Reducing Income Inequality for the U.S. Unskilled Labor Market

by

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Abstract:

Inequality has been rising in the United States since the 1970s. The top 1% and 0.1% of Americans continue to gain a larger concentration of America's wealth. This makes it so while America's wealth continues to increase, the lower classes of America are not experiencing nearly the same type of growth. Minimum wage has been the government's primary way of keeping the unskilled labor market afloat, but there hasn't been a nation-wide increase since 2009. This begs the question: Is it time for a new increase to the United States' minimum wage? While an increased minimum wage can benefit the unskilled labor market in the short run, the expected rise of automation leaves the fate of many of these jobs in question. A federal minimum wage will not help the unskilled labor market, if there are no jobs to pay that wage. If a minimum wage will soon no longer be able to benefit most of the unskilled labor market, then something else must be done. Many believe answer to this problem may be found in a universal basic income given to all the country's citizens. This would ensure that all United States' citizens would have financial security, while also reducing the costs on small businesses by getting rid of a minimum wage above the value of the work done by the employee. However, implementation of this policy would be costly and could prove to be detrimental to the United States economy.

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<u>Introduction:</u>

The United States, like most of the world, has a problem with income inequality, and it keeps getting worse. With rising concerns over inequality, discussion on how to reduce this issue is highly relevant. Whether the United States should raise the federal minimum wage or not has been debated thoroughly in recent years. The federal minimum wage has, however, been a heavily dissected topic since it was first implemented after the signing of the Fair Labor Standard Act of 1938. The standard economic model states that any increase in the federal minimum wage would also increase unemployment rates; however, there is an ample amount of research that states that increases in the minimum wage have negligible effects on the employment rates in the areas where they're implemented. Beyond its impact on employment rates, before a new federal minimum wage is implemented, we must look at whether it will actually improve the lives of living under it. This entails looking into how an increased minimum wage would affect the overall cost of living. A new possible way to reduce inequality and protect unskilled workers has gained traction in recent years. A universal basic income (UBI) where every citizen receives an equal amount of money may be what the United States needs to protect its citizens. With a UBI, people wouldn't have to worry about job lose leading towards destitution and it also prevents the poverty trap recipients of other social security programs tend to get stuck in. A UBI differs from minimum wage in many ways, for one, it would completely be paid for by taxes, not by employers. It also wouldn't require work or productivity like those employed on minimum wage would be required to fulfil. A UBI would best be implemented under the consensus that reaching full employment is impossible and that the unskilled labor market is going to be extremely vulnerable to the rise in automation.

Minimum Wage:

A new minimum wage would have a large impact on the youth and the rest of the unskilled labor market, which is defined as those with jobs that require no special training or experience. This means those with trade experience, or a college degree are excluded from this section of the work force. When a new minimum wage is implemented, it is done in the hopes of improving their standards of living. Like most large-scale government intervention, an increased minimum wage would have a plethora of consequences which are not initially obvious and could prove to be detrimental to the unskilled labor market. Some of these consequences include- a rise in unemployment rates, an increased cost of living that would offset the increased earnings from the new minimum wage, and a disproportionate amount of jobs lost for minorities and women compared to their white male counterparts. Before a new policy is implemented, the negative effects of that policy should be thoroughly examined. If a new minimum wage were to end up hurting the unskilled labor market more than it helps, or if it specifically has a negative impact on the already disenfranchised minority groups in America, then its implementation would prove to be a complete disaster.

Effect on Youth Employment:

Categorizing the unskilled labor force is difficult. There are conflicting accounts of who makes up the entirety of the unskilled labor market. Because of this, finding evidence on how the unskilled labor market is impacted can be difficult. One place to find how minimum wage impacts the unskilled labor market is to look at rates of youth employment. We look at youth employment because those just entering the labor market are bound to have less skills and experience than people are older and have thus been in the labor market for longer. Time-series evidence on employment rates was gathered (Brown et al, 1981) from minimum wage increases in America to see the different effects an increased federal minimum wage had on various demographics. This data was split up by race, age, and gender. The cases studied showed that teenagers and young adults (aged 20-24) did not experience a difference in employment rates after a new minimum wage was implemented. This would suggest that the changes in minimum wage had no impact no noticeable impact on employment rates in the unskilled labor market.

