

The Minimum Wage Policy: A Multifaceted Evaluation of its Practical and Theoretical Implications

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ABSTRACT

The imposition of a *Minimum Wage Policy* in the USA differs from state to state. However, the nationally mandated minimum wage rate for non-exempt workers is *\$7.25 per hour*. It is based on theoretical economic principles such as the '*Subsistence*' theory and the political concept of *social democracies*. At the same time, it is also opposed by *Classical Economists* and the followers of the '*Public Choice Theory*'. Additionally, despite the philosophical framework of *Utilitarian theory* that supports this proposal, a critical antagonistic *Libertarianism theory* completely discards it. This study will critically assess empirical evidence on minimum wage policies using a comprehensive examination of these economic theories and philosophical structures to find contradictions between theory and practice. To illustrate the complex economic and ethical concerns surrounding this legislative policy, the study takes a comparative standpoint, contrasting theoretical bases with contemporary statistical data. This academic writing brings forth the inconsistencies behind this *deceptively simple policy*.

Keywords: Minimum wage, Inequality, Efficiency.

Subject: Politics, Philosophy, Economics.

INTRODUCTION

Throughout the evolution of legal scaffoldings, the 3 inter-twined subjects of Politics, Philosophy, and Economics have been at the forefront of making decisions. The topic of this paper is the Minimum Wage Policy, which is elucidated as "the minimum sum payable to a worker for work performed or services rendered, within a given period, whether calculated based on time or output, which may not be reduced either by an individual or collective agreement, which is guaranteed by law and which may be fixed in such a way as to cover the minimum needs of the worker and his or her family, in the light of national economic and social conditions" (International Labour Office, 2014). Particularly in the USA, the Fair Labour Standards Act provides the workers with the right to a minimum of \$7.25 per hour rate, which was implemented in 2009 and changes from state to state.

Philosophically, the father of Utilitarianism - Jeremy Bentham - defines it as the view that the morally right action is the action that produces the best (Stanford Encyclopedia of Philosophy, 2022). In this case, the *Policy* improves the living standards of all labour in the society, essentially all citizens. It is on track with the *Subsistence Theory* wherein the change in the supply of workers, and hence the market price of labour, will always align with the lowest level needed for the basic human needs of food and shelter (Kleinsorge, 2014). These 2 concepts work in amalgamation with the purpose of social democracy, i.e., a *left-wing* political ideology that promotes the gradual shift from *capitalism to social capitalism*. Similarly, it is at par with the macroeconomic goals of the government, i.e., to decrease income gaps and wealth inequalities. However, *Libertarianism* identifies this policy to be an infringement towards voluntary associations of free individuals in the free market.

Since the USA is a free economy, *Classical Economists* suggest that its development depends entirely on minimal government intervention (*no minimum wage policy*) for the best economic growth prospects. Given that the basis of economics lies under incentives, *Buchanan's Public Choice Theory* contradicts the constitutional basis of economic and political decision-making. In this scenario, a politician's gains such as *competing with opponents by appealing to political consensus*, shape each state's variance on the minimum wage policy take. Moreover, one must investigate whether the policy's advantages for the working class genuinely exist in the context of this theory's lingering concerns

regarding the *integrity of political intent*. Likewise, *Locke's Libertarianism* understands political coercion to be the antithesis of individual freedom. The entire free market redistribution of wealth is regarded as a disregard for the *freedom of contract and exchange*.

Despite the convincing argument of these theories, in a state of nature, nothing is *ceteris paribus*. A recent study in the USA predicts that as minimum wages increase, unemployment and the number of people in poverty also increase. In addition, the income distribution appears to be becoming more unequal (Congressional Budget Office, 2021). More importantly, the Western and Southern States still need to increase their minimum wage and at the same time have weak economic safety nets for their workers. (Khattar, 2022) Therefore, other economic policies are perhaps more effective than the *minimum wage legislation*.

MATERIALS AND METHODS

For this study, accredited qualitative secondary data sources were compiled and organised to examine the drawbacks of minimum wage laws. The sources used include but are not limited to, theories from the Stanford Encyclopedia of Philosophy, statistical databases such as the US Department of Labour, along with past-paper data analytics tools like the Forbs Advisor. Next, data sources such as WiseVoter were used to establish a political correlation between policy implementation and effectiveness by looking at the major political parties governing each of the 50 US states. By synthesising multiple analyses of the policy's performance in the USA, secondary research was carried out and linked to an economy's *political, philosophical, and economic goals*.

