Increasing The Minimum Wage A Risk-free Alternative For Helping Out Low-income Earners

Is increasing the minimum wage a risk-free alternative for helping out low-income earners?

To answer this question which has always been a contentious issue around the world, particularly in well-developed countries, we have studied some countries' policies and got inspired by the United States of America.

Within this context, beyond the misperception that such a measure aimed at helping the most vulnerable, low-income earners seems to lead to reductions in employment levels, particularly for the new immigrants, some aspects need to be considered for answering when completing properly the essay.

The reason minimum wages may not boost incomes for low-income earners is that there is a significant probability that higher minimum wages could result in fewer jobs and an increase in costs for employers. Some employers may be able to absorb these costs, perhaps by applying higher prices for consumers.

However, other employers may respond by reducing hours or eliminating entire positions.

To use economists' terms, the labor demand curve is downward plunging, so when the cost of a worker goes up, firms will hire fewer of them.

1) Increasing minimum wages will have some risks for the economy.

This policy may generate an increase in living costs and so create a need for the further minimum wage increase. There will always be higher incomes and that is the reason why there will always be lower wages. Those wages represent fewer jobs in the economic world but they are more powerful than all the minimum wages.

Companies might not be able to hire new employees because they would have to pay them more. It could freeze the labor market and finding a job will get harder and harder. Moreover, the increase in the minimum wage will increase all costs linked to the employees. The employers might see their charges go bigger than never.

Not to mention the fact that some companies will not be able to increase (and so to pay) all of their minimum wage employees. Some of them might be fired while workers from other countries may be hired.

Further, the minimum wage increase will drive to the fact that low-skilled individuals might work without being paid.

Last but not least, it will be harder for employees to grow their incomes during their careers if

their minimum wage is already increased.

Finally, following a hike, there is a significant probability that workers will lose jobs and face losses in income. The workers who retain jobs will be better off than before but those who lose their jobs will be much worse off.

2) Applying the increase of minimum wage is a risk and it can jeopardize a country's economy as indicated above but this policy also has benefits such as:

- Increasing the minimum wage helps families to adapt to price inflation. They will be able to afford more on the average basket of goods.
- Enabling families to earn more money fosters them to be more willing to spend their money so it will help the economy.
- Raised income and budget increase demand and foster employment.
- The increase of minimum income makes it satisfying for people so they stay for a longer time in their jobs instead of looking for a higher paying one. Hence, the turnover is lower and makes the employment costs (hiring, training) lower too. The decrease in unemployment and higher wages raise tax revenues.
- If employees acquire a better income they will depend less on governmental "safety net" programs.

Countries can apply such policy but their governments should keep in mind the multiple consequent risks regarding the rise of minimum wages.

3) Alternatives

Earned Income Tax Credit is a benefit for working people with low to moderate-income. To qualify, you must meet certain requirements and file a tax return, even if you do not owe any tax or are not required to file. EITC reduces the amount of tax you owe and may give you a refund.

A "risk-free" strategy to boost incomes for minimum wage workers is to expand (to all countries using this technique or similar ones) the Earned Income Tax Credit program. The federal EITC program is now the largest anti-poverty program for non-elderly workers in the United States. It does so by encouraging work and increasing the after-tax wage for those with low earnings. Since it is a refundable tax credit, it is available as a cash payment to those without a tax liability.

As opposed to minimum wage hikes which are potentially associated with losses in employment and less income mobility for low-skilled workers, the EITC increases the employment of low-skilled adults while supplementing incomes.

Increasing the Earned Income Tax Credit, or EITC is a widely-proposed alternative raising the minimum wage. Proponents of raising the Earned Income Tax Credit say that doing so would more effectively aid low-income families than raising the minimum wage since some minimum-wage earners are actually teens living in middle-class households.

Guaranteed Basic Income Program

A guaranteed basic income program is an income provided by the government to every citizen disregarding if they are active or jobless. This special income can be compared to the current social security implemented in France or in the United States. Nevertheless, this proposition is quite controversial. According to the opponents, this aid might discourage citizens to work.

Increasing The Child Tax Credit

Households with children benefit from the Internal Revenue Service's child tax credit program. Those in favor of increasing the child tax credit say that unlike raising the minimum wage, this strategy would directly benefit low-income families with children. Also, like other tax-based solutions to helping low-income workers, this policy lies with the federal government, and not with businesses who they say would struggle if forced to pay higher minimum wages.

Training Programs

By raising the minimum wage, workers will not be motivated anymore to find better opportunities and higher paid jobs if the pay rate of low-skilled and entry-level jobs is too high. So by offering trainings, it enables the workers to increase their skills and makes them more valuable

and by offering minimum-wage workers training, they increase the employees' skills, which makes them more valuable to their current employer, as well as to other employers in their market.

Creating a new bonus

Creating a new bonus focused on low-income earners could be better than increasing the minimum wage. Indeed, it would be more efficient to fight against poverty because not all the people who are at minimum wage are poor. For example, men or women who earn the minimum wage can be married to someone with a really good and high income. However, this house is not poor if we take into consideration the two salaries.

Creating a bonus which takes into consideration all the wages of the house will allow giving money only to people who really need it, contrarily to increasing minimum wages.

Secondly, this bonus will not increase the working costs of bad qualified people and broke their jobs because the bonus will be paid by the State and not by the companies themselves.

4) Risks

Increasing the Child Tax Credit

Indeed, increasing this tax will help families with low wages and children to have a better life. But as the subject said, poor people are nowadays people between 15 and 24 years old. Giving the possibility to have a better style by offering a Child Tax will support people to having children younger.

Training Programs

With training programs, people will maybe not participate in that because they don’t want to train to have better skills.

Create a new bonus

One of the risks to create a new bonus to help people with low-outcome could be the fact that thanks to that bonus, people with minimum wages will maybe not try to find a job with better wages. Indeed, if they win more than the minimum wage, they could say no to a better job with better wages which will prevent them to have the bonus. If the amount having with the bonus and the minimum wages is bigger than the new wages giving by the new job, they will probably say no.

Another risk could be that people with a little bit more than the minimum wage will be unhappy with this bonus because they win just a little bit more than the minimum wage so they’ll not be able to have the bonus but they are still poor.

Conclusion :

The minimum wage is a more risky strategy since it could potentially have dis-employment effects. If a worker loses his job, he not only loses the minimum wage income from the job but also income from the EITC and other government benefits that may have a work requirement. On the other hand, if we expand the EITC benefit levels and extend them to childless adults, the worker keeps his job, earns higher incomes, gains work experience and has the potential to continue to move up the income ladder while providing for his family.