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An Analysis of Minimum Wage: The Impact States with Higher and Lower Minimum Wages

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The Impact on States' with Higher and Lower Minimum Wages

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I. Introduction

Perhaps one of the most politically contentious debates arguably revolves around minimum wage rates, and in particular federal minimum wage rate which sets a standard floor to which all states must follow. Each state in the US is allowed to raise its minimum wage rate above the federal standard, however many view increasing minimum wage rates to be a reversal of economic progress while others see it as a way to end poverty for many American citizens who work in minimum wage positions. While the federal policy on minimum wage continues, the importance of a state's individual policy on their minimum wage requirement is as equally important.

Fortunately, due to America's separation and individual autonomy of states' rights research can easily be conducted in the regard of how varying minimum wage rates influence the socioeconomic development of states with higher and lower minimum wages. Though those in opposition to elevated minimum wage requirements have merit to their argument, they often lack in examination and understanding of increased minimum wages of states with minimum wages higher than the required level of the federal minimum wage policy. For the purposes of this study, minimum wage policy will be considered as a government public policy to combat poverty, however, it will not be considered a means to which the government can eradicate poverty in its totality. Rather the antipoverty measure of state minimum wage policy is implemented as a way to set an individualized and customized net for impoverished citizens to not fall below.

Furthermore, since the definition of the purpose of states minimum wage policies has been determined, the focus of this study shall now be explained. Given the determination of minimum wage as a poverty safety net, not an abolisher, the efficacy of variation regarding states with oppositional minimum wage policies shall be examined. More specifically this study will examine the effects of minimum wage rates in states with higher and lower minimum wages with four variables as measures: 1. Poverty, 2. Unemployment, 3. Per capita income, and 4. Economic inequality. With these for variables in place, this study will determine if states with higher required minimum wages will have greater levels of economic well-being for their residents, as measured by per capita income, poverty, economic inequality, and unemployment.

Within this study, there will be of approximately eight sections with corresponding subsections. These eight topic sections are as follows: I. Introduction, II Background/History of Minimum wage policy, III. Research Design and Methods, IV. Review of Literature research regarding minimum wage policies, V. Analysis and Findings of the efficacy of minimum wage policies in states with higher and lower minimum wage policy rates, VI. Suggestions, and VII. Conclusion. Following this section I (Introduction), section II shall explain the beginnings of America's minimum wage policies, which will lay the foundation for subsequent sections of the study.

I. Background/History

After the U.S. tried to move forward from the Great Depression of 1929, the government (national and state) was looked upon to help alleviate the effects of poverty on citizens (Harris 2000a). The federal government responded to the people's needs by enacting the Fair Labor Standards Act of 1938 with the hopes of decreasing poverty by setting a national wage and by protecting workers from exploitation (Harris 2000a).

Though the Fair Labor Standards Act (FLSA) of 1938 established by President Roosevelt is known to be the first vital public policy program focusing on establishing a federal minimum wage policy, the first crucial moment in U.S. minimum wage history was the Massachusetts Commission on the Minimum Wage enacted in 1912 (Nordlund 1988). While the Fair Labor Standards Act (FLSA) of 1938 provided a federal floor by which states had to maintain the Massachusetts Commission on the Minimum Wage of 1912 set in motion states minimum wage policy. While FLSA focused on “Competitive Fairness” for businesses and “Bargaining Fairness” for a collective workforce nationally (Harris 2000b). The purpose of the Massachusetts Commission on the Minimum Wage of 1912 was to protect female and child workers in the state, soon after Massachusetts passed its public policy on minimum wage so too did eight other states in 1913 with more states following in the years after (Nordlund 1988). Though the Fair Labor Standards Act of 1912 has seen many challenges and has been heavily influenced by many social movements as well as economic theories (Harris 2000a).

While the FLSA was a national step forward for antipoverty programs and minimum wage, the Act was not detailed to the extent a national minimum wage policy needed in order to be understood and most effective (U.S. Department of Labor - Wage and Hour Division (WHD) - Minimum Wage n.d.). The first amendment made to the FLSA was the Portal-to-Portal Act of 1947 which clarified problems regarding what was to be considered work hours while traveling in coal-mines and in some factories (U.S. Department of Labor - Wage and Hour Division (WHD) - Minimum Wage n.d.). The National minimum wage was increased from 40 cents to 75 cents an hour in 1949 (with the exception of Puerto Rico and the Virgin Islands), within this year the U.S.

