Article:
http://www.oregonlive.com/politics/index.ssf/2016/03/its_official_kate_brown_signs.html

It's official: Kate Brown signs minimum wage bill for $14.75 in Portland

By Ian K. Kullgren | The Oregonian/OregonLive
March 02, 2016 at 12:28 PM, updated March 12, 2016 at 9:27 AM

SALEM — Gov. Kate Brown signed historic increases to the minimum wage into law Wednesday, claiming a major win for Democrats and promising to uplift the working poor.
Speaking to reporters in her ceremonial office at the Capitol, Brown said the bill is a well-crafted compromise between labor groups and businesses that demonstrates Oregon's wise culture of governing.

"I am extremely proud of the collaborative spirit of the stakeholder groups that worked to develop this legislation," Brown said."Oregon has not only avoided a number of potentially problematic ballot measures, we have taken a very smart approach in a way that makes sense for workers and for businesses no matter where in Oregon they are."

The bill gives Oregon the highest statewide minimum wage rates in the nation, to $14.75 inside Portland's urban growth boundary, $13.50 in midsize counties and $12.50 in rural areas by 2022.

President Barack Obama lauded Brown, saying in a statement: "I commend the Oregon Legislature and Governor Kate Brown for taking action to raise their state's minimum wage...Congress needs to keep up with the rest of the country. They need to act, and finally give America a raise. And until they do, I'll continue to encourage states, cities, counties and companies to act on their own to support hardworking families."

Investigation on Increase of Oregon Minimum Wage

Graph 1
Minimum Wage for Labor in Oregon

Graph 2
Minimum Wage Impact on Product Supply
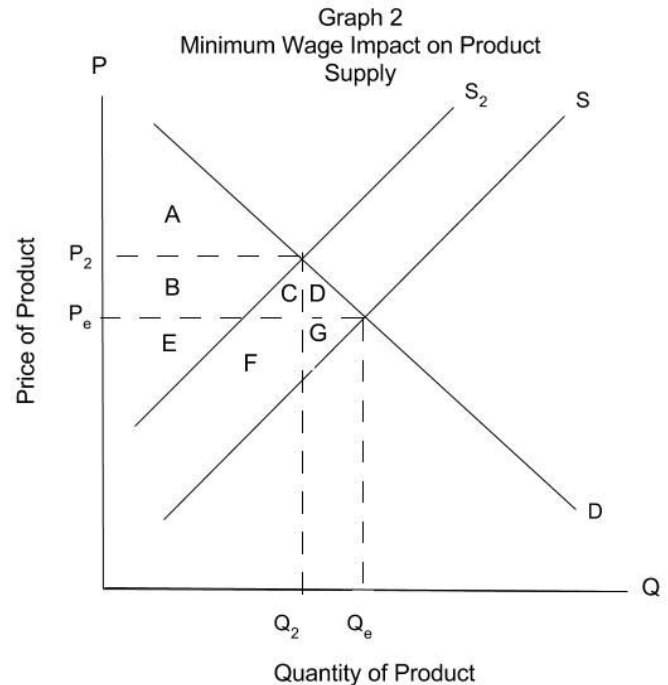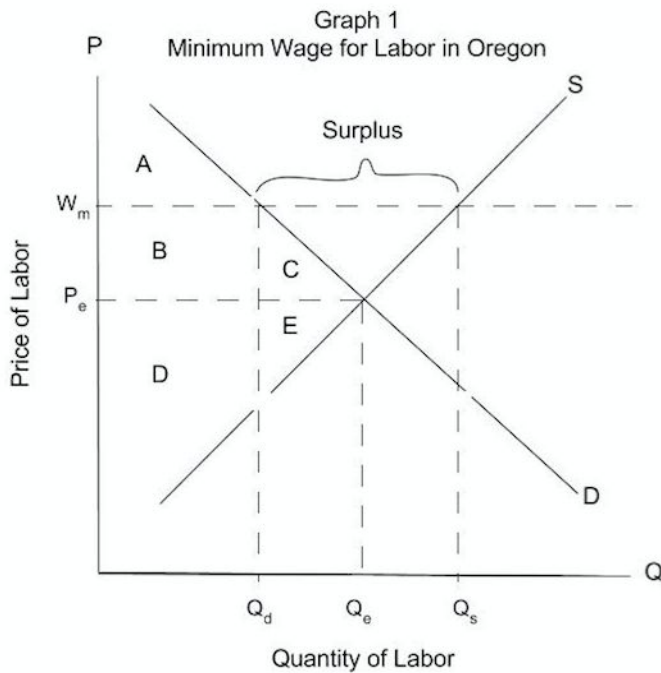
This article discusses increases in the minimum wage of Oregon. Minimum wage is a price floor in the labor market, or a minimum legally-set price that labor can be consumed for, which increases both the price of labor for those demanding it (firms) and the price received by the producers (laborers). In Graph 1, this increase is displayed as the difference between P_e (the price for labor determined by the free-market) and W_m (minimum wage). In theory, the minimum wage causes changes in both quantity demanded (Q_d) and quantity supplied (Q_s): the law of demand says that as the price increases, the quantity demanded will decrease (seen by the change in Graph 1 from Q_e to Q_d), and the law of supply says that as the price increases, the quantity supplied will increase (seen by change in graph 1 from Q_e to Q_s). The difference between Q_s and Q_d represents a surplus, as there is more labor being supplied than demanded--this surplus is also known as unemployment because not everyone is hired for the jobs being demanded.

