The Potential Economic Impact of Increasing the Minimum Wage

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How does the minimum wage differ from the livable wage?

- The livable wage is a wage sufficient to pay for basic needs such as food, rent, healthcare, transportation, daycare, utilities and other household needs.

- The minimum wage is a wage rate established by government regulation, specifying the lowest rate at which workers may be employed.
Since the last increase in the minimum wage, inflation has eroded one-fifth of its value...
... having a direct impact on families close to the poverty line.
What are the potential costs and benefits of raising the minimum wage?

• Benefit: raises the wages of low-wage workers which may
  – Increase purchasing power of low-wage households
  – Decrease the number of families living in poverty

• Cost: raises labor costs for employers which may
  – Increase prices for consumers
  – Reduce employment (or hours or benefits) for minimum-wage workers
  – Potentially reduce economic competitiveness of firms
What is the typical impact of raising the minimum wage on employment?

• In theory, increasing the minimum wage can lead to a decrease in employment, but this depends on how responsive employers are to rising labor costs.

  – Economics literature suggests that the impact on employment is likely to be small (on the order of one to two percent).

  – U.S. Council of Economic Advisors concluded “the weight of the evidence suggests that modest increases in the minimum wage have had very little or no effect on employment.”
Case Study: What would be the potential economic impact for Massachusetts?

- Impact on employment depends on the
  - Number of affected workers
  - Effective increase in the minimum wage
  - Responsiveness (elasticity) of demand for labor

- NEPPC study found that the proposed increase from $6.75 to $8.25 would likely reduce employment by 1 to 4 percent for workers whose wages would be affected.
  - Assuming an employment loss of 2%, net aggregate wages would increase by $255 million.

In July 2006, Massachusetts passed H. 4781 “An Act Increasing the Minimum Wage.”

- H. 4781 raises the minimum wage in two stages:
  - from $6.75 per hour to $7.50 per hour on January 1, 2007
  - from $7.50 per hour to $8.00 per hour on January 1, 2008.
  - With no indexing to future inflation

- Estimated that by 2008, 315,000 low-wage workers will receive a pay increase, the vast majority of whom are adults and nearly half of whom work fulltime.

- Full-time workers earning the minimum wage will see gross pay rise by approximately $2,500 (in inflation-adjusted dollars) by 2008.
As of 2007, 30 states had a state minimum wage above the current federal level...

...but that number may decrease by 2009 if a new federal minimum wage is passed.