Department of Labor was given the capabilities to oversee further violations of workers' rights. In 1955, the federal minimum wage was increased to $1.00. The FLSA amendments in 1961 focused on the retail sector which was a growing business trade (U.S. Department of Labor - Wage and Hour Division (WHD) - Minimum Wage n.d.). In 1961 the minimum wage was increased to $1.15 an hour to $1.25 an hour for workers who already been a recipient of minimum wage, while new minimum wage recipients received $1.00 in 1961, $1.15 in 1964, and $1.25 in 1965 (U.S. Department of Labor - Wage and Hour Division (WHD) - Minimum Wage n.d.).

Furthermore, the FLSA of 1938 has been amended over 20 times (including wage increases) and has adapted to the needs of each generation (U.S. Department of Labor - Wage and Hour Division (WHD) - Minimum Wage n.d.). As work needs change and the U.S. economic landscape transform so too do the economic theories that support and oppose minimum wage policies on the federal and state levels (Harris 2000a). As Harris explains, different economic models including the *Classic Economic Theory* and the economic theory of *Living Wage* have influenced minimum wage policy (Harris 2000a).

As the U.S. economy continues to change so too must minimum wage rates. As exemplified by the past the federal minimum wage sets a national antipoverty floor under which no state can go below, however, states can exceed. After the Massachusetts Commission on the Minimum Wage enacted in 1912 (Nordlund 1988), many states evaluated the individualized needs of their states citizens socioeconomic status and decided their states minimum wage rate based upon antipoverty measures and economic ability of the state. Today states still debate and decide minimum wage rate outcomes through the economic landscape of individual states are different than in the past. The one constant variable throughout the past to current time is the need for effective minimum wage policies and rates, the need for minimum wage has not faded over time.

II. Scholarly Literature Review

Minimum wage policies and their tangible effects on citizens' socioeconomic status has been and continues to be a priority area of study and analysis amongst political scientists. The area of antipoverty research often leads to the efficacy of minimum wage rate variations from states with increased minimum wage rates exceeding the federal floor and states that only meet the federal requirement or exceed it marginally. The U.S. government has always utilized the individuality of states as a means to test and observe different policy applications and implementations, with minimum wage rates being no different. The general focus on scholarly research literature on minimum wage policy is on whether or not minimum wage increases statistically transfer citizens living in poverty to an elevated income bracket, though research suggests that minimum wage rates are more political symbolism rather than pragmatic antipoverty policies (Waltman and Pittman 2002). This perception of ineffective minimum wage increases is further supported by leading research which finds that there is no statistical difference in poverty rates in states that increase minimum wage rates, however this research suggests that increasing state and federal minimum wage rates will have unintended negative consequences for many minimum wage workers (Sabia and Burkhauser 2010).

Furthermore, research done by leading minimum wage experts, Burkhauser and Sabia, found that those that benefit more from minimum wage increases are families who are not impoverished and that those who are already live in poverty are paid more than proposed minimum wage increases would offer (Burkhauser and Sabia 2007). While this research and its subsequent data are valid and do point to flaws within state minimum wage policies, the research structure leaves out the full economic cycle, which must encompass greater spending caused by wage increases which then leads to more consumer demand, hence the need for more workers to fulfill such demand.

Research findings from Schmitt (2013) has indicated that minimum wage does not have a tangible impact on the potential or existing employment of low-wage workers (though minimum wage can be a variable), and that employers have the ability to shift financial and employment components of their business without reducing minimum wage workers hours of employment (Schmitt and others 2013). Other academic literature on the subject of minimum wage suggests that raising state minimum wage rates would be particularly detrimental to the working poor’s employment hours (Burkhauser and Sabia 2007). Within their research Burkhauser and Sabia (2007), postulate that minimum wage increases will have negative consequences for the working poor, however, they believe that there should still be anti-poverty measures take via public policy (Burkhauser and Sabia 2007). Burkhauser and Sabia state that a tax credit via the EITC program should be implemented instead of minimum wage increases, however, the overarching flaw to this tax credit is that individuals without children will not receive any of the tax credit benefits that individuals with children would receive (Burkhauser and Sabia 2007).