DISCUSSION

Political Evaluation

By comparing the objectives of social democracy to the policy's effectiveness, it should have supported the 63.7% of women who earn at or below the federal minimum wage. *Before* policy implementation, around 2% of Black, Asian, and Hispanic workers reported wages at or below the 1938 federal minimum wage (U.S. Bureau of Labor Statistics, 2022). According to the same source, in 2022 about 2% of *black* workers earned at or below the 2009 federal minimum wage policy. Despite this, only 1% of *Asian* and *Hispanic* workers reported the same. Next, 3% of women revealed the same in 2007, but that rate fell to 2% in 2022. Even though there was no difference in earnings of *Black* workers, it did show a slight *decline* for the other minorities.

Nevertheless, generic statistics rarely show the whole picture. Figure 1 below dives into the difference in earnings before and after the increase in the minimum wage but is adjusted for inflation.

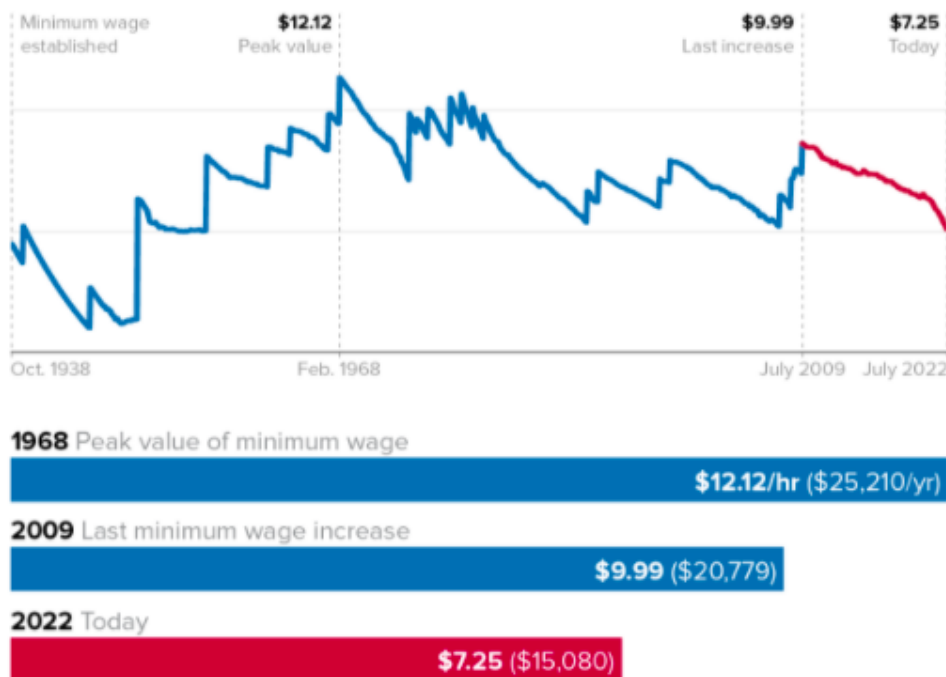


Figure 1: Real Value of Minimum Wage

These statistics show that the realvalue of the federal minimum wage today is 40% less than that in 1968, and 27% less

than 13 years back (Cooper, 2023). This reality can be explained by the notion that wage levels are set depending on the cost of living in some states compared to others. This paper looks at the top 10 states with the highest living costs to eliminate this as a possibility. Here, there are 4 Western States - California, Alaska, Washington and Oregon on the list (Forbes Advisor Analysis, 2023). Regardless of Washington and California having the *highest* minimum wage, Alaska and Oregon have a lower minimum wage than some states with a lower cost of living, i.e., Arizona, Colorado, and Maine. It also doesn't explain why the state ranked highest in costs of living has a much lower minimum wage than the other states (Roder, 2023).

Still, the other possible explanation for it is the Public Choice Theory. It is known that 87% of Democrats favour *increasing* the minimum wage, while 72% of Republicans oppose it (Dunn, 2023). For this research paper, a comparative qualitative analysis has been done to compare the average minimum wage by state, divided by the two main political parties and excluding the swing states (WiseVoter, 2023; U.S. Department of Labor, 2023).

