Across The Spectrum of Socioeconomics
Volume 1 Issue 3
DOI: 10.5281/zenodo.4516666

Minimum Wage

Angye Bardales, Achraf El Madnaoui, Deven Rozario, Renee Fishler, Theresa Morano

Affiliation: International Socioeconomics Laboratory™

Abstract

Through the analysis of the consequences of raising the minimum wage in the United States, many different factors have been taken into consideration – disparities in minimum wages in large cities and smaller cities, the effects of policies on small businesses, and the effects of such policies on large corporations. Raising the minimum wage is most detrimental to small businesses, as large corporations are more able to afford such a change while incurring minimal losses. In essence, an increase in the minimum wage would result in various consequences, affecting every business differently depending on their location, size, and structure.

Categories: Economy, Economics, Corporation
Key Words: Minimum Wage, Businesses, Cities

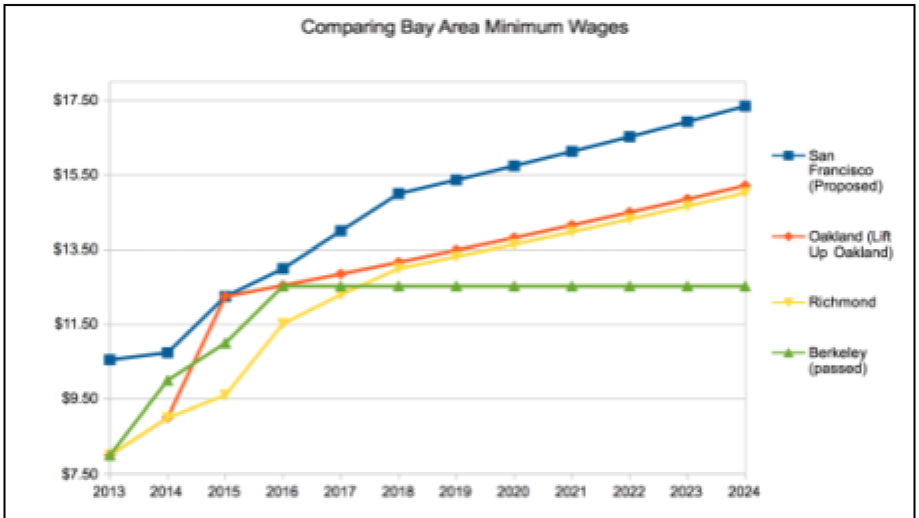
International Socioeconomics Laboratory™
Across The Spectrum of Socioeconomics
Volume 1 Issue 3
DOI: 10.5281/zenodo.4516666

I. Introduction

The question of raising the federal minimum wage has been a prominent topic for many years in the United States. There are several arguments as to why the minimum wage should be increased: reduced turnover rates, lower unemployment rates, along with several other benefits. However, there exist equally important arguments against such a policy, like the risk of inflation, increased outsourcing of jobs, etc. In recent years, many large corporations have given up on their lobbying efforts against higher minimum wages, while small businesses are as passionate as ever to protect their businesses from the repercussions of an increased minimum wage. As it is a complex debate to resolve, the federal minimum wage affects all areas of the country in distinct ways.

II. Big Cities vs. Small Cities

There are many factors that contribute to the increasing or decreasing rates of the minimum wage in specific regions. The decline, however, is primarily seen in low-income jobs, with growing levels of economic inequality. After the sudden strike of COVID-19, unemployment rates have caused a reduction in minimum wages throughout both large and small cities in the United States. One example of this phenomenon would be New York City. The minimum wage in NYC is $15.00 (Depersio, 2020), despite the city's immense population of approximately 8.3 million ("New York City", 2020). Wyoming's capital, Cheyenne, with an approximate population of 64,165 ("Cheyenne", 2020), has a minimum wage rate of only $7.25 an hour (Minimum-Wage.org, 2020), compared to large cities like NYC and San Francisco, which have minimum wage rates of $15.00 and $15.45 respectively (Depersio, 2020).