In similar fashion, the research of MaCurdy (2014), finds that minimum wage increases do not necessarily just influence impoverished families rather research suggests that both wealthy and poor families generally have a minimum wage worker within their families, hence minimum wage increases positively impact wealthy families as well as poor families (MaCurdy 2014). While MaCurdy may be correct in stating that families with larger incomes will be positively impacted by minimum wage increases, the fact stands that not every individual who is considered to be with a family is supported by that family nor is it just to assume these low-wage workers contribute to the finances of their wealthy family (MaCurdy 2014).

Consequently, research also suggests that minimum wage increases can and will continue to have a negative impact on those within the poor community and those just above poverty (Neumark, Schweitzer, and Wascher 2004). Within the Neumark et al. (2004) study, the increased wages for minimum wage workers benefited them, however the initial benefits did not last a sufficient amount of time and cause a negative economic ripple through the working community as it tried to readjust to the new wage rate (Neumark, Schweitzer, and Wascher 2004). The Neuman et al. results also found that higher-paid workers saw an increase in employment hours while their minimum wage counter-parts saw their hours reduced (Neumark, Schweitzer, and Wascher 2004).

Summarily, the general academic research findings related to minimum wage rate increases suggests that though minimum wage is utilized as an anti-poverty tool that is implemented to reduce poverty and create a financial safety net for the impoverished, the results of the increases seem to have an adverse effect on minimum wage workers. As the general research suggests the variable of monetary increase (though slight) challenges the socioeconomic equilibrium of a time and subsequent variables must realign. What the academic literature fails to acknowledge is the rest of the economic cycle, which is that social economies do readjust over time. The research also lacks a fundamental understanding that minimum wage is not implemented to eradicate poverty, but rather ensure a minimum safety net for everyone.

III. Research Design and Methods

Theoretical data will also be utilized in identifying key variables, issues, and solutions to minimum wage policy. The insight gained from the reviewing focused scholarly literature on minimum wage efficacy and its impacts on states economic status will be applied and acknowledged when analyzing data for this study, though this study will include a suggestions section regarding state minimum wage optimizing options.

Quantitative information will be secondary data used to analyze and quantify theoretical analysis of primary data collected. Quantitative data will be converted into graphical illustrations to enable visualization of numerical data. In addition to supporting theoretical data, quantitative data from the Bureau of Labor and Statistics and the U.S. Department of Labor will be examined in order to analyze statistical variances based upon multiple variables that include: 1. Poverty, 2. Unemployment, 3. Per capita personal income, and 4. Economic inequality.

Additionally, the research within this paper will examine the research data analysis from government websites such as the Bureau of Labor and Statistics (BLS), Current Population Survey (CPS), Department of Labor (DOL), and others, the primary data from these government sites will be analyzed first-hand with the key variables relating to minimum wage in mind, lastly data analysis from the primary and secondary research will be compared as a check to both perceptions of similar data. This comparison should allow for a better understanding of variable influences of minimum wage and aid in structuring a pragmatic anti-poverty policy strategy that will help reduce poverty levels per state and nationally.

The data analyzed from primary data will be analyzed via qualitative explanations of the interactions and consequences of key variables in relation to outcome and output, which will be supported by visual aids such as relevant tables and graphs. Secondary data will largely be stated and explained through qualitative means and then will be supported through visual aids similar to that of the primary data.

IV. Findings & Analysis

Poverty

Minimum wage is necessary due to the pervasiveness of poverty in the United States, which has seen a decrease of 2.1% over a three-year time period between 2014-2016 (Bureau n.d.). While national poverty rates are declining, federal and state minimum wage rates have increased. From 1980-2015 the percentage of citizens labeled as poor has gone down -0.4%, though it

Graph 1: Bureau, US Census. "Historical Poverty Tables: People and Families - 1959 to 2016." https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-poverty-people.html (November 20, 2017).