A study released shortly before Brown's (Adie, 1973) used a statistical approach different than the one seen in Brown's to gain a new perspective on the effect minimum wage has on teenage employment rates. It used rates of teenagers and young adults who are not in school and don't rejoin school upon the change in the minimum wage. This was done because teenagers and young adults would be more likely to attend college if they cannot find a job, and if they are in college, they do not count in unemployment statistics. This could skew the data on the Brown study because if they went to school after losing their job, then employment rates would not reflect their loss of employment. This study found an insignificant decrease in employment rates for teenagers. Even with this new methodology, there still is little evidence for minimum wage impacting employment rates.

A study (Meyer and Wise, 1981) used parameters based on the effect of minimum wage on the distribution of "market" employment and market wage rates which would exist if there were no minimum wage. It found that without a federal minimum wage, there would be a 4-6% increase in the amount of youth employment. Going against standard economic theory, it also found that low-wage workers would also be getting paid more if there were no minimum wage. This is one of the few studies which found a negative impact on employment rates, and although it is dated, the findings are interesting nonetheless and call into question if minimum wage really has a positive impact on the unskilled labor market.

Impact by Race and Gender:

Many in opposition to a minimum wage claim that it would increase the standard for minimum wage work, and that employers' racist and sexist views would cause them to hire more white men than their female and/or minority peers. How a minority group is impacted by a government policy is important to consider as we would not want to increase the levels of inequality for these groups who are already struggling. One study (Sturn, 2017) examined 19 OECD (Organization for Economic Co-operation and Development) countries from 1983 to 2013 to see what happened when they changed their minimum wage. It consists of countries which all have a democratic system of government and accept principles of a free economy. These countries are most similar to the United States. The samples were grouped by age, race, and gender. They discovered little evidence to show that minimum wage had an adverse effect on employment rates and showed negligible differences between how each gender was impacted. The results of this study suggest that an increase to minimum wage would be beneficial to women and minorities.

Neither the Brown nor the Sturn study showed any correlation between race and level of impact on employment rates, however, one study (Moore, 1971) goes against what was found in the Brown and Sturn studies regarding the impact of minimum wage on race and gender. Farm workers were excluded from the data gathered. This study found that black teenagers were more impacted by an increased minimum wage than their white counterparts. It also found that there was more of an impact on teenaged girls than teenaged boys. This study found that as more time passed, and employers had more time to adjust, the greater the impact on unemployment rates. The findings in this study go directly against the Brown and Sturn studies. The methodology in this study was different in that it used earlier data, in a time when racism and sexism in the workplace was much more prominent, and they examined the employment rates for longer. One difference between how Moore interpreted minimum wage's impact and how Brown did was that Moore only used nominal income, while Brown used average income, which would better represent the true rate of employment and wages. Even if the data is accurate for its time, but changes in race relations and gender equality may likely be the reason why the earliest study showed an impact that was not seen in the other two.

Minimum Wage's Impact on Fast-Food Workers:

Fast-food restaurants employ a large percentage of the United States' unskilled labor force, so looking into the employment rates of fast-food workers is likely to shed light on the overall impact of minimum wage and employment rates. To study the effect of an increased minimum wage on fast-food workers, a study (Card and Krueger, 1993) tracked the employment rates of 410 fast-food restaurants in New Jersey and Pennsylvania. New Jersey had recently raised its minimum wage, while Pennsylvania had not. The study found that stores in New Jersey actually saw a 13% increase in employment rates after the new minimum wage was implemented. This goes against the common belief that an increase in the minimum wage would only cause an increase in unemployment rates. One explanation for this unusual phenomenon could be that minimum wage workers also tend to eat more at fast-food restaurants compared to the rest of the population, so as their wages increased, they were more likely to spend money at these establishments, thus increasing the need for employment. If this were to be the cause throughout the whole nation, then this could be a rare scenario where minimum wage has more benefits than just the increase in wages for unskilled workers.

