Minimum Wage

The minimum wage refers to the lowest wage an employer can legally pay an employee. It protects the most vulnerable employees from excessive wage exploitation by establishing a wage higher than what the market would otherwise establish. The minimum wage arguably represents the amount of income needed by a full-time employee to maintain a minimally acceptable standard of living.

Some nations establish minimum wage laws for an entire country (Cuba, France, Russia, United Kingdom, United States) while others do so regionally (Canada), or based on industry collective bargaining agreements (Germany, Italy, Sweden). Many countries, including China and India, do not have a minimum wage law. In these nations, the lowest wage is a function of either the laws of supply and demand or business interests.

Arguments Against the Minimum Wage

Economists are divided on the impact of a minimum wage on labor markets and the economy.

Neoclassical economists oppose establishing minimum wage rates and, by extension, any increases to them. They report that artificially raising wages above the law of supply and demand hurts those it is intended to benefit by increasing unemployment, contributing to inflation, and discouraging business investment and growth. The extra labor costs force employers to hire fewer low-skilled employees and/or increase their prices. Some employers offset minimum wage increases by reducing other employee benefits. Minimum wage increases attract middle-class teenagers into the labor market, which creates more competition for low-skilled adults seeking employment.

In response, economists supportive of minimum wage increases report that higher hourly wages have little or no effect on unemployment rates, and actually stimulate economic growth by increasing the purchasing power of low-income employees. At the same time, recipients of higher minimum wages reduce their dependence on financial assistance from the government.

Early History of the Minimum Wage

For most of recorded history, minimum wage laws did not exist. In *Wealth of Nations,* published in 1776, the Scottish philosopher and economist Adam Smith observed that employers naturally formed coalitions among themselves to offer low wages. Given the over-abundance of low-skilled laborers, they possessed a superior bargaining position. Some employers paid below subsistence wages, an income level insufficient for an employee to purchase food and shelter. In 1845, Irish peasants working full-time died of starvation because they did not earn enough money to purchase home-grown oats and grains stored on nearby British ships.

During the late 1800s, the idea of establishing a minimum living wage gained a wide spectrum of support among labor unions, socialists, and leaders of both the Catholic and Protestant social movements. Pope Leo XIII, in his 1891 encyclical *Rerum Novarum* ("On Capital and Labor"), tempered the right of capitalists to own private property with the sentiment that laborers who did not receive an income high enough to escape from poverty were victims of "fraud and injustice."

The first minimum wage legislation was passed in New Zealand in 1894, followed by Australia two years later, and Great Britain in 1909. All three governments created wage boards to determine the minimum allowable wage in certain extremely low-paying industries.

United States' Legislative History

In the United States, early legislative efforts were aimed at providing minimum wages for women and children. In 1912, the Massachusetts legislature formed a council that requested voluntary compliance to minimum wage rates for women and children employed in certain industries. The following year, seven states enacted stronger minimum wage laws. But in 1923, national progress came to a halt when the U.S. Supreme Court ruled that state imposed minimum wage laws violated the constitutional right of employers and employees to freely enter into contracts, including wage agreements.

In response to high levels of unemployment and poverty caused by the Great Depression, President Franklin Roosevelt created the National Industrial Recovery Act (NIRA) of 1933 to stimulate business activity. The NIRA encouraged companies to create industry-wide codes of fair competition, which included agreements on appropriate prices and wages. The legislation also recommended that consumers purchase products only from businesses that paid their employees at least $12 a week for 35 hours of work. The Supreme Court ruled certain NIRA provisions unconstitutional, but quickly reversed itself in a subsequent ruling after considerable public pressure – including threats from President Roosevelt to restructure the Supreme Court itself.

The Roosevelt Administration issued the Fair Labor Standards Act of 1938, which federally regulated the length of the workweek, overtime rates, child labor, and minimum wages. One of the legislation's guiding principles was "a fair day's pay for a fair day's work." The initial legislation proposed that several transportation and agriculture industries pay a minimum of 40 cents per hour. Republicans and Southern Democrats objected to the minimum wage provision until the amount was reduced to 25 cents an hour, or $11 a week. The federal minimum wage has since been extended to additional industries, including public schools, nursing homes, farms, domestic workers, and small retail businesses. Congress did not index the minimum wage to inflation or a poverty threshold and increases it periodically in response to political pressure.

Minimum Wage Features in the United States

In the United States, both states and the federal government have the constitutional right to create a minimum wage. An employee is entitled to whichever is higher. In 2005, the federal minimum wage was $5.15 an hour. Fifteen states had minimum wage rates higher than the federal amount. The state of Washington, which annually indexes its minimum wage to inflation, had the highest amount at $7.35 an hour in 2005.

Some employees are not entitled to the minimum wage. Those exempted from the federal minimum wage include workers with disabilities, full-time students, youth under twenty years of age for the first 90 consecutive calendar days of employment, tipped employees, and student-learners. For instance, tipped employees can be paid as low as $2.13 an hour if the inclusion of tips at least equals the $5.15 hourly minimum wage rate. If not, then the minimum wage for tipped employees must be proportionately higher.

Approximately 10 million American wage earners – seven percent of the labor force – are paid a minimum wage. Two-thirds of the minimum wage earners are adults, the remainder teenagers. Thirty-three percent are parents with children under the age of eighteen. Approximately half work full-time. Fifty-eight percent are women and forty percent have less than a high school diploma.

Inadequacy of the Minimum Wage

During the 1960s, the federal government's "War on Poverty" efforts established public assistance programs, such as welfare, for all adults living in poverty. In the process, the federal government de-emphasized the minimum wage as the primary means for ensuring that the working poor earned a subsistence income. The minimum wage was increased to $5.15 an hour in 1997 and has remained at that level. In 2005, Congressional legislation proposing to gradually increase the minimum wage to $7 an hour failed to gain the necessary political support for passage. If the 1968 minimum wage of $1.60 an hour had been indexed to inflation, the current hourly rate would be $8.88.

Approximately thirty million Americans working full-time earn an hourly wage below the poverty threshold. In 2005, the federal poverty threshold for a single parent with two children was $16,090. Annual earnings for a full-time employee paid a minimum hourly wage of $5.15 was only $10,712, insufficient to cover living expenses such as housing, food, healthcare, childcare, and transportation. If the minimum wage was indexed to the federal poverty threshold it would be $7.74 an hour. Some local municipalities have approved a variety of "living wage" ordinances that enable the full-time working poor to earn enough income to maintain a minimally acceptable standard of living.

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See also: Capitalism; Exploitation, Great Depression, Just Wage, Living Wage, Poverty.

Further Readings and References

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