Unemployment is only one of many consequences that the economy can face due to a minimum wage; another consequence includes an increased risk of illegal workers who may be willing to supply labor at very low wages. Furthermore, a minimum wage may cause changes in producer and consumer surplus in product markets. Firms that rely heavily on unskilled workers will face an increase in the price for labor (a

nonprice determinant of supply), causing leftward shifts in product supply curves (displayed by the shift from S to S_2 in Graph 2.) These shifts results in smaller quantities of output produced. At the new equilibrium (in Graph 2), the producer surplus decreases from A+B+C+D to A, and the consumer surplus decreases from D+F+G to B+E; overall, social surplus would face a decrease from A+B+C+D+E+F+G to A+B+E.

A set minimum wage would also cause negative welfare impacts within the labor market. Before the minimum wage is established, the employer surplus in the free-market is displayed by A+B+C (in Graph 1), while the worker surplus is displayed by D+E; therefore, the total social surplus is displayed by A+B+C+D+E. After the minimum wage is set, the employer surplus decreases to A (a loss of triangles B and C), worker surplus loses area E but gains area B (total area of D+B), and the total social surplus decreases to A+B+D (a decrease of areas C and E.) The welfare loss of areas C and E occurs because of an over allocation of labor resources compared to the optimum quantity established by the free-market (shown by Q_d at a lower value than Q_e); therefore, at the set minimum wage, there would be an overproduction and underconsumption of labor.

To continue, there would be mainly negative consequences for various stakeholders. For example, workers (those supplying the labor) would be both better and worse off with an increased minimum wage--some will gain from the higher wage (seeing that the minimum wage is set above that of the equilibrium price of labor established by the free-market) while others will be worse off due to an increase in unemployment (displayed by the surplus in Graph 1). Secondly, firms (those demanding the labor) would not benefit from a minimum wage because there would be a higher cost of labor--this is reflected in the loss of employer surplus displayed in Graph 1, decreasing from A+B+C, to only area A. Thirdly, consumers would also be worse off, seeing that an increase in labor costs causes a decrease in the supply of the products and an increase in the price that consumers have to pay for the limited supply (as seen in Graph 2).

Overall, an increase in minimum wage, as discussed in the article, would have many negative economic impacts. The Oregon Governor has agreed to increase the minimum wage to different amounts ($12.50 in rural areas, $13.50 in midsize counties, and $14.75 in Portland); these different amounts, in theory, would cause varying amounts of welfare loss and unemployment, but regardless of the size of the change, the increased cost of labor would ultimately prevent a market-clearing price for labor from being reached, and, therefore, demonstrate market failure, where the allocation of labor resources is not efficient.