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The Best Solution to Wage Inequality: Incentive Versus Minimum Wage

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Minimum wage is a pressing issue that seems to be in the limelight every few years. In fact, 56% of Americans believe that the federal government should raise the national minimum wage (isidewith). The majority of citizens believe a higher minimum wage will offer fair income for workers and fair wages. Although the majority believe raising the minimum wage will fix issues with businesses offering fair wages, a number of citizens have a different stance. The minority on this issue presume that incentive and long-term opportunities are a better and more sustainable option to increase wages and decrease income inequality. Adding onto this, they believe that incentive will not spike prices in the marketplace for goods and services. The Democrats and Republicans in Congress have split on this issue. Democrats believe that minimum wage is the best way to regulate and offer fair wages to employees. Republicans take the minority stance that minimum wage is not the best option and incentive is the only way to make long-term sustainable increases in income while keeping prices in the marketplace stable. This is a very important topic because it deals with an increasing issue in the economy on fair wages. I believe that each option has some degree of validity to it, but the ramifications of a minimum wage are costlier than incentive. I believe incentive and long-term opportunities are the best for the future because they hold sustainable increases in income, the unemployment rate goes down, and the goods and services markets are kept stable.

Franklin Delano Roosevelt first became president in 1933 and was president until 1945 when he passed away from an Intracerebral hemorrhage. Roosevelt stepped into office during the great depression and his main goal was to bring the United States out of a depression and back to a stable and growing economy. Roosevelt first introduced the minimum wage binding price floor laws into the economy in 1938. This was part of his campaign to improve the common welfare in the United States of America. During this time, employees of big firms were being treated poorly and paid poorly in the workplace. Some speculate that this poor treatment of employees may be due to citizens desperately demanding employment that employers felt they could take advantage of them. Since government's job is to take action when the common welfare is not up to par, Roosevelt believed that this policy would not only help the hurting economy, but force employers to offer fair wages.

Since this law was proposed and enacted in 1938, the minimum wage has been increased at a gradual pace. According to CNN Money, the first proposed minimum wage was $0.25/hr. If this price was adjusted to the US monetary value in 2015, this would be a minimum wage of around $4.19/hr. The federal minimum wage has increased to $7.25/hr since 1938. Recently, states have been proposing $15/hr minimum wage laws. Washington was the first state to do so and other states are starting to follow. Some of these states include California and Oregon, Vermont, Arizona, and Nevada. These state legislators (as well as many citizens) believe the minimum wage laws will offer fair and sustainable wages to their citizens. They also believe that this is the best option to do so. This minimum wage and incentive topic is relevant to today's times because it shows why these states should worry about their economy and their employment opportunities with new minimum wage laws.

A long-term increase in income is a desirable solution for those who cannot seem to find a job which yields a lot of money. According to the Bureau of Labor Statistics, only 2.7% of workers in the labor force are actually earning the federal minimum wage. Although this does not take into account how many people are earning 1 cent above the minimum wage, it shows that firms are paying more to workers regardless of the federal minimum wage. In my opinion, I do not think increasing the minimum wage will help these workers. This is supported by Aspen Gorry's journal "Minimum wages and Youth Unemployment". In this journal, he states that "minimum wages can have large effects on unemployment because they interact with a worker's ability to gain job experience" (Gorry). The main issue is that job experience is hard to obtain when you cannot find a job to get experience in. Incentive and long-term opportunities such as education and job training will help workers. When a competitor in the market looks for a job and it is between that person and a highly educated competitor with the skills required for the job, the choice is obvious on who will get hired. When the government does not offer educational opportunities, they are essentially making it harder for those less fortunate to compete in the labor market. Andrea Schneider, a macroeconomics professor at Bowling Green State University, supports this argument in an interview when she explains, "Minimum wage might help a little bit, but educational opportunities and job training seem to be the better option in the long run". This is backed by the Bureau of labor statistics. In their 2016 annual report on minimum wage earners, most minimum wage earners, or those near the minimum wage, are without an education past high school. Both of these sources agree that if the government offers educational opportunities and experience in the labor force it will make minimum wage earners more competitive. Incentive and educational opportunities focus on the future of the nation rather than the present.

The unemployment rate is a major topic and issue in the United States. The unemployment rate cannot go too high or too low before problems with inflation start to occur. Incentive and long-term opportunities not only lower the unemployment rate, but they will also sustain it at the 4-6% the government aims for with unemployment every year. There is a common model in economics that deals with the labor market. It is a graph that depicts the labor market where the supply side is people willing to offer their duties to a company. The demand side is the willingness for a firm to buy people for employment. According to Gregory Mankiw, a professor of economics at Harvard University, when minimum wage goes up, the supply of people willing to work goes up while the demand for employees to hire goes down (4-3). In his book "Principles of Microeconomics," Mankiw claims that this increase in the supply of workers and decrease in demand for workers causes a split in the market (4-3). Andrea Schneider supports Mankiw's claim when she expresses that increasing the minimum wage would cause employers to hire fewer workers and potentially lay off employees. Even though firms are required to offer employment at a certain wage price, they will higher fewer people than desired because the market will not reach equilibrium. Professor Schneider and Mankiw both show support that an increase in minimum wage would cause fewer workers to be hired, causing an increase in the unemployment rate. Incentive does the opposite to the unemployment rate. Professor Schneider explains in her interview that increasing the demand for labor not only increases the wages for workers, but it also increases the number of workers hired. This theory was heavily tested in 1943. In an article written by John Nickerson, an author whose work is published by Public Opinion Quarterly, he presents that incentive, "increases production 9% at one plant and 39% at another on the basis of pounds per man-hour for the month of June over

May 1943" (399). An incentive can increase the production output of a firm, which in turn, increases the wages an employee earns.