Fair Minimum Wage Act:

In 2007, the Fair Minimum Wage Act was signed, amending the Fair Labor Standards Act of 1938. It gradually raised the minimum wage from $5.15 per hour to $7.25 per hour. A study (Pino, 2014) gathered empirical data on employment rates for the seven years following the passing of the act. The study identified a separation between low-skilled young adult workers and teenage workers. It found that the act increased unemployment rates for teens in states where there was no state minimum wage. The difference between this study and other studies which found different evidence is that this study found data from states where there was no minimum wage, while the other studies addressed were comparing unemployment rates in states with minimum wages different than that of the federal level. This would suggest that national minimum wage would most greatly impact states that do not set their own minimum wage. This implies that states with minimum wages had less of an increase to the pay of unskilled workers, which would make the new minimum wage less impactful. States without minimum wages had a larger increase in the wages for unskilled workers. This suggests that low increases in a minimum wage would have negligible effects of employment, but the more it is raised, the more employment rates are impacted.

Impact on Real Wages:

Employment rates are not the whole picture for deciding whether to increase the minimum wage or not. An increase in wages accompanied by a decrease in employment rates may still leave the unskilled labor force better off as a whole than if there were no minimum wage at all.

In cases where an increase in minimum wage does increase unemployment, many would assume that low-skilled workers are worse off as a whole. However, this may not be the case. A theoretical analysis (Lee and Saez, 2012) was done to see the total effect of an increased minimum wage on low-skilled laborers. The analysis found that the co-existence of a minimum wage with a positive tax rate is always Pareto efficient for low-skilled workers as even those without jobs could get social security This reasons that low-skilled workers could be better off with an increased minimum wage, even if it means a drop in employment rates. This only works if social security programs would be enough to satisfy the basic needs of those in the unskilled labor market. If people cannot live on social security programs, then an overall increase in wages for those employed would not be good enough reason to increase the unemployment rate.

Employment Retention Rates:

The literature discussed thus far has only delved into the immediate impact of a minimum wage of employment. It may be possible that minimum wage doesn't change employment rate away, and that keeping a minimum-wage job would be ore difficult as the minimum wage increases.

A study (Ferraro et al, 2018) focusing on the change in employment retention after an increase in the minimum wage in Estonia found it had a negligible impact on workers' maintenance of their jobs. After an increase in their minimum wage, data was studied from 2013-2016 to find if workers who already had jobs were more likely to lose them. This data was compared to the employment retention rates from 2009-2011 when there was no change in the minimum wage. Across all levels of pay, employees were equally as likely to keep their job before the increase as after. This implies that a change in the minimum wage does not have an impact on a worker's ability to keep his or her job. This would be further evidence on how minimum wage has a positive impact on the unskilled labor force. This study has limitations for its relevance to the United States, as Estonia's population is less than one percent that of the

United States' and its percentage of the workforce in the unskilled labor market differs from that of the United States.

There has been evidence to the contrary. A study (Partridge and Partridge, 1999) found evidence of an adverse effect of an increased minimum wage on long-term employment rates. This study gathered empirical evidence from the 1980s and 1990s, a time when many states raised their minimum wages above the federal level. This study's definition of long-term unemployment was being unemployed for 26 weeks or longer. The data they gathered supported a correlation between an increased minimum wage and long-term unemployment rates. This goes against most of the evidence I found against an increased minimum wage's effect on unemployment rates. The results of this study would suggest that a rise in the minimum wage would lower the amount of unskilled labor in the workforce. This would be counterproductive to what is trying to be gained through increasing the minimum wage.

One study (Cengiz et al, 2019) proposed a different way to look at employment levels following an increase in the minimum wage. Rather than look at unemployment rates in areas where a new minimum wage has been implemented, this study looks at the number of jobs throughout the wage distribution. Particularly, they look at the loss of jobs below the minimum wage and the increase of jobs at or slightly above the new minimum wage. This method helps to see how the new minimum wage not only affects employment for low-wage workers but also their wages, which is the primary interest when implementing a new minimum wage.

