers who can find employment that this would be a desirable policy", while 11% disagree.^[112]

Alternatives

Economists and other political commentators have proposed alternatives to the minimum wage. They argue that these alternatives may address the issue of poverty better than a minimum wage, as it would benefit a broader population of low wage earners, not cause any unemployment, and distribute the costs widely rather than concentrating it on employers of low wage workers.^[citation needed]

Basic income

A basic income (or negative income tax) is a system of social security, that periodically provides each citizen with a sum of money that is sufficient to live on. Except for citizenship, a basic income is entirely unconditional. There is no means test, and the richest as well as the poorest citizens would receive it. A basic income is often proposed in the form of a citizen's dividend (a transfer payment from the government). Proponents argue that a basic income that is based on a broad tax base would be more economically efficient, as the minimum wage effectively imposes a high marginal tax on employers, causing losses in efficiency.^[citation needed]

In 1968 James Tobin, Paul Samuelson, John Kenneth Galbraith and another 1,200 economists signed a document calling for the US Congress to introduce in that year a system of income guarantees and supplements.^[113] Both Tobin and Samuelson have also come out against the minimum wage.^[114] In the 1972

presidential campaign, Senator George McGovern called for a 'demogrant' that was very similar to a basic income.^[115]

Winners of the Nobel Prize in Economics that fully support a basic income include Herbert A. Simon,^[116] Friedrich Hayek,^[117] Robert Solow,^[116] Milton Friedman,^[118] Jan Tinbergen,^[116] James Tobin^{[113][119][120]} and James Meade.^[116]

Guaranteed minimum income

A guaranteed minimum income is another proposed system of social welfare provision. It is similar to a basic income or negative income tax system, except that it is normally conditional and subject to a means test. Some proposals also stipulate a willingness to participate in the labor market, or a willingness to perform community services.^[121]

Refundable tax credit

A refundable tax credit is a mechanism whereby the tax system can reduce the tax owed by a household to below zero, and result in a net payment to the taxpayer beyond their own payments into the tax system. Examples of refundable tax credits include the earned income tax credit and the additional child tax credit in the U.S., and working tax credits and child tax credits in the UK. Such a system is slightly different from a negative income tax, in that the refundable tax credit is usually only paid to households that have earned at least some income.

In the United States, earned income tax credit rates, also known as EITC or EIC, vary by state—some are refundable while other states do not allow a refundable tax credit.^[122] The federal EITC program has been expanded by a number of presidents including Jimmy Carter, Ronald Reagan, George H.W. Bush, and Bill Clinton.^[123] In 1986, President Reagan described the EITC as "the best anti poverty, the best pro-family, the best job creation measure to come out of Congress."^[124] The ability of the earned income tax credit to deliver larger monetary benefits to poor workers than an increase in the minimum wage and at a lower cost to society was documented in a 2007 report by the Congressional Budget Office.^[125]

Collective bargaining

Germany,^[126] Italy, Sweden and Denmark are examples of developed nations where there is no minimum wage that is required by legislation.^[citation needed] Instead, minimum wage standards in different sectors are set by collective bargaining.^[127]

Minimum wage as a ratio of the median wage of full-time employees (2009)

(1.) Turkey: 0.71 (2.) France: 0.60 (3.) New Zealand: 0.59 (4.) Australia: 0.54 (5.) Portugal: 0.54 (6.) Belgium: 0.51 (7.) Ireland: 0.51 (8.) Slovenia: 0.49 (9.) Greece: 0.48 (10.) Hungary: 0.48 (11.) Netherlands: 0.47 (12.) United Kingdom: 0.46 (13.) Poland: 0.45 (14.) Romania: 0.45 (15.) Slovakia: 0.45 (16.) Lithuania: 0.44 (17.) Spain: 0.44 (18.) Canada: 0.43 (19.) Luxembourg: 0.43^[128]

See also

- Average worker's wage
- Economic inequality
- *Garcia v. San Antonio Metropolitan Transit Authority*
- Labour law
- List of minimum wages in Canada
- List of minimum wages in China
- List of minimum wages by country
- List of sovereign states in Europe by minimum wage
- List of U.S. minimum wages
- Living wage
- Maximum wage
- Minimum Wage Fixing Convention, 1970
- Minimum wage in the United States
- Minimum wage law
- *Nickel and Dime*
- Positive rights
- *Scratch Beginnings*
- Wage slavery
- Working poor

Notes

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External links

- Minimum wage (http://www.dmoz.org/Society/Issues/Labor/Minimum_Wage) on the Open Directory Project
- Resource Guide on Minimum Wages (<http://www.ilo.org/public/english/support/lib/resource/subject/salary.htm>) from the International Labour Organization (a UN agency)
- Minimum Wage Rates in All States of India (<http://www.paycheck.in/main/salary/officialminimumwages>) from Paycheck India
- The National Minimum Wage (U.K.) (<http://www.bis.gov.uk/policies/employment-matters/rights/nmw>) from official UK government website
- Find It! By Topic: Wages: Minimum Wage (<http://www.dol.gov/dol/topic/wages/minimumwage.htm>) U.S. Department of Labor
- Characteristics of Minimum Wage Workers: 2009 (<http://www.bls.gov/cps/minwage2009.htm>) U.S. Department of Labor, Bureau of Labor Statistics
- History of Changes to the Minimum Wage Law (<http://www.dol.gov/whd/minwage/coverage.htm>) U.S. Department of Labor, Wage and Hour Division
- Inflation and the Real Minimum Wage: A Fact Sheet (<http://www.fas.org/sgp/crs/misc/R42973.pdf>) Congressional Research Service

Support

- Issues about Minimum Wage (<http://www.aflcio.org/issues/jobseconomy/livingwages/americanneedsaraise.cfm>) from the AFL-CIO (U.S. labor federation favoring the minimum wage)
- Issue Guide on the Minimum Wage (http://www.epi.org/publications/entry/issue_guide_on_minimum_wage/) from the Economic Policy Institute

Opposed

- Reporting the Minimum Wage (<http://www.cato-at-liberty.org/2009/07/24/reporting-the-minimum-wage/>) from The Cato Institute (U.S. libertarian organization opposed to the minimum wage)
- The Economic Effects of Minimum Wages (http://showmeinstitute.org/docLib/20070411_smi_study_2.pdf) from Show-Me Institute (U.S. libertarian organization opposed to the minimum wage)
- Economics in One Lesson: The Lesson Applied, Chapter 19: Minimum Wage Laws (<http://steshaw.org/economics-in-one-lesson/chap19p1.html>) by Henry Hazlitt

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