

# ***PERSONALLY SPEAKING***

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## **MINIMUM WAGE: NEED VERSUS ABILITY TO PAY**

**Edward J. O'Boyle, Ph.D.**

**Mayo Research Institute**

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The minimum-wage issue always brings into play two principal factors: the need of the wage earner and the ability of the employer to pay that minimum. This much is clear. Beyond that, the issue becomes murky.

For example, does a higher minimum wage lead to more unemployment?

**YES**, if what the employer gives up in the form of a higher wage is greater than what that employer gets in return from the work output of the employee. That negative outcome tells the profit-minded employer to dismiss the employee.

**NO**, if the higher minimum wage is below the wages the employer already pays to the lowest-paid worker. However, if the higher minimum compresses the employer's workforce pay structure such that wages for higher-paid workers must be raised, the employer's profits could be squeezed or product prices increased.

**YES**, if the monies paid under a higher minimum wage otherwise would have been used by the employer to improve labor productivity allowing the employer to increase what is gotten from the work effort of even the lowest-wage workers.

**NO**, if the higher minimum is passed on to the consumer in the form of higher prices for the goods and services produced. In that case, the higher minimum is paid not by the employer but the consumer.

**YES**, if the monies paid under a higher minimum wage otherwise would have been used to expand operations and would have compelled the employer to hire additional workers.

**NO**, if the employer is willing to absorb the higher minimum without increasing prices. An employer with a large workforce and only a few workers impacted by the higher minimum is more likely to do this than an employer with a small workforce and several workers under the higher minimum.

Besides raising the minimum wage, there are other ways to address the needs of the low-wage worker. Access to food stamps, reduced or free school lunches, and surplus commodities helps alleviate hunger. Entitlement to public housing or subsidized housing

helps address the need for shelter. Eligibility for Medicaid helps cover the cost of providing needed health care services. The earned income tax credit offers tax relief to low-income earners based on the amount of their income and family size. In some cases this credit takes the form of a cash benefit for those tax filers who paid no income tax at all.

Even so, raising the federal minimum wage and making it apply across the entire nation is a very attractive way to deal with the needs of low-wage workers. With a simple stroke of the pen, the president can make it possible for untold numbers of workers to better provide for themselves and their families. Unlike the other options, the higher minimum wage does not require additional federal government spending.

The problem with a federal minimum wage applying across the length and breadth of the United States is that it has a *different* impact on large firms vs. small firms, established firms vs. startups, firms that operate on thin profit margins vs. others that enjoy larger margins, those that are labor intensive vs. those that are capital intensive, those that find it easier to pass a higher minimum on to their customers vs. those whose customers will rebel against higher prices.

It makes sense to take those differences into account and phase in a higher federal minimum over time in several steps than to mandate its implementation all at once. Or exempt firms for which the higher minimum has a severe and demonstrable impact. In the past, it has been suggested that any hike in the minimum wage should be smaller for teenage workers whose general lack of work experience means that they are less productive than adult workers.

Given the different cost of certain goods and services that are essential to human well-being, such as housing in San Francisco vs. Natchez and food in New York vs. Savannah , along with the different abilities of employers to pay a higher minimum without any negative impacts, it makes sense to let states and local government adjust the federal minimum within limits in accordance with the values of their citizens. They are much closer than the federal government to the needs of low-wage workers and the financial circumstances of their employers and therefore better positioned to respond to those needs and circumstances.

Better yet, given the universal consensus among economists of vastly different persuasions on monetary and fiscal policy, rather than mandating a higher minimum wage the federal government could enable higher wages by promoting greater productivity through tax credits tied to profit-sharing plans that are linked directly to productivity gains, or to on-the-job training programs that open up promotional opportunities for low-wage workers.

Perhaps most of all what is needed is greater courage on the part of corporate boards of directors that authorize enormous bonuses for senior managers. If they have the ability to pay additional millions for those on the high end of the compensation scale they should be able to better provide for the needs of the many at the low end.

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*Edward J. O'Boyle is Senior Research Associate with Mayo Research Institute.  
Offices in New Orleans, Lake Charles, and West Monroe*  
[www.mayoresearch.org](http://www.mayoresearch.org)      318-381-4002      [edoboyle737@gmail.com](mailto:edoboyle737@gmail.com)

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