

Fundamental Issues Concerning Minimum Wage Within Businesses

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The **minimum wage** has been used since the Great Depression. In recent years, the issue has become hotly debated over whether it should be raised and how this would affect the economy. Some people have long been questioning whether it should exist at all. The main issue is understanding the most appropriate way of reconciling the burden of an increased minimum wage on small businesses with the needs of employees. Moreover, economists must also understand how increasing the minimum wage affects the profitability of an organization. The principal objective of this paper is to examine several fundamental issues concerning raising the minimum wage both in society and in American businesses.

Discussion

The minimum wage is often defined as the lowest earnings per hour for all workers set by the government. There have long been two major fiscal and social arguments concerning the issue of a minimum wage. Some researchers view the minimum wage as a huge burden on small businesses, while others argue that a low minimum wage would increase the country's poverty levels (Clemens, 135). Earlier researchers have shown that some businesses, particularly small businesses, will cut jobs to be able to pay employees more. According to research conducted by the non-partisan Congressional office, if the minimum wage is raised to \$10 or \$15, there would be the likelihood of a reduction in the number of employees by 500,000 across the labour market, as businesses retrench workers to compensate for the increased wage rate. However, approximately 17 million employees would see substantial growth in their earnings.

Meer asserts that "the real impact of increasing the minimum wage is negative" (123). The harm to small businesses raises the prices of commodities and is counterproductive for poor employees. Most economists agree that employees should be paid what they are worth. This implies that employees should be paid according to their respective skills for the job. Considering this argument, the argument for a minimum wage is not strong. First, in an open economy framework, the labour market will determine the wage rate for jobs based on several factors. The major factors will focus on the poor and the needy. Regardless of the circumstances that pushed them to the hardships, they should always be considered important.

Effect on Small Business Employment

Small businesses will be greatly affected if the minimum wage is raised because a bigger percentage of their profit would be directed to pay for the high employee salaries. This would constitute the single largest expenditure for the businesses. However, it is controllable. If the government implements an increase in the wage rate, small businesses will reduce the number of employees or hire fewer employees to fully comply with the changes as well as maintain their profit margin. Thus, increasing the minimum wage has a direct impact on the rate of unemployment.

Increasing the minimum wage could add more pressure on low-wage jobs, which have slightly higher rates than the existing ones. This would also put more pressure on the compensation structure for small businesses. It is important to note that any government's mandate to increase the cost of doing business could bring about various consequences, most of which would be negative. First, the prices of various commodities would rise since businesses would try to maintain their profit margin. Also, there would be a huge loss of job opportunities if the businesses were forced to minimize their expenses to protect their profitability. It would also lead to automation.

Poverty

In 2003, the Heritage Foundation conducted research in all the states in the United States and found that increasing the minimum wage could increase poverty levels due to the percentage of those employed full-time getting a minimum wage (Neumark, 69). This implies that over 70% of those earning the minimum wage are workers on a part-time basis and do not depend on income to sustain themselves.

Labor Markets

It is important to note that labour is classified as a commodity and thus subject to market forces. If there is an increase in the minimum wage, the more skilled and educated employees would also demand a greater increase in salaries than the unskilled employees based on government policies (Meer, 54-58). This would, in turn, increase the volatility in the labour market as skilled employees are pushed to re-evaluate their values upward, which might go contrary to the employer's needs.

Card supports this idea. In his research, Card indicates that the evidence suggests that increasing the minimum wage, even if pursued over some years, would need to be conducted with a great deal of caution. Since the introduction of the minimum wage, it has increased by 75%, above the inflation rate (48). Smaller increases and the Great Recession motivated most of the increases. Belman indicates that "although increasing the minimum wage would translate into more money for those receiving it, it would have very little impact on the US economy" (112).

Conclusion

Despite many efforts to the contrary, there are still many opportunities for those who are willing to work extra hard to get more skills that qualify them for higher wages. The issue of the minimum wage should not be the end game, but instead, it should be treated as the beginning of a career path for those focusing on improving circumstances. Unfortunately, the current state has many people feeling comfortable with the welfare check, but they have the full capability of working.

If the government intends to improve the economy, it should focus on reducing the number of people on welfare. Raising the minimum wage over a substantial period would boost the salaries of many American workers and reduce the number of those relying on welfare. It would also bring the wage rate up to where it was in the 1960s. Therefore, increasing the minimum wage over a period of time won't be that burdensome for small and large businesses or hamper economic growth. It could strengthen consumer demand and improve the US economy.

Work Cited

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