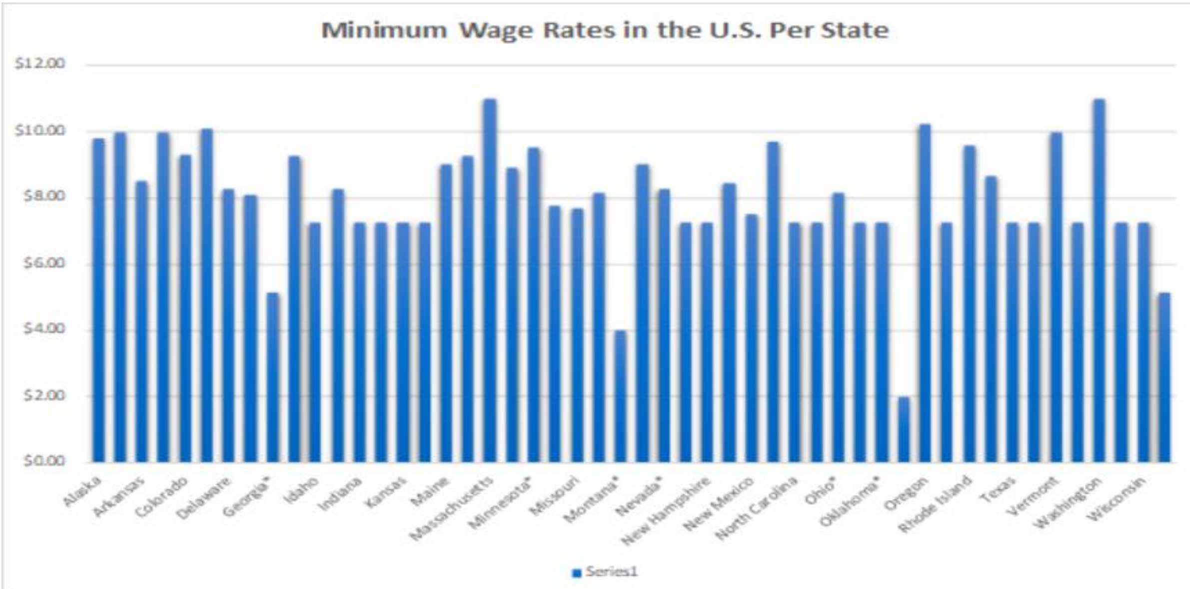
should be noted that there have been 1985 and 2010, as shown in *Graph 1* (Bureau n.d.).

In the past 36 years, states that have minimum wages on average have lower poverty rates when compared to states that have minimum wage rates lower than the federal minimum or no minimum at all (Bureau n.d.). In 2016, poverty in states with higher minimum wages averaged an 11.68% poverty rate, while states with low minimum wage rate averaged 17.3%, and states with no minimum wage averaged 13.15% (*Graph 2*). The insight gained from this data illustrates

Graph 2: Bureau, US Census. "Historical Poverty Tables: People and Families - 1959 to 2016." https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-poverty-people.html (November 20, 2017

that states that implement higher wage policies on average have lower poverty rates amongst their state population; the same cannot be said for states with lower or no minimum wage.

According to primary data collected from the United States Department of Labor (DOL), there are 29 states that exceed the federal minimum wage rate, 14 states that meet with the federal minimum wage, 2 states that do not meet the federal minimum wage, and 5 states that are not mandated to have a minimum wage (Minimum Wage Laws in the States - Wage and Hour Division (WHD) - U.S. Department of Labor n.d.). In *Graph 3*, the states that meet and exceed the federal minimum wage are illustrated according to data derived from DOL (Minimum Wage Laws in the States - Wage and Hour Division (WHD) - U.S. Department of Labor n.d.)

