

## The Minimum Wage's Effect on Employment

### Background

The Fair Labor Standards Act (FLSA) of 1938 instituted the first federal minimum wage rate in United States history. Passed during President Franklin Roosevelt's second term, the FLSA set the minimum wage at \$0.25 per hour and applied to workers nationwide engaged in interstate commerce or in the production of goods for interstate commerce.<sup>1</sup>

From 1938-1961, Congress increased the minimum wage to \$1.15 in five increments. Also, in 1961 Congress amended the FLSA to extend the scope of the federal minimum wage to employees of large retail and service enterprises, local transit authorities, construction companies and gas stations.<sup>2</sup>

After the initial amendment to the FLSA in 1961, subsequent amendments continued to increase the minimum wage and extend coverage to more employees, including all federal, state and local government employees, certain retail and service workers who were previously exempt, and certain domestic workers in private household employment.<sup>3</sup> By 1981, the wage had been increased a total of ten times and was set at \$3.35, but would not be raised again until 1990.

The wage increased four times from 1990-1997. It was raised to \$3.80 in 1990 under the first Bush administration and twice during the Clinton presidency, reaching \$5.15 in 1997.<sup>4</sup>

In 2007, Congress approved the most recent increase to the minimum wage, raising the rate in steps from \$5.85 in 2007 to \$7.25 in 2009.<sup>5</sup>

In terms of inflation-adjusted buying power, the minimum wage has averaged \$7.31 in 2014 dollars since the inception of the Fair Labor Standards Act in 1938. This average

### ISSUE SNAPSHOT

With The Fair Labor Standards Act (FLSA) of 1938, President Franklin Roosevelt instituted the first federal minimum wage rate of \$0.25 for all workers nationwide engaged in "interstate commerce." Since then, the minimum wage has risen to \$7.25 and covers nearly all workers.

In February 2014, President Obama signed an Executive order increasing the minimum wage for all federal workers to \$10.10. The proposed Fair Minimum Wage Act of 2013, or the Harkin-Miller Bill, proposes the same minimum wage for workers nationwide.

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includes an inflation-adjusted low of \$3.88 in 1948 and a high of \$10.75 in 1968.<sup>6</sup>

President Obama signed an Executive order on February 12, 2014 that increased the minimum wage to \$10.10 for U.S. government contract workers. While workers on existing contracts will not see a mandated change in their wages, this increase will affect all those working on newly proposed federal contracts.<sup>7</sup>

The Fair Minimum Wage Act of 2013, also known as the Harkin-Miller Bill, would amend the FLSA to annually increase the federal minimum wage for all workers to \$10.10 in four increments over two years. Thereafter, the minimum wage would annually rise, indexed to inflation.<sup>8</sup>

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Alabama's minimum wage equals the federal minimum of \$7.25. While all states' minimum wages must be at least the federal minimum, as of January 1, 2014, 21 states and D.C. have set laws requiring a minimum wage higher than the federal.<sup>9</sup> In the State of Alabama, Representative Darrio Melton (D-Selma) proposed a constitutional amendment to increase the statewide minimum wage to \$9.80, higher than any other state's minimum wage.<sup>10</sup>

## Policy Consideration

The Congressional Budget Office report, "The Effects of a Minimum-Wage Increase on Employment and Family Income," estimates a potential job loss of 500,000 to 1,000,000 workers in the second half of 2016 if the federal minimum wage is increased to \$10.10.<sup>11</sup> Increasing the minimum wage increases the cost of all workers. This is especially true for less-skilled workers, who are paid lower wages. This increased cost leads employers to consider replacing workers with more efficient production, e.g. automated systems,<sup>12</sup> or replacing low-skilled workers with highly-skilled workers.<sup>13</sup>

In 2012, the majority of those being paid minimum wage were high school to college-age workers, many of whom still rely on their family for financial support.<sup>14</sup>

While many proponents for raising the minimum wage suggest doing so will help alleviate poverty,<sup>15</sup> minimum wage workers age 25 and older have an average family income of \$42,500, nearly twice as much as the poverty line.<sup>16</sup>

Furthermore, in 2012, only 9% of adults living below the poverty line worked full-time year round and only 25% worked part-time. Two of every three adults who live below the federal poverty line do not work at all. Thus, an increase in minimum wage will offer no benefit, but only harm them by decreasing their future job prospects.<sup>17</sup>

When New York raised the State minimum wage from \$5.15 to \$6.75 between 2004 and 2006, analysis found that employment of young and less-educated workers decreased by approximately 21%.<sup>18</sup> One of the biggest factors of this reduction in employment is the decrease in entry-level

positions offered by businesses in response to a raise in the minimum wage.

Entry-level jobs usually pay the minimum wage as workers earn income and, more importantly, basic job skills from their employer. After one year of employment, 67% of entry-level employees initially working for minimum wage are promoted to positions that earn above minimum wage.<sup>19</sup>

## Recommendation

While proponents of raising the minimum wage argue that doing so would provide assistance to those living in poverty,<sup>20</sup> a majority of those who would benefit from the increase would be workers who already live above the poverty line. That is, of course, if these workers keep their jobs.

Since its inception in 1938, increasing the minimum wage has proven to increase market prices and eliminate jobs.<sup>21</sup> By artificially increasing the price of labor, i.e. raising the minimum wage, employers must decrease the amount of labor they can purchase, leading to further increases in unemployment, especially for young, low-skilled workers.

While employers will be able to adjust by raising prices and/or reducing employees, individuals who lose their jobs lose the opportunity to gain skills thus decreasing their potential for future employment. As America's economy struggles to climb out of the last recession, increasing the minimum wage will only serve as a drag to recovery and may even harm intended beneficiaries.

