



Should Congress Raise the Federal Minimum Wage?

By Jonathan J. Miltimore

Democrats have made raising the minimum wage the vanguard of their campaign to reclaim Congress in the 2006 elections. This is good politics. “Land of opportunity” is an idiom that Americans rightfully cherish; the idea of stagnant low wages in the land of abundance piques our sensitivities regarding social equality and economic fairness. Furthermore, in a stroke of political genius, Democrats are linking Congressional salaries with minimum wage laws, pointing out that since 1997 — the last year the federal minimum wage was increased — Members have raised their own pay nine times for a total of \$31,600.¹ While Democrats can be applauded for their political savvy, the policy is far from laudable.

There are numerous problems with a federal minimum wage, beginning with the need and effectiveness of such a law. According to a report by the Bureau of Labor Statistics, of the approximately 134 million U.S. workers, 196,000 of those over 25 years old reported hourly income of \$5.15 last year — the current federal minimum wage.² That means that less than one-tenth of one percent of workers over 25 years old earned the federal minimum wage of \$5.15.

Perhaps more importantly, evidence shows that minimum wage earners do not stay minimum wage earners. A study conducted by Cato Institute reveals that minimum wage earners receive, on average, a 30 percent pay increase in the first year of employment.³ Minimum wage earners are not a *class*; it is a temporary *wage* — usually for low skilled workers beginning an entry-level position — not a permanent condition.

The ostensible purpose of the minimum wage is to lift citizens out of poverty, but unintended consequences seem to produce an opposite effect. By placing an artificially high price on low skilled workers, minimum wage laws actually end up driving the nation’s most unskilled workers into poverty.

According to a 1978 survey taken by *American Economic Review*, “fully 90 percent of the economists surveyed agreed that the minimum wage increases unemployment among low-skilled workers.”⁴ According to an article in the *Wall Street Journal*, consensus among economists “is that a 10% increase in the minimum wage would destroy 1% to 2% of youths’ jobs.” Hence, a federal minimum wage increase to \$7.25 would result in as many as 1.6 million lost jobs.⁵

One does not need to have a degree in economics to grasp the correlation: jobs that are profitable for a business to employ at \$5.15 per hour, but not at \$7.25, will be eliminated or phased out. Does anyone ever wonder why gas stations today are all self-serve?

Aside from the effectiveness or desirability of a congressionally mandated minimum wage lies its suspect constitutionality. In *Adkins v. Children’s Hospital*, the Supreme Court struck down a congressional law establishing a minimum wage, ruling it violated the Fifth Amendment by denying the petitioner the right to make private contracts free of government interference. The logic of the Court is lucid and succinct: “In making such contracts, generally speaking, the parties have an equal right to obtain from each other the best terms they can as the result of private bargaining.”⁶

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Of course this was in 1923, when the fancy still existed that there were limits on Congressional primacy. No longer is that the case. From hearings on steroids in Major League Baseball, to injunctions on court rulings concerning spousal decisions to refuse medical treatment, Congress has affirmed that its power (and hubris) knows no bounds.

But do we really want a federal government that is in the industry of setting wages — minimum or otherwise — for workers and businesses? How can Congress possibly know or ascertain what is a “fair” wage for tens of thousands of different occupations?

The Great Depression convinced many Americans that they needed to be shielded from the callous indifference of markets. The Marxist notion that government must protect the hapless proletariat from a ruthless bourgeoisie is an infusive and powerful one, so much so that we have forgotten that the federal government was designed as a government with specific and limited domestic powers.

The irony is that the people most loudly demanding a minimum wage increase already have it. A glance at a map produced by the U.S. Department of Labor⁷ detailing minimum wage laws by state shows what one would expect: almost without exception, so called “blue states” have state minimum wage laws that exceed the federal mandate of \$5.15; “red states” do not. This is federalism at its finest.

If people in Maine and California want to establish minimum wage laws that exceed the federal mandate (which they have done), they have every right to do so. If people in Iowa and Texas feel similarly, they can act accordingly (they have not).

The merits (or lack there-of) of a minimum wage is a debate worth having. But Congress should resist an overreaching law that forces individual states to conform to its own (suspect) political dogma. Republicans in Congress should refrain from caving in to Democrats on this issue. Political expediency should not trump principle, even during election cycles.

(Endnotes)

¹Ted Barrett, “Democrats: No raises for Congress until minimum wage is increased,” *CNN.com*, July 28, 2006, <<http://www.cnn.com/2006/POLITICS/06/27/congress.wage.reut/>> (August 1, 2006).

²U.S. Department of Labor, Bureau of Labor and Statistics, “Characteristics of Minimum Wage Workers: 2005,” Table-1., <<http://www.bls.gov/cps/minwage2005tbls.htm#8>> (August 1, 2006).

³Carl F. Horowitz, “Keeping the Poor Poor: The Dark Side of the Minimum Wage,” *Policy Analysis No. 493*, Cato Institute, October 21, 2003, pp. 5, <<http://www.cato.org/pubs/pas/pa493.pdf>> (July 25, 2006).

⁴Linda Gorman, “Minimum Wages,” *The Concise Encyclopedia of Economics: The Library of Economics and Liberty*, <<http://www.econlib.org/LIBRARY/Enc/MinimumWages.html>> (July 31, 2006).

⁵David R. Henderson, “If Only Most Americans Understood,” *The Wall Street Journal*, pp.A12, August 1, 2006.

⁶*Adkins v. Children’s Hospital*, 261 U.S. 525 (1923).

⁷U.S. Department of Labor, Employment Standards Administration Wage and Hour Division, “Minimum Wage Laws in the States –April 3, 2006,” <<http://www.dol.gov/esa/minwage/america.htm>> (August 1, 2006)

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