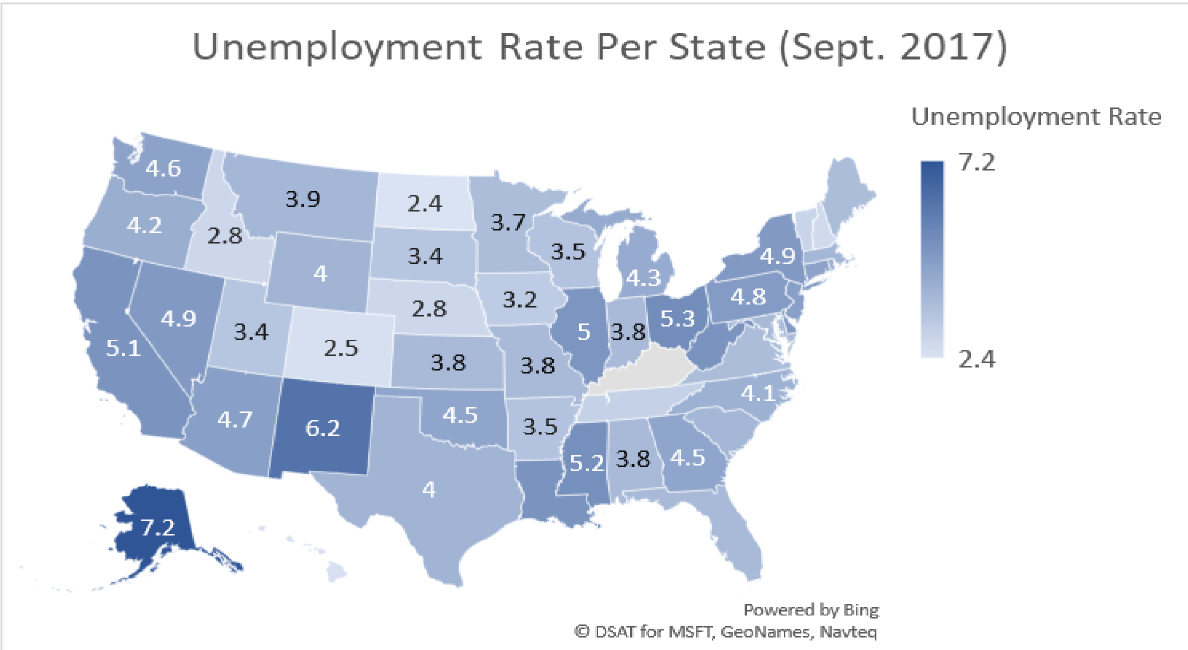


Graph 3: Minimum Wage Laws in the States - Wage and Hour Division (WHD) - U.S. Department of Labor n.d.

Though only 58% of states chose to exceed the federal minimum wage rate the individual rates of these states vary based on the socioeconomic standing and cost of living in each state (Minimum Wage Laws in the States - Wage and Hour Division (WHD) - U.S. Department of Labor n.d.). With this wide variety of individual states wages, whether compliant with the federal government or not, cross analysis with unemployment and wage per state is possible. Within the graphical illustrations shown below in *Graphs 3-5*, the connection between current minimum wage rates and unemployment rates are compared. As of September 2017, the unemployment rates in the U.S. are as shown in *Graph 4.* While 2017 has been a tumultuous year politically, socially, and economically, due to the recent presidential election, this study shall hold these unemployment rates constant (Unemployment Rates for States n.d.).

Unemployment

A general observation of the unemployment in U.S. states illustrates a random dispersion of rates that do not appear to be closely connected via state borders. When comparing various minimum wage rates from a number of states to their September 2017 unemployment rates (*Graph 3*) the effect minimum wage has on unemployment seems unconnected ((Unemployment