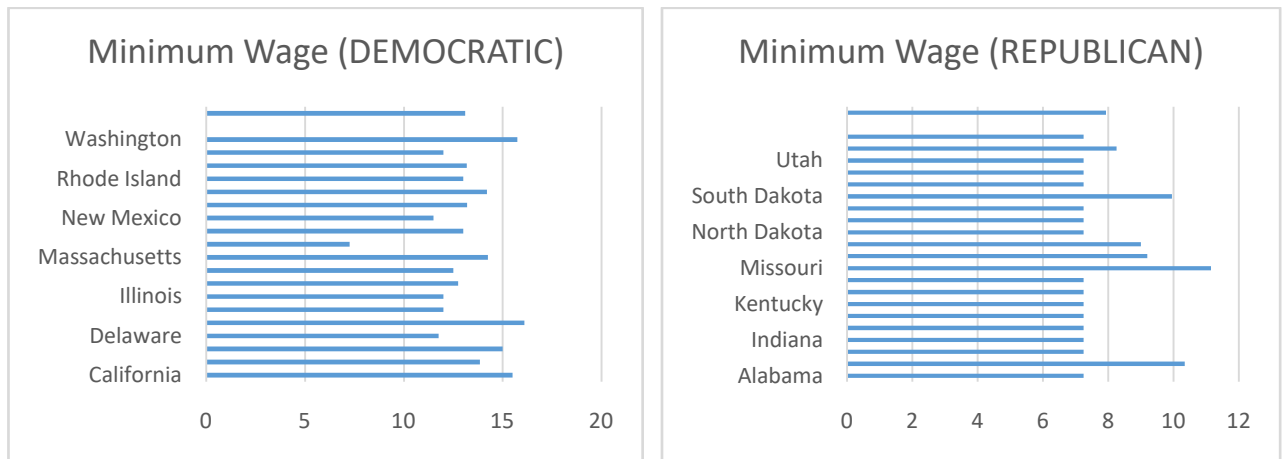


Figure 2: Democratic vs. Republican Average Min. Wage

The *average* minimum wage for the 19 democratic states is \$13.09 and for the 20 republican states is \$7.96, respectively. Due to this difference, we can conclude that Buchanan's Public Choice Theory is valid for implementing the policy. Consequently, figure 1 depicts the policy's ineffectiveness.

Philosophical Evaluation through Economic Quantitative Methods

To evaluate it from a Utilitarianism perspective, this research will quantify 'the greater good' based on the OECD's Better Life Index, which measures the quality of life of an average individual in the U.S. Next, a review of the L.A. Cost Benefit Analysis that was carried out (LA City Clerk, 2015).

Firstly, the OECD ranks an American's general satisfaction with life to be a grade 7 on 10 (Better Life Index). It is also ranked 16 globally, with a good score of 173.0 (Numbeo, 2023). The OECD considers more than 80 indicators of a satisfactory life, including multiple subjective and quantifiable ones. Theoretically, it could be said that the minimum wage policy was one of the contributing factors to this above-average score.

Next, the thesis uses the U.S. Census American Community Survey (ACS) database and other sources to produce a comprehensively detailed report. It concludes that the policy is ineffective because the benefits are seen to be *short-lived* and the net negatives *outweigh* the benefits. The potential negative impact includes greater costs to the city and erasing potential growth in the employment base. The report also suggested that some amendments must be made to the existing policy's structure to make the impacts more concrete.

Thus, this research paper brings out the possibility of the minimum wage policy *not* being one of the factors that led to the high rating of the U.S. in the OECD Better Life Index. In particular, the policy was made because the notion found in the Subsistence Theory stated that the law of supply and market price is fixed at the minimum wage needed for a worker's necessities. But, as proposed by the report, this is not the case even with the policy's implementation. It can then be said that the policy also doesn't satisfy the requirements for Utilitarianism.

In continuation, Classical Economists and Libertarianism theory look at the concept of government interference from moral and practical viewpoints. For Classical Economists, capitalism is the method that serves the greater good. For Libertarians, it can be said that because they see radical redistributions of power from the coercive state, i.e., politicians, as a violation of free choice, they also support minimal government intervention. The figure below showcases the evolution of household incomes based on income groups (Mislinski, 2021).