Jobs that were paying directly below the new minimum wage will be most impacted. These jobs will either be lost or will pay the new minimum wage. There will be a sharp rise in employment at the new minimum because of the jobs that were already paying at that level and the jobs that are only just started paying that much after the new minimum wage was put into policy. Also, since the minimum wage increases labor market entry, additional jobs may be created near that price point. This creates a "bunching" effect on employment at the new minimum wage. The difference between the jobs lost below the new minimum wage and jobs gained at or close to the minimum wage gives an estimate for the total impact minimum wage has on low-skilled workers.

This "bunching" method helps to show a link between bunching and disemployment for workers affected by the new minimum in the standard frictionless model. The range of the bunching also helps to find the elasticity of substitution between various labor types, which is a crucial parameter for labor demand.

Impact on Jobs Paying Slightly Above Minimum Wage:

Even though minimum wage has the largest impact on the unskilled labor market, it may also have various effects on all levels of income. We find that jobs paying slightly above the current minimum wage also experience many of the same benefits to wages that we see for the unskilled labor market.

Cengiz's approach locates where any disemployment effect may be taking place. The vast majority of theoretical models indicate that a new minimum wage would have the largest impact on the lowest paid workers. If there is an unusual change in employment at the upper level of wages, then there could be issues with the identification strategy rather than it being directly related to the minimum wage. Rather than only looking at the change in employment at the lower end of the pay scale, his study takes all levels of wages into account. The method proposed was implemented through the comparison of the actual frequency distribution of wages observed in the data to their estimates of the counterfactual distribution. State-level variations in the minimum wage were observed and states with a change to the minimum wage were compared with states that had no change. This utilizes a difference-indifferences style estimation.

Empirical evidence was analyzed (Cengiz et al, 2019) from administrative data on hourly wages in Washington State. In 1999, Washington raised its hourly minimum wage from $7.54 to $9.18 an hour (in 2016 dollars). This was one of the largest indexed state-level minimum wage changes to take place in the United States. The counterfactual frequency distribution of hourly wages in Washington was calculated by adding the average change in per-capita employment in the control states to the pre-treatment per-capita employment count in Washington by each dollar wage bin from the Current Population Survey from that time. When the counterfactual distribution was compared to the actual one, a large reduction in the number of jobs paying below $9 an hour after the minimum wage increase. However, there was also an equally sized rise in jobs paying between $9 and $14 dollars. This suggests a negligible effect on overall employment from a minimum wage increase. The number of jobs paying above $14 an hour was stable compared to the counterfactual, furthering the validity in the comparability of the treatment and control groups.

This Washington analysis has a limitation in that it solely relies on one case study, so to combat this hourly wage data from the 1979-2016 Current Population Survey to further investigate the effect of state-level increases in the minimum wage. There were 138 minimum wage policy changes were gathered for an event study analysis which examined the three years before and five years after each change. There was found to be a significant decrease in jobs that were paying below the new minimum wage in the five years after implementation. The number of missing jobs did, however, nearly match the rise in the number of jobs paying at or slightly above the new minimum wage. This would suggest that the lost jobs were replaced by jobs paying slightly above them. The baseline specifications used in the study found that employment levels for affected workers rose by an insignificant amount. When this data is interpreted through a standard labor demand model, it suggests a level of elasticity between different types of labor that is close to zero. These estimates allowed for the calculation of the impact of the new minimum wage policies on the average wage of the workers affected. A 6.8% rise in the wages was found. This evidence furthers the support for increasing the minimum wage by showing an increase in wages that is not offset by a large decrease in employment rates.

Changes in jobs along the wage distribution were examined throughout. Before the implementation of a new minimum wage, the missing jobs below the minimum and excess jobs above it were close to zero, suggesting that the control and treatment states were following a similar trend. After an increase in the minimum wage, there is an immediate decline in the number of jobs below the new minimum wage and a surge of jobs at and slightly above the new minimum wage. Over the five years that the data was examined, there was only a slight decrease in the number of missing jobs below the new minimum wage. The change in the number of excess jobs closely resembles the number of lost jobs. This suggests that the employment effect of a new minimum wage is similar in the short and long run- or at least up till the five years of data provided.

