Commentary on One Hundred Years of Dynamic Minimum Wage Regulation: Lessons from Australia, the United Kingdom, and the United States

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The outstanding paper by Deputy President Reg Hamilton of the Fair Work Commission and Matt Nichol notes in the introduction that "[m]inimum wage regulation tends to split politicians and economists into two groups," essentially free market advocates who focus on downsides such as unemployment, versus those who emphasize that government regulation is required to ensure a living wage and the dignity of workers. Nowhere in advanced, Western countries is this split more evident than in the U.S., where the debate has cultivated a crazy quilt of minimum wage policies at the city, state, and federal levels. The polarization around this issue has recently been manifest in the efforts of President Biden to more than double the federal minimum wage to $15 (U.S.) per hour. The legislation has failed for now, but this will not likely be the last attempt under current leadership.

Before exploring how the split has played out, it is important to consider some perspective. At $7.25/hour, America has the lowest national minimum wage as a proportion of average wage of any advanced economy, a source of embarrassment for many. However, as of May 2021, of the 50 states plus D.C., 31 have a minimum wage above the federal level. As measured in 2019, the average effective minimum wage was $11.80 and that will have gone up. At the same time, we have a program called the "Earned Income Tax Credit" that supplements the wages of low earners. For example, a family with two children earning between minimum wage and an annualized salary of $19,250, would receive a supplement of $5,980 (approximately $7,834 Australian). Those working at or below minimum wage are largely young people: 43% are ages 16-24 with 68% under 35. Almost 75% of workers earning at or below minimum wage are employed in service occupations, mostly in food preparation and serving related jobs. For many of these workers, tips substantially supplement the hourly wages (tips are far more common and higher than in Australia or the U.K).

The arguments in favor of raising the minimum wage focus on the difficulty making ends meet on existing paltry sums. At the federal minimum wage, even a couple with no children would be below the poverty line. Many must seek welfare such as food stamps. The minimum has not been raised in almost 12 years despite substantial increases in cost of living. Advocates of a wage hike also emphasize that it would reduce growing inequality by narrowing the pay gap. Further, it would increase worker buying power thereby boosting economic growth while at the same time potentially increasing employee productivity by motivating harder work and reducing turnover.

The most common argument against minimum wage increases is based on a basic law of supply and demand: when you raise the price of something, people tend to buy less of it. The Congressional Budget Office calculated that while raising the minimum to $15 would lift 900 thousand people out of poverty, it would result in loss of jobs for 1.4 million. This, wage hike opponents argue, is especially harmful to youth and inexperienced/uneducated workers because businesses will tend to only hire people whose productivity can command the higher rate. They note that the time of a pandemic is especially inopportune to raise the minimum since covid has reduced demand for workers across sectors requiring in-person interaction and occupations with lower wages are more common in the worst affected sectors of the economy including restaurants and bars. Another argument is that companies adjust to mandated wage increases by such approaches as laying off workers, lowering benefits, or, in a move that disproportionately affects the poor, raising prices to consumers. Finally, opponents insist that a great many of minimum wage workers are not poor, such as working students, or part-time second earners in relatively affluent households.

On the issue of minimum wage potentially causing unemployment, while more of the research supports that view, some studies have found that increasing the minimum wage does not have a significant impact on employment. Many of the arguments depend on complex econometric factors leading to no clear conclusion, other than that different groups are affected differently. And even those against minimum wage increases typically acknowledge the need for government assistance and other policies that could help the working poor.

Unions have taken a leading role in promoting higher minimum wages in their "Fight for 15" initiative. Most unionized workers in the U.S. earn well above the minimum wage: the average private-sector union worker earns about $23/hour. Nevertheless, increased minimums create higher floors for labor contract negotiations and some agreements link bargained pay raises to the minimum wage. In the private sector, unions represent a declining share of workers—below 7% of the private workforce. Some argue that the reduced bargaining power this reflects is a major reason why wages have not kept pace with the overall growth of the economy. The tide may turn in that regard as the Biden administration strongly supports union activity.

The intense debate over minimum wages will certainly continue in the U.S. for the foreseeable future as voters and decision-makers weigh potential downsides against the benefits of greater earnings. Most of the movement towards a higher wage requirement is likely to remain with cities and states as a growing number pass legislation to boost minimum wages.