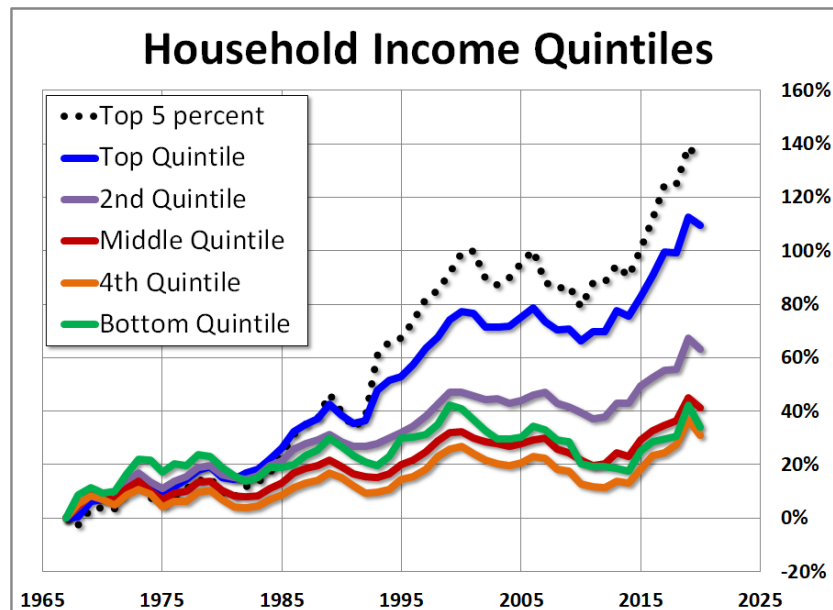


Figure 3: Evolution of Household Incomes in the U.S.

It is evident that even after the legislative policy was passed in 2009, the bottom income group earners (bottom, 4th and middle quintile) have not seen much improvement in household income. On the other hand, the top earners have seen an exponential increase in income levels, further exasperating inequalities. An interesting contrast is visible, wherein the exact opposite of what the minimum wage policy intended to do was actually achieved. This quantitative data may hence support the views of Classical Economists and Libertarianism theories.

RESULTS

Looking at any policy's implications, specifically the minimum wage legislation can be achieved through analysis of 3 dimensions - *Politics, Philosophy, and Economics*. In this research paper, 2 opposing theories in each subject were evaluated, with the support of empirical data obtained through secondary sources.

As per the first dimension of *Politics*, a comparative analysis was carried out between pre and post-policy effects on the objectives of *social democracy*, mainly reducing inequalities. Here, the policy was unsuccessful, and the findings also indicated that the price level set had fallen in terms of adjustments for *inflation*. Additionally, this paper segregated the Republican and Democratic states based on the minimum wage set in each region and compared it with the party's consensus views. There was a correlation between the party's perspective on the policy and the actual minimum price they set in their respective states, eliminating other economic reasons for the difference in wage levels per state.

The second and third dimensions were pooled together for a more detailed, evidence-based policy evaluation. Primarily, Utilitarianism was quantified with the OECD Better Life Index and an economic cost-benefit analysis. It was seen that the policy didn't fit the parameters of being 'effective'. Next, the antagonistic theories were analysed by studying the historical fluctuations and changes in income levels of each household's economic category. Here, only the upper-class earners benefitted, while the lower classes saw no significant change.

It was then concluded that the intervention was ineffective and its costs outweighed the possible benefits. While the policy's intention is commendable in intent and manages to look like the right choice in some theories, the reality is *different*.

CONCLUSION

In conclusion, a holistic examination of the minimum wage policy from political, philosophical, and economic viewpoints revealed that the intervention was ineffectual. While the policy has a respectable goal and appears valid from some theoretical perspectives, empirical reality presents a different picture. The costs have outweighed the benefits, resulting in the inability to achieve primary goals such as reducing inequality. Since the minimum wage set differs from state to state, further analysis is required within states to understand local needs. Being a macroeconomic study, the results are indicative of an array of failures in policy implementation, and either show no change for some demographics or highlight an exasperation in income inequality for others.

On a broader scale, this study emphasised the discrepancies between theory and the on-the-ground effects of this

seemingly simple but widely discussed legislative approach. Untangling the complex issues underlying the minimum wage required a nuanced, evidence-based approach.

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