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Abstract: This article discusses studies and past research with considerable impact on political and economist views about the Minimum Wage policy. The article evaluates studies and conclusions to derive that the minimum wage must be implemented at a greater scale to combat income inequality.

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With the Biden-Harris executive order raising the minimum wage to $15 for federal contractors\(^1\), the debate has resurfaced in 2021. The minimum wage law is becoming a popular tool to address inequality and poverty. From 2010 onwards, diverse countries like Germany, Qatar, Suriname, and Korea\(^2\) have adopted minimum wage systems. In 2019, India extended coverage through a national universal minimum wage\(^3\), and the federal minimum wage floor was increased in South Africa\(^4\). An estimated 19 percent of all wage earners are paid at or below the applicable minimum wage\(^5\). Neoclassical economists argue that if the markets are perfectly competitive, any binding wage floor above the market clearing wage will unambiguously result in employment reduction\(^6\). However, empirical work suggests “a rather muted effect of minimum wages to date on employment”\(^7\). Moreover, the measurable positive impact of minimum wage on societal welfare and populist appeal leads governments to implement it more commonly. This essay will argue that currently, we should not abolish the minimum wage.

The arguments on minimum wage raised over the last three decades have oscillated between for and against, but Card and Krueger’s (1994) seminal study\(^8\) changed the tide in favor. The Organisation for Economic Co-operation and Development (OECD) published a Jobs Study report in 1994 recommending that countries “reassess the role of statutory minimum wages as an instrument to achieve redistributive goals and switch to more direct instruments\(^9\).” But after Card and Krueger’s work stimulated further research, the OECD stated in 2018 that “minimum wages can help ensure that work is rewarding for everyone” and that “when minimum wages are moderate and well designed, adverse employment effects can be avoided”\(^10\). Similarly, in a 1992 survey, 79% of the respondents from the American Economic Association agreed that a minimum wage could lead to unemployment among young and low-skilled workers, but that number reduced to 46% in 2000\(^11\).

Any clear negative impact of minimum wage on employment has always been “elusive”\(^12\) and challenging to validate. This challenge may be because much of the labor market cannot be perfectly competitive like economic theory assumes. Firms have wage power in the monopsonistic labor market, so depending on wage elasticity of demand and marginal output produced by one additional worker, there is a range of wage floors for which employment may

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actually increase. In more concentrated labor markets, minimum wages have found to be having a positive employment effect\textsuperscript{13} - supporting the monopsony theory. Empirical research has shown that a fair minimum wage can increase regional employment\textsuperscript{14}.

Raising the minimum wage introduces more workers to the labor force since it raises wages higher than the workers' reservation wages, as long as they have some bargaining power\textsuperscript{15} and the wage is not regressively high (i.e., causing disemployment). Moreover, it reduces worker turnover. Turnover has costs of skills acquired through training/work and costs of hiring a new worker. Minimum wages can curb worker exploitation, raise satisfaction levels and thus lower the turnover rate. Apart from reduced turnover, minimum wages can increase worker productivity by boosting morale and motivating workers, suggested by an empirical work in the UK’s residential care industry\textsuperscript{16}. Employers may support this through more corporate investment in human capital\textsuperscript{17}, since on-the-job training becomes more valuable with retained workers\textsuperscript{18}. This boosted productivity can negate higher wage costs and keep profits relatively stable.

Commonly, employers will also pass on some of the additional wage costs by raising prices. This is true especially for industries with low elasticity of labor demand, like restaurants\textsuperscript{19} and retail stores. This policy may be regressive if products consumed by low-income households start facing growing prices\textsuperscript{20}. However, empirical data suggested that a 10\% minimum wage rise (from 1978 to 2015 in the US) only caused a 0.36\% price growth\textsuperscript{21}. Other works\textsuperscript{22} demonstrate similar regional effects. Recent research in Hungary studying the cost incidence\textsuperscript{23} has found an increase in the prices of goods and services, passing 75\% of the cost incidence onto the consumer. The price rise was significant but could be since the wage hike in Hungary was atypically drastic\textsuperscript{24}. In the UK’s residential care industry, prices have increased only slightly since the 1999 minimum wage policy\textsuperscript{25}. Both studies showed that price increases were more

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\end{thebibliography}
noticeable in non-tradable sectors (such as restaurants or residential care) since tradable sector prices remain relatively stable due to substitutes\textsuperscript{26}.

The Hungarian study also differentiated the effects between rich and poor cities. The income redistributive effects were more noticeable in affluent cities where wealth shifted from the wealthy to the minimum wage workers. In addition, recent empirical work in the US shows robust evidence that minimum wages have caused increased incomes at the bottom of the family income distribution\textsuperscript{27}. Thus, like the other income redistribution mechanisms, minimum wage also helps to reduce inequality, but at the cost of small unemployment depending upon the minimum wage increment\textsuperscript{28}.

One reason why the impact of minimum wage may come out differently in different countries is the variation in the constitution of the low-wage earners. For developed countries, the workers earning at or below the minimum wage are mostly teenagers, who themselves may belong to high-income families. In such countries, the minimum wage laws may ensure that teenagers are not subjected to exploitation but may not impact inequality. But the situation is quite different in developing countries, where the majority of low-wage earners work in the informal economy.

Take the case of domestic workers, seldom covered under minimum wage laws in developing countries. In India, only a few states had minimum wage laws for domestic workers. Yet there was a strong short-run positive impact of the minimum wage legislation on real wages and an insignificant effect on employment of the domestic workers\textsuperscript{29}. It is encouraging that the government of India, in 2019, has extended the cover of national minimum wage law to all casual workers, including domestic workers.