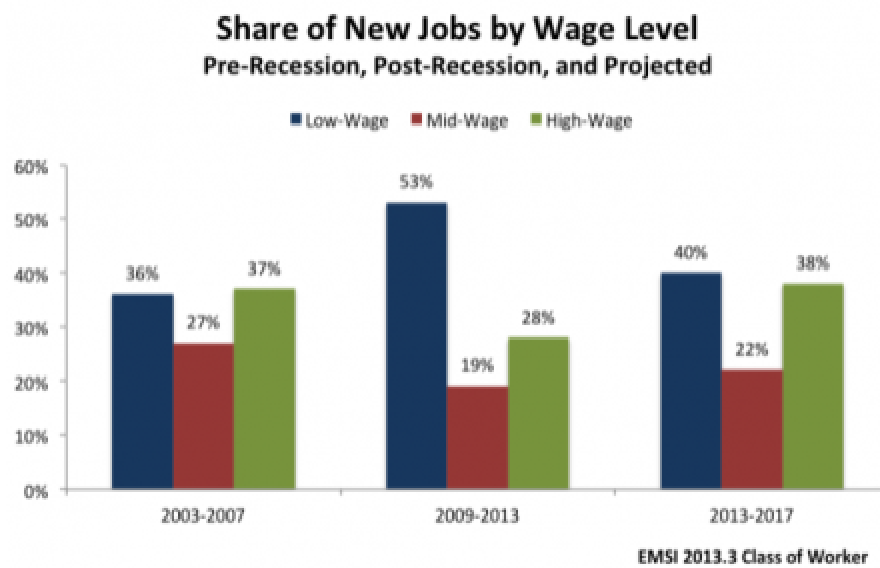


The chart above displays the minimum wages in Oakland, San Francisco, Richmond, and Berkeley. This chart was a projection for the increased or decreased minimum wage till the year 2024. "San Francisco –." *Pueblo Lands*, 2014, darwinbondgraham.wordpress.com/tag/san-francisco.

Across The Spectrum of Socioeconomics
Volume 1 Issue 3
DOI: 10.5281/zenodo.4516666

This massive contrast between large cities with sizable populations and smaller cities has caused great outrage and conflict throughout the US as to whether it is useful to increase or decrease the federal minimum wage. Research shows that in 2016 when San Francisco raised its minimum wage from $6.75 to $8.50 per hour, the results changed the perspective on minimum wage in big cities. To be specific, this data indicated that businesses absorbed the costs that were incurred as a result of the wage increase through lower turnover and small price increases at restaurants. The increase in prices for the products led to an increased concentration on lower-wage workers and a higher productivity rate. Additionally, when Santa Fe allowed the phase-in of a 65% increase in the minimum wage for small businesses, researchers found that employment rates were slightly higher in Santa Fe than in Albuquerque, which didn't raise its minimum wage (Thompson, 2016). Another research study, performed by the Minimum Wage Study Commission (MWSC), where three economists found that an increase in the minimum wage had little to no effect (0% to 1.5%) on the employment status of teens (ages 16-19 (Shcmitt, 2013).

Another important factor that contributes to the minimum wage issue is the passing of 2019 Raise the Wage Act, which stated that by 2025, the federal minimum wage would be $15.00 an hour. In contrast, the current federal minimum wage has been $7.25 an hour since 2009 (Maverick, 2020). Jobs with higher wages have proven to lead to more job openings in lower-paying service industries and increase the number of well-paid workers in the nation (Wright, 2013). This act would change the difference between cities due to the imbalance of minimum wage rates. Now, while NYC has one of the highest minimum wages and is one of the highest populated cities, there are far more job positions, including those that pay a substantial salary. Nonetheless, with a higher yearly



The chart above displays the share of new jobs by wage level from low-wage to high-wage.
Wright, Joshua. "The Cities Creating The Most High-Paid Jobs, And Why They're Good For Low-Wage Workers Too." *Forbes*, 15 Nov. 2013, www.forbes.com/sites/emsi/2013/11/14/the-cities-creating-the-most-high-paid-jobs-and-why-theyre-good-for-low-wage-workers-too/?sh=6853a9f64382.

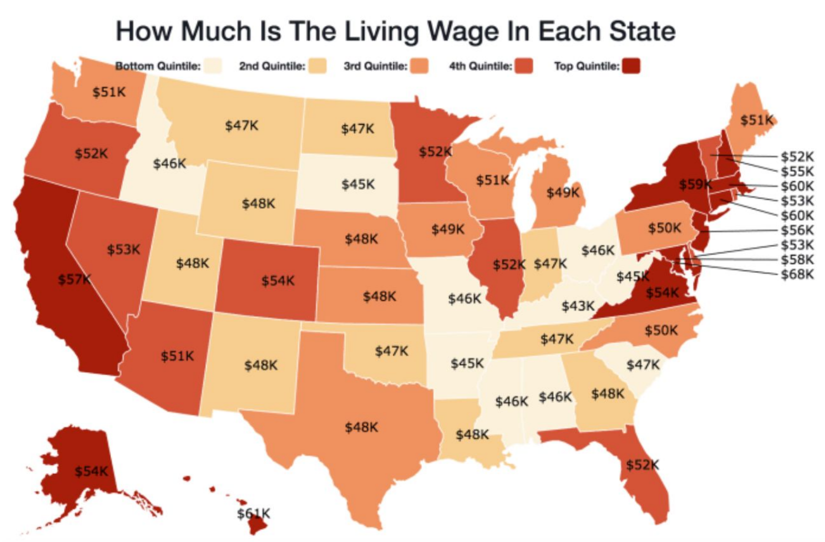
Across The Spectrum of Socioeconomics
Volume 1 Issue 3
DOI: 10.5281/zenodo.4516666