Though there was no reduction of low-wage jobs found, this could be caused by an unseen shift in employment from low-skilled to high-skilled workers. These labor-labor substitutions were test by grouping workers by four education and six age categories. The results were that low-skilled workers are not replaced by high-skilled workers after a new minimum wage is implemented. This study, along with other previously mentioned studies, examines the effect of race and gender on employment rates following a new minimum wage. While it is noted that there are disparities on which groups are more effected by a new minimum wage, the employment effect is statistically insignificant.

The bunching method's ability to concentrate on employment changes at the low end of the wage distribution allows for assessment of groups where a small percentage of the workers are impacted by the minimum wage. This method found that a new minimum wage is likely to have a negative impact on the employment rates in the tradable sector, with manufacturing suffering the most. It also found that non-tradable jobs, which cover most minimum wage jobs, had close to zero impact from a minimum wage. According to Cengiz, this suggests that "the industry composition of the local economy is likely to play an important role in determining the disemployment effect of the minimum wage."

Whether new minimum wages have a significant effect on workers who had a job before the minimum wage increase was also explored. There was no difference found in changes in employment, but there were differences in the pattern of wage increases. Those already employed saw wages increased up to a $3 higher than the new minimum, but there was no evidence of this occurring with new entrants in the job market. This shows a positive impact for those already employed, with no negative impact for those looking for jobs.

Historical Analysis of New York Minimum Wage Jobs:

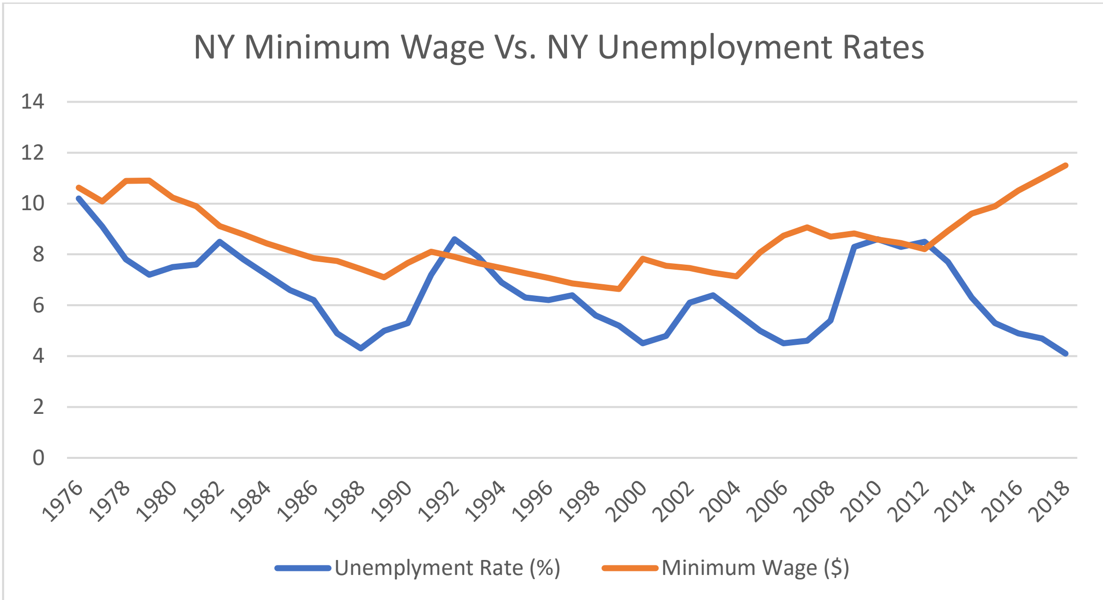

Fig 1.0. Graph comparing New York's minimum wage (adjusted for September 2019 dollars) to its unemployment rates from 1976-2018.

The graph above sees a negative correlation between the price of minimum wage and New York's unemployment rates. This data goes against the common notion that minimum wage negatively impacts unemployment rates and sees a trend of higher minimum wages resulting in lower unemployment rates.

While this data does follow an interesting pattern, the faults in the data's reliability should be noted. As stated previously, minimum wage has a magnified effect on unskilled workers, yet they make up a relatively small amount of New York's entire labor force. The total change in unemployment will likely differ from what is seen from unskilled laborers. The benefit that can be seen from this graph is just how little overall employment rates are impacted by a new minimum wage.

