Who pays?
A study suggests that higher minimum wages hit poorer bosses' pockets

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Minimum wage

- Minimum wage is supposed to redistribute money from rich to poor
- But economists disagree about whether it actually does so
- Some researchers, for example, have found that raising the minimum wage tends to decrease employment among the least-skilled workers, as firms downsize to trim costs.

Where that extra money comes from

- No one doubts that the policy raises wages for the workers who stay employed, still unsettled is the question of where that extra money comes from.

Israel’s minimum wage

- A new paper by Lev Drucker, Katya Mazirov, and David Neumark examines increases in Israel’s minimum wage in 2006-08
- The more low-wage workers a company employed, they found, the more its profits declined
- Companies with 60–80% of staff earning the minimum wage saw their profits cut by almost half

Implication

- Central insight: firms with relatively low profits disproportionately employed minimum-wage workers, meaning those firms ultimately bore the greatest burden of mandated higher wages
- Poorer business owners suffered bigger losses

Progressive

- Since business owners with low earnings relative to their peers are still relatively well off compared with the general population, raising the minimum wage is still progressive
- Those lower-income bosses who were hardest hit by minimum-wage increases earned only about as much as many mid- to high-earning workers

Unintended effects

- In some places, minimum-wage rules are designed to try to minimise the impact on low-earning firms
- In South Korea, a minimum-wage increase in 2018 was accompanied by subsidies for small firms
- Policymakers aiming to fight poverty and increase equity with minimum wages would do well to consider unintended effects