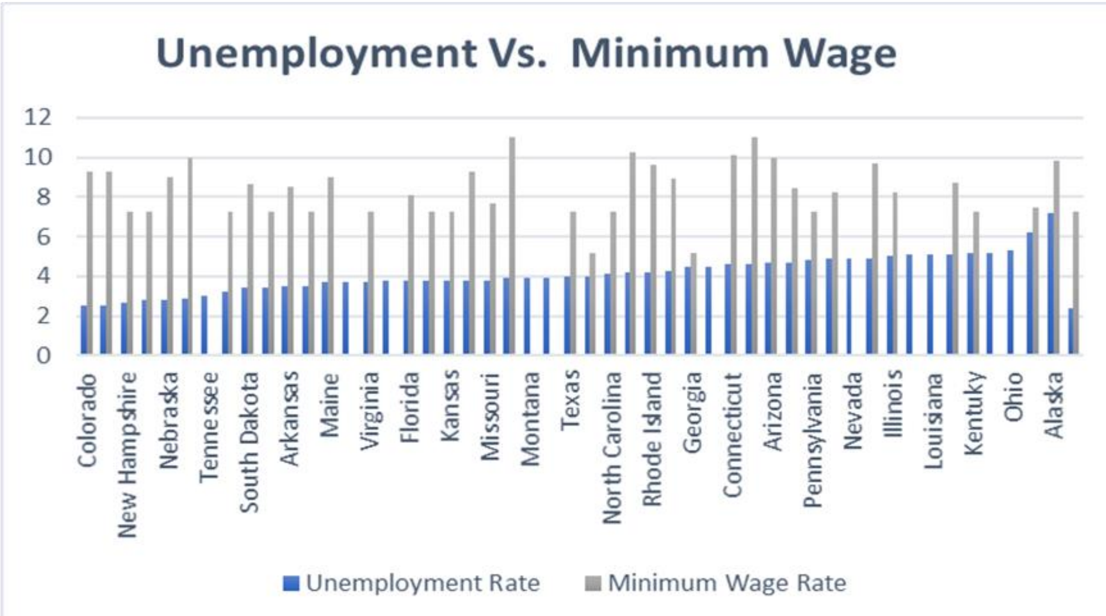


Rates

Graph 4: (Unemployment Rates for States n.d.)

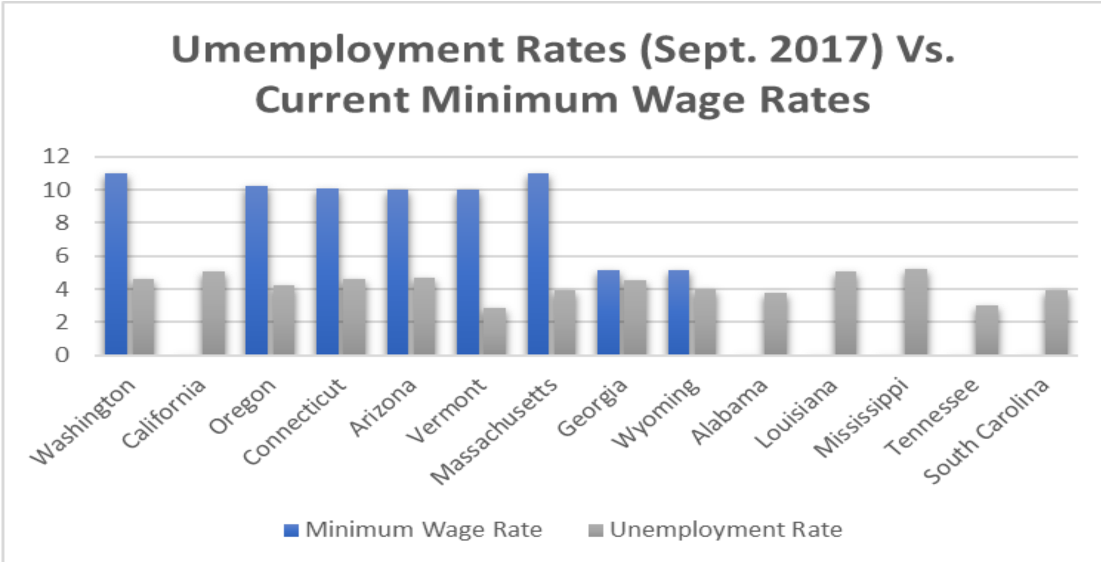
for States n.d.) & Minimum Wage Laws in the States - Wage and Hour

Division (WHD) - U.S. Department of Labor n.d). States such as Colorado (state minimum wage $9.30) and Rhode Island (State Minimum wage $9.60) have relatively low unemployment rates, Colorado at 2.5 and Rhode Island at 4.2, while states meeting the federal minimum wage saw a wide range of unemployment levels ((Unemployment Rates for States n.d.) & Minimum Wage Laws in the States - Wage and Hour Division (WHD) - U.S. Department of Labor n.d)



Graph 5: (Unemployment Rates for States n.d.) & Minimum Wage Laws in the States - Wage and Hour Division (WHD) - U.S. Department of Labor n.d

Delving into the possible connection between minimum wage and unemployment further (*Figure 6*), the connection becomes more ambiguous. Washington and Massachusetts both same the same minimum wage of $11.00, and unemployment rates of 4.6 and 3.9 respectively. The 0.7% disparity between the rates is relatively low in comparison to other states that do not adhere to a federal or state minimum wage. Such states include Mississippi which has an unemployment rate of 5.2 and Tennessee where the unemployment rate is at 3.0, this 2.2% difference may seem large however when compared to other states with no minimum wage there is little difference in variation compared to exceeding or conforming states regarding minimum wage.