<u>Varying Impact of Differing Federal Minimum Wage Increases:</u>

While there is conflicting evidence on whether an increased minimum wage negatively impacts employment rates, the data backing the claim that it has a negligible effect on employment rates is stronger than the studies which show a negative impact on employment rates. There are many factors on a national scale that these studies only focusing on state-wide increases in the minimum wage that have not been properly addressed. However, with the current information out, it can be assumed that a slight increase in minimum wage would have negligible effects on employment rates.

In July 2019, the Congress of the United States Congressional Budget Office (CBO) released a paper on the predicted impact of various minimum wage increases on the United States economy. The three option were an increase to $15, an increase to $12, or an increase to $10. All of these options would be implemented steadily by 2025, meaning there would be gradual, small increases rather than just one large increase. Each scenario impacts differing numbers of people along with having various levels of total effect.

The $15 minimum wage policy would have the greatest impact on employment and total family income. It would increase the wages of the most workers, but it would also disemploy the most workers. The next largest impact would be $12, then $10 subsequently following. The impact each option would have on employment is uncertain, however. CBO's predictions are based on median values of probable ranges for wage growth along with reaction of employment to new wages. This means that they give a broad estimate of how employment rates would be changed, rather than a definitive rate.

CBO estimates that a $15 minimum wage would disemploy 1.3 million workers who would otherwise have employment in 2025. This would be equal to a 0.8 percent decrease in the total amount of workers. Of those minimum wage workers still employed, 17 million would receive an increase in their hourly wages. Along with the increase in wages for those working at the minimum wage, a large portion of the workers who were working at slightly above the new federal minimum wage would also see a slight increase in wage.

There are numerous ways in which the $15 minimum wage would affect family income. CBO estimates that many of the higher earnings achieved through a new minimum wage would be offset by the higher rates of unemployment. It would reduce business income and raise prices for the consumer. The business owners would absorb the increased labor costs, which they would then pass down to the consumer through higher prices. This would increase the cost of living. Another suspected impact of a $15 federal minimum wage would be a decrease in the Unites States' output. This would be caused due to a reduction in employment and a decline in the nation's stock capital e.g. technologies, buildings, and machines. Based on the effects on family income and CBO's estimates on employment change, the $15 minimum wage would reduce total real family income by $9 billion. This would equate to a 0.1% change. With this new minimum wage, the number of people living in poverty would fall by 1.3 million people in 2025.

Those who propose and enact minimum wage policies must weigh the costs and benefits this would have on the unskilled labor force. The extreme decrease of those living below the poverty line would be a tremendous effect of a $15 minimum wage. However, if those who lost their jobs were to not get enough for their needs through social service programs, then a large portion of the unskilled labor market would be drastically worse with this new minimum wage. This would widen the inequality gap between the highest earners and the lowest earners in the United States.

As stated earlier, the $12 minimum wage would have a lesser effect. It would increase 5 million unskilled workers' wages in an average week in 2025. On top of that, six million workers formerly working near the new minimum wage would see an increase in wages. However, the benefits to these increased wages are slightly deflated when you consider the prospected job loss of 0.3 million workers. Real family income would fall by $1 billion dollars. At the $12 minimum wage, the number of people living in poverty would fall by 0.4 million in 2025.

The prospected job losses under the $12 minimum wage would be far less than that of a $15 minimum wage. There would also be a much smaller drop in real family income. One benefit a $15 minimum wage has over a $12 minimum wage is the total amount of people living under the poverty line would be far less under $15. If minimum wage's purpose is to get the most amount of people in the United States out of poverty, then clearly a $15 minimum wage would be ideal, but it is not. The loss seen in real family income under the $15 minimum wage would be devastating to many households in the United States. The drop in employment would also raise the amount of people who need social security, thus increasing taxes.

And least impactful would be the $10 minimum wage. The wages of 1.5 million unskilled workers would increase. The wages of 2 million workers living close to the new minimum wage would rise as well. Real family income would decrease by less than $0.1 billion. A benefit to this low increase to the minimum wage is that it would not have an expected effect on employment rates. Unfortunately, however, this minimum wage would have a negligible impact one poverty rates.