International Socioeconomics Laboratory™

salary, there are also higher taxes to pay, along with the fact that homes in the city cost a lot more than average. However, even after the 62% decrease in real estate sales and a 4.2% drop in prices (International Socioeconomics Laboratory, et al., 2020), Manhattan is still one of the most expensive cities on the planet to live in, paying one of the highest wages in the country, where blue-collar workers earn an average salary of $61,870 per year, according to the Bureau of Labor Statistics (Liu, 2019).

III. Effect on Small Businesses

The rising minimum wage trend in recent years has proved to be disastrous for small businesses. While large corporations tend to have enough money to accommodate increases in the minimum wage, many small businesses do not have this luxury. Small businesses often cannot afford to pay their employees a higher wage, causing these businesses to either let go of their employees, raise their prices, or both. As an example, a specific type of small business that would experience this issue are sole proprietorships, which are businesses owned by a single individual. Sole proprietorships usually have a harder time generating a profit as they cannot sell stocks and find it more difficult to obtain bank loans (Shnir, et al., 2020).



Despite the challenges displayed by small businesses, such as sole proprietorships, the minimum wage has been on the rise for the past decade. The federal minimum wage, currently $7.25 per hour, is intended to guarantee a livable wage for the lowest-paid workers (Cooper, 2020). However, in most states, this is not a livable wage. For example, in Florida, the living wage is $52,000 per year and the living wage in California is even higher at $57,000 (Green, 2016). Meanwhile, the annual wage of a full-time federal minimum wage worker is $15,080 (Center for Poverty and Inequality Research, 2018). This is why many states and cities have proposed a higher minimum wage—the current one provides workers with unlivable salaries. Take New York City as an example; in 2016, the minimum wage for small businesses was $10.60 per hour. Now, as previously mentioned, it is $15 per hour

(Replicon, 2020). Additionally, the increase in minimum wage has been harmful for small businesses across the country. In the United States, 8% of small business owners say they would be forced to lay off workers if the minimum wage was increased. 14% say they would be forced to cut worker hours. 14% say a higher minimum wage would result in less revenue for their business and 22% say it would result in less profit for them (Wronski, 2020). In New York City, the increase in minimum wage to $15 per hour has proved detrimental to many small business owners. For instance, the owner of Lido Restaurant in Harlem, Susannah Koteen, expressed her concerns about the effect of increased wages on her restaurant. She has had to be more strict about overtime and has cut back on shifts for her forty employees. Koteen has also had to raise her prices to accommodate for this wage increase (John, 2019).

IV. Effect on Large Corporations

Corporations are easily the business structures with the highest profits. Though there are many types - C-corps, S-corps, B-corps, close corporations, and non-profit corporations— they all obtain significant benefits and shield owners from personal liability, allowing for their large sizes and profits (Shnir, et al., 2020). For example, Amazon generates millions of dollars of profit each year and has thousands of employees, so it would be easier for them to accommodate a raise in the minimum wage without seeing devastating effects. In addition, in the coming years, technology will replace these labor jobs for big companies, so it will be even easier to increase the minimum wage and avoid detrimental consequences. Although the wage premium for working at a large company has decreased over time, big businesses still achieve economies of scale through centralized HR (Human Resources) and benefits departments. They also have the upfront capital needed to invest in automation, such as the purchasing kiosks now in place at McDonalds, that will make businesses less subject to labor costs in the future (DePillis, 2019).

Minimum wage as a whole is not a significant threat to many large companies because they have a tight job market for rank and file workers. In addition to that, they seek to incentivize people to become a part of their company through the offer of perks and high salaries. In fact, certain corporations have demonstrated that paying its employees a livable wage, usually over twice the federal minimum wage of $7.25, actually reaps several benefits such as lower turnover, higher productivity, and a satisfied and loyal workforce. For instance, Ben & Jerry's pays all of its Vermont full-time workers a livable wage of $18.13 as of 2020 ("Livable Wages", 2020). This, among other policies granting their employees benefits, has not created any significant repercussions for the large corporation, supporting the argument that large corporations will generally not face any challenges with the mandation of a higher minimum wage.