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<sup>1</sup> UNITED STATES DEP'T OF LABOR, *History of Federal Minimum Wage Rates Under the Fair Labor Standards Act, 1938-2009*, <http://www.dol.gov/whd/minwage/chart.htm> (last visited April 20, 2014).

<sup>2</sup> *Id.*

<sup>3</sup> *Id.*

<sup>4</sup> *Id.*

<sup>5</sup> *Id.*

<sup>6</sup> Author's Calculations: Calculated using BUREAU OF LABOR STATISTICS *CPI Inflation Calculator*, available at <http://data.bls.gov/cgi-bin/cpicalc.pl?cost1=7.25&year1=2012&year2=2014> (last visited April 20, 2014).

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<sup>7</sup> THE WHITE HOUSE OFFICE OF THE PRESS SECRETARY, EXECUTIVE ORDER—MINIMUM WAGE FOR CONTRACTORS, (Feb. 12, 2014), *available at* <http://www.whitehouse.gov/the-press-office/2014/02/12/executive-order-minimum-wage-contractors> (last visited April 20, 2014).

<sup>8</sup> *Id.*

<sup>9</sup> NATIONAL CONFERENCE OF STATE LEGISLATURES, *State Minimum Wages-2014 Minimum Wage by State* (April 14, 2014), *available at* <http://www.ncsl.org/research/labor-and-employment/state-minimum-wage-chart.aspx>.

<sup>10</sup> HB279, 2014 Regular Session (Ala.) *available at* <http://alisondb.legislature.state.al.us/acas/ACTIONViewFrameMac.asp?TYPE=Instrument&INST=HB279&DOCPATH=searchableinstruments/2014RS/Printfiles/&PHYDOCPATH=/alisondb/acas/searchableinstruments/2014RS/PrintFiles/&DOCNAMES=HB279-int.pdf>.

<sup>11</sup> CONGRESSIONAL BUDGET OFFICE, THE EFFECTS OF A MINIMUM-WAGE INCREASE ON EMPLOYMENT AND FAMILY INCOME, (Feb. 2014) <http://www.cbo.gov/sites/default/files/cbofiles/attachments/44995-MinimumWage.pdf>.

<sup>12</sup> *See*, Carl Benedikt Frey and Michael A. Osborne, *The Future of Employment: How Susceptible Are Jobs to Computerisation?* (Sept. 17, 2013)

[http://www.futuretech.ox.ac.uk/sites/futuretech.ox.ac.uk/files/The\\_Future\\_of\\_Employment\\_OMS\\_Working\\_Paper\\_0.pdf](http://www.futuretech.ox.ac.uk/sites/futuretech.ox.ac.uk/files/The_Future_of_Employment_OMS_Working_Paper_0.pdf).

<sup>13</sup> *See*, James Sherk, *Minimum Wage Hikes Hurt Unskilled and Disadvantaged Workers' Job Prospects*, THE HERITAGE FOUNDATION, (Jan. 2, 2007)

<http://www.heritage.org/research/reports/2007/01/minimum-wage-hikes-hurt-unskilled-and-disadvantaged-workers-job-prospects> (last visited April 20, 2014).

<sup>14</sup> James Sherk, *What is Minimum Wage: Its History and Effects on the Economy*, THE HERITAGE FOUNDATION, (June 25, 2013), [http://www.heritage.org/research/testimony/2013/06/what-is-minimum-wage-its-history-and-effects-on-the-economy#\\_ftn9](http://www.heritage.org/research/testimony/2013/06/what-is-minimum-wage-its-history-and-effects-on-the-economy#_ftn9) (last visited April 20, 2014).

<sup>15</sup> THE WHITE HOUSE OFFICE OF THE PRESS SECRETARY, *Fact Sheet: Opportunity For All- Rewarding Hard Work* (Jan. 28, 2014) <http://www.whitehouse.gov/the-press-office/2014/01/28/fact-sheet-opportunity-all-rewarding-hard-work> (last visited April 20, 2014).

<sup>16</sup> *Supra* note 14.

<sup>17</sup> *Id.*

<sup>18</sup> CATO INSTITUTE, *Four Reasons Not to Raise the Minimum Wage*, [http://www.cato.org/sites/cato.org/files/four\\_reasons\\_not\\_to\\_raise\\_the\\_minimum\\_wage.pdf](http://www.cato.org/sites/cato.org/files/four_reasons_not_to_raise_the_minimum_wage.pdf).

<sup>19</sup> James Sherk, *Most Minimum-Wage Jobs Lead to Better-Paying Opportunities*, THE HERITAGE FOUNDATION, (Jan. 21, 2014), <http://www.heritage.org/research/reports/2014/01/most-minimum-wage-jobs-lead-to-better-paying->

[opportunities?utm\\_source=heritagefoundation&utm\\_medium=homepage&utm\\_campaign=bottom\\_140127](http://www.heritage.org/research/reports/2014/01/most-minimum-wage-jobs-lead-to-better-paying-opportunities?utm_source=heritagefoundation&utm_medium=homepage&utm_campaign=bottom_140127) (last visited April 20, 2014).

<sup>20</sup> THE WHITE HOUSE OFFICE OF THE PRESS SECRETARY, *Fact Sheet: Opportunity For All- Rewarding Hard Work* (Jan. 28, 2014) <http://www.whitehouse.gov/the-press-office/2014/01/28/fact-sheet-opportunity-all-rewarding-hard-work> (last visited April 20, 2014).

<sup>21</sup> *Supra* note 14.