Economics of a Minimum Wage

City of Tacoma Minimum Wage Task Force

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Overview:

- Provide framework based on economic principles of a minimum wage proposal, to guide your deliberations.
- Conceptual understanding of economic consequences. Not providing empirical analysis.
- Economics and data will not lead you all to the same conclusions.
  - Well-informed people who care about minimum wage workers can reach different conclusions.
  - Even with respect to the economics, economists disagree. Doug and I will likely disagree. You will disagree with others in the room.
- Yet: four key concepts that will be at the heart of your discussions.
Income Redistribution
Concept One: The Demand for Labor (Employers)

One response: redistribute profits to employees

But other options:

- Relocate
- Reduce use of labor
- Use a labor substitute (e.g., a computer to answer phone calls)
- Raise Price so that Consumers Pay the Higher Wage
Concept Two: The Supply of Labor
Concept Three: Leakages (Unintended Consequence)
Some Possibilities:

- Less employment: some leave, and others choose not to come to Tacoma

- Characteristics of minimum wage workforce changes

- Consumers rather than employers “pay” for higher minimum wages (prices increase)
Concept Four: Unintended Good Consequences

- People Work Harder
- Tacoma Becomes a More Desirable Place to Live
- The City of Tacoma’s Costs Go Down
- Do Neighboring Communities Copy Tacoma?
To Summarize:

- **The Economics of a Minimum Wage:**
  - How do employers respond?
  - How do employees respond?
  - What sort of unintended bad consequences might there be?
  - What sort of unintended good consequences might there be?

- **There Will Be Tradeoffs: Some will win and others will lose:**
  - Who are the potential winners and losers?
  - How do you weigh these different interests?
What Does Previous Research Find?

- Overview of Case Studies of Minimum Wage

- Findings Are Mixed (More on Why Soon), But Some General Tendencies:
  - Differential Impact on Workers Depending on Their Skill
  - Total income to minimum wage workers goes up, but income gains are not evenly distributed.
  - Creation of new jobs at minimum wage levels is slowed.

- However:
  - Effects tend to be small.
  - Research results are not consistent, and sometimes contradictory.
Local Conditions Matter

- **Response of Firms Depends On:**
  - How important is minimum wage labor in overall costs?
  - How easily can they avoid higher costs?
  - Can a business pass higher labor costs on by raising prices?
    - To what degree are they competing with low-cost producers elsewhere versus a “location specific” business?

- **Response of Workers Depends On:**
  - How mobile workers are into and out of a location?
  - What happens to other (non-wage) benefits. Eg, sick leave, vacation, health benefits, parking, transportation, etc.
Implications for a Minimum Wage in Tacoma