Minimum wage not only causes unemployment, it reduces inflation to a very low number. Inflation is a measure of how much the average price of all items increases in a given time period. In the United States, the target inflation rate is 3%. This is deemed as a stable inflation that promotes economic growth and keeps the unemployment stable. According to Bradley Schiller, author of the textbook "The Macro Economy Today", when inflation gets too low, firms are forced to profit squeeze (132). A profit squeeze means that costs are increasing but revenue is the same. This causes problems with unemployment. When inflation gets too low, workers will be fired, and the government may have to step in with fiscal and monetary policies. This will only increase the unemployment rate more. Since minimum wage causes unemployment rates to spike, the economy will not grow at a steady pace and problems will arise. Incentive aims to do the opposite of minimum wage. Incentive does not target the whole labor force, it only lets those who put in a decent effort succeed. This lowers the unemployment rate to the target and spikes inflation to its target numbers. This is evident in today's society. Professor Schneider utters that president Trump's incentive plan is working so well that his cabinet is actually cutting back, so inflation does not spike too high. Right now, the unemployment rate is at a very low percentage, so the Trump administration is making sure they do not incentivize too much so the unemployment rate stays in the target range as well as the rate of inflation. Incentive is very easy to regulate and keeps the economy stable and expanding if done correctly.

Advocates for a minimum wage increase argue numerous advantages to having a minimum wage. Some of these advantages they propose include helping people get off food stamps, taking money out of the riches pocket, saving the government money, and even improving economic security. In an article published by the Alternet organization, they state that "It is no longer the case that the people making the minimum wage are largely teenagers. In fact, now more than half of workers earning under $10.10 an hour are forced to support themselves on that as their primary income". They explain that this will increase economic security. Think Progress, an organization in support of a higher minimum wage, agrees that, "A full-time minimum wage worker earns just $14,500 a year, meaning that if she has two kids she lives at $3,000 below the poverty line. The wage isn't enough to make rent in any state in the country. But raising it to $10.10 an hour would lift nearly 6 million workers out of poverty". Both sources agree that a higher minimum wage law supports economic growth and aids those near the poverty line.

Minimum wage advocators make a solid argument that higher wages will lift those out of poverty. They fail to show the statistics behind their reasoning. When Alternet claims that it is no longer the case that teenagers are the main ones on minimum wage, they are leaving a blank space. The Bureau of Labor Statistics shows in their 2016 annual report that, "Although workers under age 25 represented only about one-fifth of hourly paid workers, they made up about half of those paid the federal minimum wage or less. Among employed teenagers (ages 16 to 19) paid by the hour, about 10 percent earned the minimum wage or less, compared with about 2 percent of workers age 25 and older". Alternet and Think Progress fail to realize who they will be hurting with a minimum wage increase. Even though young adults and teenagers do not make up a majority of those paid hourly wages, they make up most of those paid minimum wage or less. Raising the minimum wage will not affect those in poverty to the extent that these organizations claim. This increase in hourly wage will mostly affect the unemployment of those in their early adulthood years.

Incentive and long-term opportunities such as access to education create a stable and efficient economy in the labor and product markets. Sustainable increases in income come from being educated or demanded by firms. Incentive and opportunities are the best way to achieve this. Not only does this create sustainable/long-term increases in income, it decreased the unemployment rate without spiking inflation. Lastly, incentive and long-term opportunities keep the market for goods and services stable because businesses can choose the wage the markets and/or firms decide. Although new minimum wage laws may bring some out of poverty, it is no long-term solution to those less fortunate. Giving them educational opportunities to where they can obtain skills needed for higher pay will be better for those in the long-run. I believe that there still should be a minimum wage law just in the case that a firm where low wage workers are prominent decides to take advantage of the employees. I do not believe this is a long-term solution to the problem of income inequality though. The best way for this topic to be further researched is to be heavily implemented in today's society. This will give clear cut evidence as to the effects incentive will have on the economy. I believe states like California and Washington will realize the damage a $15/hr minimum wage will have on the economy and will reconsider their options moving forward with who they will vote for on the state legislation. Between unemployment, little to no economic growth, and unsustainable wages, raising the minimum wage is not a viable option to help the economy and poverty-ridden areas. I do not believe the state legislators will change anything now, but future congressman will. Incentive is already starting to shine through Donald Trump's tax cuts on businesses. This will prove that a movement towards incentive rather than the increasing of the minimum wage will be the right way to go for the country in the long run.

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