The changes seen in the $10 minimum wage are minimal compared to the other two options. This option would have the least amount of negative consequences but would also see fewer positive consequences as a result. To raise a minimum wage to this level would not be worth the effort of trying to implement it. As time goes on, the $10 minimum wage would become even less impactful due to inflation. If the United States is to implement a new minimum wage, it should be higher than $10, as the effects of it are negligible and to be quickly reduced.

Conclusion:

The consensus behind this research shows that slight minimum wage increases would have a negligible impact on unskilled employment rates. A moderate increase in minimum wage would prove to be beneficial for the United States' unskilled labor market, as well as those who were making slightly above the old minimum wage since their salaries would also increase. Minimum wage shows to have little effect on job retention rates, meaning those who are currently employed would not worry about losing employment. It also has little impact on those entering the labor market. The difficulty of finding a minimum wage job would not noticeably increase. Minorities are not disproportionately impacted by a minimum wage, so it would not have a negative impact on racial inequality in the United States. A $10 minimum wage would not do enough to help the unskilled labor market, and inflation would quickly erase any increases in wages seen. A $15 minimum wage would drastically hurt the unskilled labor force. Those who could keep their jobs would be much better off, but the amount of jobs lost would severely outweigh the positive benefits of those whose wages increased. The United States should implement a $12 minimum wage to enhance the lives of unskilled workers. There would be little impact on employment rates, while also having a substantial effect of the lives of those working in the unskilled labor market.

Universal Basic Income:

The rise of automation and artificial intelligence (AI) raises concern for the unskilled labor force. The beginning stages of AI and automation takeover can already be seen, such as the drop in work for cashiers as more businesses use self-checkout or touchscreens to take orders. As the rise in self-driving cars slowly takes over, long-haul truck drivers, taxi or ridesharing drivers, and delivery drivers will soon find themselves out of work. A 2019 Oxford study estimates that 20 million jobs will be replaced by robots worldwide by 2030. With the outlook for the unskilled labor market looking grim, it's time to start considering alternatives to a minimum wage in order to keep unskilled laborers afloat.

Perhaps the most discussed method to prepare for the rise in automation is a universal basic income (UBI) where all citizens are given enough money to meet the basic standards of living. UBI has been a controversial policy since its start but has gained traction in recent years as social unrest from inequality rises. Former democratic presidential candidate Andrew Yang launched the idea of a UBI into the American public by being the first major political figure to campaign for its implementation. At this time, however, no country has implemented a UBI.

Minimum Wage Vs. UBI:

A UBI is inherently different from a minimum wage. A UBI is a social safety net which would be paid for through taxes, while a minimum wage is paid by the employer. Through a UBI, citizens will be given money without having to work first. While a minimum wage only helps if the person is currently employed. There is debated on how to pay for minimum wage, as that is evident. A UBI, however, would require new funds in order to pay for it. This makes a UBI much more burdensome and unlikely to implement opposed to new minimum wage increases.

A benefit of UBI that isn't found with minimum wage is that workers will have more bargaining power when seeking employment. They will have more freedom to refuse working conditions that are unhealthy and dangerous. This new power can have great impacts on the treatment of lower-skilled laborers. When a worker has less fear over the negative ramifications of job loss, he or she will be more likely to only accept job conditions which meet a higher standard. This will greatly increase the leverage of the unskilled worker on the labor market.

UBI Compared to Other Social Security Programs:

Social security programs are used to protect citizens from economic risks and uncertainties that they may encounter in life. However, these programs are often underutilized by citizens because of social stigma and people not being aware of which programs they are eligible for. A UBI would get rid of these problems since everyone would receive it and there would be no sign up required, thus eliminating the stigma long with other complications. It would also reduce costs by cutting the expenses to operate these social programs. Another problem which occurs from traditional social security programs is that those using them are often caught in a poverty trap. If they were to work more and gain more money through employment, they would be risk losing their social security programs. This keeps many people in a cycle of poverty where working harder will make them worse off. With a UBI, there is no fear of losing this income. Since there is no fear of losing benefits, those in poverty will not feel withheld from working harder as there will be no drawbacks to earning more.