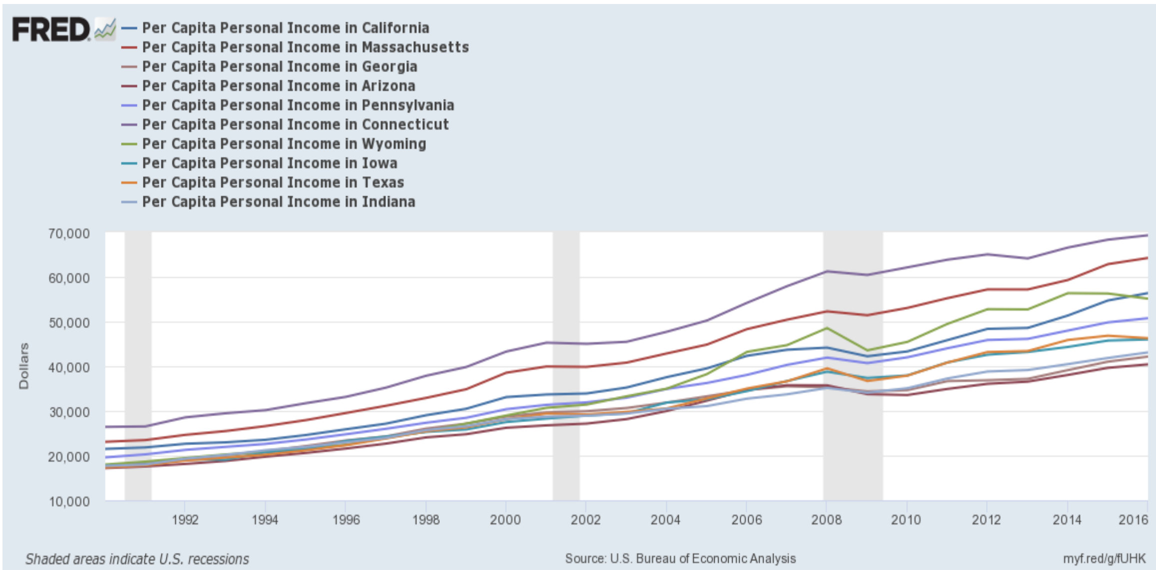
Graph 6: (Unemployment Rates for States n.d.) & Minimum Wage Laws in the States - Wage and Hour Division ((WHD) - U.S. Department of Labor n.d.

hough *Graphs 5 & 6* (and relating unemployment data), illustrate a snapshot of the 2017 unemployment rates relative to current state minimum wage rates (many of which have recently gone into effect (Minimum Wage Laws in the States - Wage and Hour Division (WHD) - U.S. Department of Labor n.d.), the insight of correlation rather than causation should be observed.

Over 2015-2016, the largest unemployment changes happened in Massachusetts (-1.2), Arkansas (-1.1), Nevada (-1.1), South Carolina (-1.2), and Wyoming (1.1) (Regional and State Unemployment, 2016 Annual Average Summary n.d.). The 2016 national unemployment rate average was 4.9, which was much lower Alabama (6.0), Alaska (6.6), Illinois (5.9), Louisiana (6.1), New Mexico (6.7), this diversity of rates illustrates that that unemployment rates are not necessarily responsive to minimum wage rates, whether they are increased or decreased (Regional and State Unemployment, 2016 Annual Average Summary n.d.).

Per Capita Income

Generally, per capita income is thought to be negatively influenced when state minimum wage rates are increased. This generalized assumption is not always validated by corresponding data as shown in *Graph 7* (FRED Graph | FRED | St. Louis Fed n.d.).



Graph 7: (FRED Graph | FRED | St. Louis Fed n.d.)

