



## Do Workers a Disservice – Raise the Minimum Wage

by Robert N. Stewart

Frustrated by failed attempts at the federal level, supporters of an increased minimum wage are turning to voters in various states to help them succeed in achieving their objective. In 2004, initiatives to pass a Constitutional Amendment defining marriage as “one man and one woman” were placed on the ballot in several states. In 2006, proponents of raising the minimum wage hope to follow suit and put this issue on ballots in nine states.<sup>1</sup>

The federal minimum wage was last raised in September of 1997. It is currently at \$5.15 per hour, though several states, as well as the District of Columbia, have passed laws that mandate a higher wage. While Iowa’s minimum wage is \$5.15 per hour, efforts for a higher wage have been successful close to home: Illinois has a minimum wage of \$6.50; Wisconsin recently began a two step process to raise its minimum wage to \$6.50 by June 1, 2006; and Minnesota raised its minimum wage to \$6.15 on August 1, 2005.<sup>2</sup> Following up on these successes, an effort to increase South Dakota’s minimum wage via the ballot was recently started.<sup>3</sup> Additionally, bills to increase the state minimum wage (SF 120 and H.R. 105) were introduced during the 2005 Iowa legislative session.

Proponents cite 11 million new jobs added in the four years that followed the last raise, the prospects of higher incomes for workers, the decreasing purchasing power of the minimum wage, and increasing poverty rates as evidence of the need to raise the minimum wage.<sup>4</sup> Despite these efforts and their accompanying rhetoric, neither the federal government nor the state of Iowa should raise the minimum wage.

If one were to look in any introductory-level economics textbook, he or she will clearly see the effects of a minimum wage: if the wage is set above the market equilibrium, the quantity of labor demanded decreases, leading to a surplus of labor — that surplus of labor being unemployed workers. Yet, proponents are quick to point out that 11 million new jobs were created in the four years following the last minimum wage hike — how can this be?

In his *Washington Times* column last July, CATO Institute Fellow Alan Reynolds was quick to point out that minimum wage workers are not the lowest paid workers in this country.<sup>5</sup> Indeed, there are several occupations (part-time babysitters, outside salesmen, and seasonal workers) and businesses (those whose yearly incomes are less than \$500,000) that are exempted from the federal minimum wage. As of 2004, nearly 1.5 million workers earn less than the minimum wage, compared to 520,000 who earn the federal minimum wage.<sup>6</sup> Reynolds argues that workers who are displaced as a result of an increase in the minimum wage compete for these sub-minimum wage jobs. The increased competition for these jobs drives wages even lower than they were to begin with. After the minimum wage increase of 1996, overall unemployment decreased from 5.6% to 4.2%; by 1997, the unemployment rate in the less-than-minimum wage sector increased to 4.2% from its 1995 level of 2.5%.<sup>7</sup> According to Reynolds, “the increased minimum wage is the only plausible explanation because the job market was unusually strong.”<sup>8</sup>

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A second problem with the minimum wage is that it specifically harms inexperienced and unskilled workers. Herman Cain, former President of both Godfathers Pizza, Inc. and the National Restaurant Association, uses the case of a homeless 17-year old who was hired to chop lettuce and sweep floors in a restaurant in Oregon and worked his way up to become the head chef. When the state raised the minimum wage, the position that originally brought this man into the restaurant was eliminated in an effort to reduce costs.<sup>9</sup>

The Bureau of Labor Statistics (BLS) reports that 51% of minimum wage earners are between the ages of 16 and 24, and 25% of them are between the ages of 16 and 19.<sup>10</sup> While over half of minimum wage earners fall in that 9-year age group, the other 49% are spread among all ages over the age of 25. In fact, of all workers over the age of 25, less than 2% earn the federal minimum wage or less compared with 6.3% of 16 to 24-year olds and 9.1% of 16 to 19-year olds.<sup>11</sup> Additionally, the BLS reports that part-time workers were seven times more likely to earn \$5.15 per hour than those who worked full-time.<sup>12</sup> Donald R. Deere, writing on the minimum wage for the National Center for Policy Analysis in 1998, stated that “while the single mother trying to support her child on a full-time minimum wage job is a better story, the 16-year-old hamburger-flipping student with college-educated and employed parents is a better fact.”<sup>13</sup>

It is no secret that a minimum wage job is not adequate to support a family. Yet very few people who earn this wage are in such a position. Most of these people are teenagers working part-time or unskilled workers seeking to advance to higher paying positions. To many of these workers, raising the minimum wage will either result in unemployment or a lower-paying position. Raising the minimum wage, altruistic as it may feel, is actually doing these workers a disservice.

### (Endnotes)

<sup>1</sup> Dennis Cauchon, “States Say \$5.15 an Hour Too Little,” *USA Today*, May 30, 2005, <[http://www.usatoday.com/news/washington/2005-05-30-minimum-wage\\_x.htm](http://www.usatoday.com/news/washington/2005-05-30-minimum-wage_x.htm)> (July 6, 2005).

<sup>2</sup> *Ibid.*

<sup>3</sup> Associated Press, “Push to Raise State Minimum Wage,” *Sioux City Journal*, July 6, 2005, <[http://www.siouxcityjournal.com/articles/2005/07/06/news/south\\_dakota/6636e306c035e8ef862570360005648e.txt](http://www.siouxcityjournal.com/articles/2005/07/06/news/south_dakota/6636e306c035e8ef862570360005648e.txt)> (July 6, 2005).

<sup>4</sup> Office of U.S. Sen. Tom Harkin, “Harkin Urges Increase in Minimum Wage,” Press release, May 18, 2005, <<http://harkin.senate.gov/news.cfm?id=237847>> (July 7, 2005).

<sup>5</sup> Alan Reynolds, “When More is Less,” *The Washington Times*, July 18, 2004, <<http://www.cato.org/research/articles/reynolds-040718.html>> (July 5, 2005).

<sup>6</sup> United States Bureau of Labor Statistics, “Characteristics of Minimum Wage Workers: 2004,” <<http://www.bls.gov/cps/minwage2004.htm>> (July 5, 2005).

<sup>7</sup> Reynolds, p. 2.

<sup>8</sup> *Ibid.*, p.2.

<sup>9</sup> Herman Cain, “Government Harm on the Minimum Wage,” *The American Enterprise*, July/August 1996, <[http://www.taemag.com/issues/articleID.16318/article\\_detail.asp](http://www.taemag.com/issues/articleID.16318/article_detail.asp)> (July 5, 2005).

<sup>10</sup> Bureau of Labor Statistics.

<sup>11</sup> *Ibid.*

<sup>12</sup> *Ibid.* BLS defines part-time as less than 35 hours in a week.

<sup>13</sup> Donald R. Deere, “Don’t Raise the Minimum Wage—The Bar is Already Too High,” National Center for Policy Analysis Brief Analysis No. 270, June 9, 1998, <[www.hcpa.org/ba/ba270.html](http://www.hcpa.org/ba/ba270.html)> (July 6, 2005).

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