Cash welfare programs give an income floor and high tax rates, meant to ensure that the benefits provided will phase out completely at relatively low income levels. In the United States, cash welfare programs are restricted to mainly single mothers, elderly, and the disabled. AS one's income rises, the amount of benefits received drops quickly. As of 2017, a family of three would lose all benefits if their combined income were to reach $8,600. This is where the poverty trap is created. That is a significantly low number to stop the benefits for a family of three, so those receiving these benefits don't have a strong motivation to work and get out of their current situation for fear of being worse off.

Drawbacks to a UBI:

The implementation of a UBI does come with drawbacks. It is argued that people receiving UBI would be more likely to spend this money on temptation goods, such as drugs, cigarettes, and alcohol. However, a small implementation of UBI in rural villages in India found no rise in any of these activities (Hoynes and Rothstein, 2019). This is a small sample from a culture that differs from the United States, but it is worth noting for reference on how spending will be impacted by UBI. It is also argued that additional taxes from UBI will lower worker output, but it is found that less-skilled laborers will have an increase in output. This will counter the lessened output from higher paid workers and create a miniscule change in total worker output.

Cost of UBI:

The main problem with UBI is the cost of running it. It currently costs the United States citizens 1.03 trillion dollars a year to run America's social security programs. To implement a UBI of $1,000 a month for all citizens 21 and over it would cost 2.5 trillion dollars per year. Andrew Yang believes we can get this through a VAT or Value Added Tax. A VAT is a tax on the production of goods and services produced by a business. Andrew Yang claims that a VAT of 10% would generate 800 billion dollars (Yang, 2020), but the Congressional Budget Office states that it would only generate 600 billion dollars. Increasing the total amount of taxes for producers will likely be at least slightly offset by increasing consumer prices. We would also likely see a reduction in the production supply. Either way, this tax along with cutting all social security programs would still be half a trillion dollars away from achieving that goal. Yang claims to completely achieve this funding by adding more taxes to the rich. That is easier said than done and could prove to have negative consequences on the United States economy. He states that there will be an increase in total output which will keep the UBI going but implementing such a costly policy would surely need more than just hope that the economy will respond well enough to it that it pays for itself.

Conclusion:

If the United States cannot find a way to turn the unskilled labor force into a skilled labor force, there will a large surplus of unskilled workers in the job market. As the amount of unskilled labor in the United States decreases, the number of workers in the unskilled labor force sees little change. In order to prevent the extreme levels of joblessness which will be seen following a surge in A.I. and other technological advances, a UBI should be strongly considered for the United States' future. Due to the costs of running it and the little research currently surrounding the policy, it may not be time for implementation just yet, but the future of the unskilled labor market is not bright, and the United States needs to prepare for a downturn in work for the unskilled labor market. A UBI has many benefits unseen in other programs like it and could be the start of a new era of modernity, but we should be wary of implementing this policy too soon.

Conclusion:

Before implementing a new minimum wage, we must ask what it is that we hope the minimum wage will accomplish. If a substantial increase in minimum wage reduced the amount of people living in poverty, but also increased unemployment rates and real family income, we must weigh the costs and benefits to both for our economy. An increase in the number of people who are unemployed also increases the number of people receiving government aid, so taxes would go up. Increased costs to operate a business, which then get passed on to the customer, subsequently increasing the cost of living is another risk of a substantial increase in minimum wage. The total cost of living under a new minimum wage should be anticipated before any increase is to be implemented. The increase of people receiving government aid as well combined with increased costs of living could cause a new minimum wage to increase the cost of living above the increased wages for the unskilled labor force.

In order to account for the rise in AI and the continual worker displacement from technology, a UBI would be more beneficial to the future of unskilled workers in the United States. In the short term, a minimum wage would not have a positive impact for the unskilled labor force, however, as the use of automation and outsourcing increases, these workers will be left struggling to find a job. As inequality continues to rise in the United States and unskilled labor continues to be replaced the unskilled labor force will struggle to survive. It is time to reevaluate how the United States deals with inequality and drastic measures need to be taken.

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