Ten states were analyzed over a 26-year period to illustrate the growth or regression of per capita personal income amongst states with increased, compliant, and no minimum wage rates. According to Federal Reserve Economic Data, states with the highest per capita personal income (PCPI) from states with highest or no minimum wage rate were states where the minimum wage rate exceeded the federal minimum (FRED Graph | FRED | St. Louis Fed n.d.). States with the highest minimum wages (of the ten states) seemed to, on average, see more PCPI growth, though Wyoming, where there is no minimum wage rate, saw the largest PCPI increase at 3.06 which is in stark contrast to Georgia (no minimum wage rate) who only saw an increase of 2.37 (FRED Graph | FRED | St. Louis Fed n.d.). While the two states with no minimum wage rate illustrated the most dynamic PCPI rates, there seemed to be no discernable difference in PCPI increases in the other eight states which comprised states with varying minimum wage

Graph 8: (FRED Graph | FRED | St. Louis Fed n.d.)

rates See Graph 8 (FRED Graph | FRED | St. Louis Fed n.d.).

While the PCPI data (FRED Graph | FRED | St. Louis Fed n.d.), may not indicate substantially direct influence between minimum wage rates and per capita income, there is a certain correlation (and possible causation) in regards to states with increased minimum wage and higher PCPI, which generally is indicative of increased quality of living.

Economic Inequality

The fundamental reason that minimum wage policies were put into place on a state level was to ensure that residents of that state a minimum protection from financial hardship according to a state's individual antipoverty need. As stated previously the national poverty levels have decreased as have poverty levels in states with high minimum wage rates, however, as state minimum wage policies increase so too does state economic inequality. In the state on Connecticut which has one of the highest minimum wage rates ($10.10) in the U.S., the PCPI as of 2016 is $69,311 (FRED Graph | FRED | St. Louis Fed n.d.), while the yearly wage for a full-time minimum wage worker is $19,392 (Minimum Wage Laws in the States - Wage and Hour Division (WHD) - U.S. Department of Labor n.d.), which is 3.6 times less than the PCPI. This growing problematic issue of economic inequality within states is not unique to Connecticut, but is prevalent in all states, though at varying percentages. States with elevated levels of minimum wage generally have increased PCPI, which indicates a larger economic disparity between minimum wage workers and non-minimum wage workers.

V. Suggestions

The suggestions to increase the efficacy of minimum wage effects in higher and lower minimum wage states are for 1. states to create minimum wage rates based upon the average cost of living for districts and 2. for individual states to increase their minimum wage rates by 5 percent each year to match that states increase in inflation.

For suggestion 1, state departments would have to utilize analysis for cost of living by adding up and averaging common daily necessities that the general population in that district (or region) typically consumes on a regular basis (the analysis will have to also account for seasonal consumer item needs and fluctuations). Suggestion 2 will be much simpler to calculate though the dollar equivalent of the 5 percent increase tied to the state's inflation may shock many and may result in negative public perception. These two suggestions would have to be implemented over the course of many years, which may cause a concern about tangible results, however, once a state’s market absorbs the initial shock of this new minimum wage the state's economy will reach equilibrium, due to increased demand from increased wages.

VI. Conclusion

In conclusion, minimum wage rates have always been and will always be a divisive and contentious sociopolitical debate. Poverty overall has seemed to have become reduced while minimum wage rates in most states have increased. While the causal relationship between states with higher and lower minimum wage rates and the decrease of poverty rates in the U.S. the data suggests that states with higher minimum wage rates currently and historically have lower poverty rates than do states with lower or no minimum wage rates (Bureau n.d.). Though this comparison may not create enough evidence to suggest that elevated minimum wage rates are the cause of decreased poverty rates it does prove that minimum wage is a strong proponent of its reduction. Regarding unemployment, this study suggests that elevated minimum wage rates do not generally nor statistically create adversity for labor markets, but is related to unemployment via a corollary relationship rather than a causal one (Unemployment Rates for States n.d.). Minimum wage rates may also be a causal factor in per capita personal income (PCPI) amongst states due to data which illustrates that states with higher minimum wage generally have higher PCPI rates (FRED Graph | FRED | St. Louis Fed n.d.). Lastly, this analysis has found that though minimum wage rates in most states have increased so too has economic inequality, which is creating a divisive sociopolitical and socioeconomic environment in the U.S. The vast financial disparity between those working minimum wage jobs and those that do not must become closer to one another for the future success of U.S. citizens and businesses. While this study has opened the door for broad analysis on the effects of minimum wage rates (high and low) for individual states this research should be continued in order to process more data in individual states down to the county level so that the true effects of minimum wage rates can be understood at every level in the U.S.

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