The wage floor may also help reduce the inequality between two identifiably different groups of people. In the US, the 1966 Fair Labor Standards Act extended the federal minimum wage coverage to sectors that employed primarily black workers, like agriculture, restaurants, and nursing homes. Past research shows that the act led to decline in racial income inequality\textsuperscript{30}. The impact of the minimum wage was almost double for black workers than for white workers and it can explain more than 20 percent of the reduction in the racial earnings and income gap. Also, minimum wage laws reduced the gender wage gap, as shown in Poland\textsuperscript{31} and Indonesia\textsuperscript{32}. Such an effect was possible because there was a systematic difference in how different groups of people

\textsuperscript{26} “Who Pays for the Minimum Wage?” \textit{American Economic Review}, vol. 109, no. 8, 2019, pp. 2693–727.


\textsuperscript{32} “Can Minimum Wages Close the Gender Wage Gap? Evidence From Indonesia.” \textit{Arizona State University}. 
were employed and it shows us how minimum wage is an effective tool to give economic empowerment to erstwhile disadvantaged groups. For a country like India, where caste-based discrimination is endemic, there is little inter-generational mobility to high-wage jobs among low-caste people. An effective minimum wage, thus, can help to provide a basic minimum standard of living which can go a long way to diminish inter-caste income gaps, if not completely eradicate the discrimination.

Recent investigation on enforcement’s relation with the effects of minimum wage have concluded that in India, with its varying landscape of infrastructure and enforcement facilities, “In weak enforcement regimes, estimated wage effects are negligible and employment effects are negative or null. In stricter regimes, wage effects are positive and strong, and employment effects are positive or null in most specifications.” This supports other empirical work in Argentina and South Africa proving that labor law compliance increases with enforcement. Research on the effects of minimum wage in Brazil analyzed the impact separately in formal and informal sectors due to differing degrees of enforcement. It concluded that the positive impact was greater in the higher enforced formal sector. Hence, developing countries may not reap all the benefits of the minimum wage as developed countries do, due to improper enforcement capability. So to have any appreciable long-term impact, the enactment must be followed by efficient monitoring and implementation.

Furthermore, since minimum wages intend to help low-income families cope with costs of living, it “can be adjusted to take into account that workers with the same nominal wage are substantially ‘poorer’ in locations with high costs of living.” With statewide/citywide policies like California or Seattle, employers may move location outside borders to avoid the policy’s domain. However, this could create jobs and support the underdeveloped regions that employers move to. Moreover, regional minimum wage policies can be effectively tailored to the economic conditions (like costs of living), leading to increased worker tenure, raised wages, null/positively impacted employment, among other positive results.

However, there are various arguments raised. If workers become too expensive, firms may become uncompetitive and exit the market, or substitute labor with capital and adopt newer technologies, as research shows. Sharp increases in minimum wage result in employers favoring
automation, especially to replace low-skilled workers\textsuperscript{41}. This is facilitated by the nature of most minimum wage jobs (such as fast-food jobs, cashiers, taxi drivers, etc.). Employers already have sufficient incentive to automate\textsuperscript{42}, making their negative responsiveness to higher labor costs more significant.

Moreover, requirements like operating technology/equipment may increase demand for skilled workers over unskilled workers. On the other hand, some research shows that automation generates low-skill and high-skill jobs because certain jobs require different level tasks\textsuperscript{43}. Yet it is important to consider that in this case, automation is favored to lower costs rather than improve efficiency alone, as has been studied.

In competitive labor markets, higher unskilled worker costs make it relatively beneficial for a firm to hire a skilled worker, since the relative additional costs (compared to unskilled workers) decrease. The competitive labor market model suggests that such policy ends up hurting low-skilled, low-income workers. Teen workers in developed countries are one group to lose jobs\textsuperscript{44}. The growth of suitable job creation is hindered\textsuperscript{45}, with longer transitions between education and finding employment\textsuperscript{46}. However, reduced growth of unskilled jobs creates pressure for minimum wage workers to quickly upskill and move to higher-earning jobs\textsuperscript{47}.

However, the minimum wage laws do not always include other non-wage benefits, like pension, sick leaves, on-the-job training, or working conditions. The US Bureau of Labor Statistics\textsuperscript{48} states that wages and salaries account for roughly 70 percent of total compensation costs. Workers may lose out on other compensation like employer-provided health insurance because of the minimum wage\textsuperscript{49}. However, more often higher productivity caused by the minimum wage enables firms to avoid reducing non-wage compensation or the number of employed workers\textsuperscript{50}.

Several economists have proposed alternatives such as a tax-return system. The American EITC is considered an alternative, yet this simplification does not take the synergies between it and the

\textsuperscript{44} Neumark, David, and William Wascher. “Minimum Wages, Labor Market Institutions, and Youth Employment: A Cross-National Analysis.”
minimum wage into account. The dual existence of these policies in the USA shows that tax credit is not a reason to abolish the minimum wage.

Extensive empirical work, since Card and Krueger, has explored the minimum wage effects in various contexts - revealing that conventional, rigid neo-classical economic theory cannot account for the myriad of factors that make this policy beneficial. The world has taken favorably to minimum wage policies, resulting in higher wages and improved living standards without significantly compromising or even bolstering employment. Although the opposition has accumulated around automation and regressive policy effects, they are rebutted in empirical research. While a considerable income disparity exists, nationally or globally, we should not abolish the minimum wage, but rather increase its use.

**Author’s Note:** Unless specified otherwise, “minimum wage” means statutory minimum wage established by the central government.

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