In addition, large corporations don't like to oppose wage hikes, because they fear it will bring bad publicity. This is a risk that is not worth taking, because they rely on consumers, and it looks bad on the company if they don't give their workers a higher salary. This same kind of pressure on corporate minimum wage is like a competition. If one company raises their minimum wage, they will brag about it and get a lot of 'good' publicity. However, if another similar company does not do the same, they are frowned upon, and if they do increase their minimum wage, the other company is incentivized to increase their minimum wage again. These companies do this to make their consumers sympathize with them and buy their products instead of those of their competitors.

At the same time, large corporations may still tend to seek maximum profits. Therefore, they may decide to outsource more jobs to countries with little to no minimum wage laws in order to limit the cost of operations, causing large scale job losses. A less obvious consequence of raising the minimum wage would be the occupation of minimum wage jobs by overqualified workers. This means that there would be fewer job opportunities for recent college graduates or generally younger, less experienced workers, who tend to seek employment specifically in large corporations to further their careers (Maverick, 2020).

V. Conclusion

Existing minimum wage policies vary significantly from region to region. Larger cities tend to have higher minimum wages, such as the $15.00 per hour minimum wage of New York City, as opposed to the $7.50 per hour federal minimum applied in a city like Cheyenne. In larger cities, these higher minimum wages will result in average salaries that are much closer to a livable salary of that city, while in smaller cities the average salary of an individual will be a concerningly small portion of a livable salary. Yet it must also be acknowledged that workers in larger cities like NYC will be met with higher tax rates to pay, which not only affect minimum wage workers, but large corporations since they will have the highest tax rates. Thus, these large corporations may seek to optimize profits by raising prices for consumers to balance a rise in minimum wage, or, they may choose to implement policies with no serious loss in profits. Regardless of their location, small businesses simply cannot afford a dramatic rise in minimum wage without laying off workers or raising prices—if not both.

References

"Cheyenne" (2020), Cheyenne, Wyoming Population 2020 (Demographics, Maps, Graphs)

Center for Poverty and Inequality Research (2020), What Are the Annual Earnings for a Full-Time Minimum Wage Worker? *Center for Poverty and Inequality Research*

Depersio, G. (2020), The Top 5 U.S. Cities With the Highest Minimum Wage, *Investopedia*

Cooper, David (2020), Raising the Federal Minimum Wage to $15 by 2024 Would Lift Pay for Nearly 40 Million Workers, *Economic Policy Institute*

DePillis, Lydia (2019), Why big business is giving up its fight against a higher minimum wage, *CNN Business*

Green, A. (2016), The Minimum Income It Takes to Live in Each State, *Mental Floss*

International Socioeconomics Laboratory (2020), 2020 & Real Estate: The Effects of COVID-19 and Social Unrest on Real Estate Markets, *Across the Spectrum of Socioeconomics*, 2020,

John, A. S.. (2019), New York City Businesses Struggle to Keep Up After Minimum Wage Increase, *The Wall Street Journal*, *Dow Jones & Company*

Liu, J. (2019), These Are the US Cities Hiring the Most Workers in Every State—and "Livable Wages" (2020), *Ben & Jerry's*

Maverick, J.B. (2020), What Are the Pros and Cons of Raising the Minimum Wage? *Investopedia*

Minimum-Wage.org (2020), Wyoming Minimum Wage

"New York City" (2020), New York City, New York Population 2020 (Demographics, Maps, Graphs), *World Population Review*, Replicon (2020), New York Minimum Wage 2020: NYS Minimum Wage, *Replicon*,

Shcmitt, J. (2013), Why Does the Minimum Wage Have No Discernible Effect on Employment

Shnir, A., Derkach, S., Rikshpun, A. Fishler, R., Huang, E., Kadaev, M., Kothari, V. (2020), Company Structures and the Impacts of Policy, *Across the Spectrum of Socioeconomics*, 1(2), 99-113

Thompson, L. (2016), Studies Look at What Happened When Cities Raised Minimum Wage, *The Seattle Times*

Wright, J. (2013), The Cities Creating The Most High-Paid Jobs, And Why They're Good For Low-Wage Workers Too, *Forbes*

Wronski, L. (2020), SurveyMonkey senior research scientist, Minimum Wage Increases Aren't a Job Killer: Small Business Survey, *CNBC*