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A Minimum Wage

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Few topics invite as much passion and emotion on both sides of the issue as a mandated increase in the nation's minimum wage...now \$5.15 per hour.

The Facts

The minimum wage has been fixed at \$5.15 per hour since September 1997. Over that nearly nine-year period, the purchasing power of that \$5.15 per hour has fallen by nearly 25 percent. The minimum wage would have to be \$6.42 hourly today to match the buying power of \$5.15 in 1997.

The politics involved in the minimum wage discussion tend to follow political party mantra, with Republicans largely against a mandated increase. The Democrats favor a sizable upward adjustment.

An estimated two million American workers (less than 1.5%) are paid at the minimum wage or lower (restaurant servers, for example, are many times paid less, with the ability to receive tips to augment their incomes). Many minimum wage, or less, workers are young people, working part-time hours as they attend school.

The Argument Against a Boost

Many Republicans, as well as more conservative-leaning groups and pro-business advocates such as the U.S. Chamber of Commerce, oppose a mandated increase, arguing that such a rise would actually lead to declining employment. The argument is that if employers, especially smaller employers, are forced to pay a minimum wage such as \$6.75 or \$7.25 hourly, they might be forced to employ fewer people, or allow fewer hours to be worked, in order to limit overall wage costs.

The Journal of Economic Literature has established a widely quoted rule of thumb that a 10% increase in the minimum wage leads to roughly a 2% hike in the teen unemployment rate (*The Wall Street Journal*). Teen unemployment?...already in excess of 15%, with the unemployment rate of black teens exceeding 30%.

The argument continues that by depriving younger workers in particular of

the opportunity for that first job, the work-force skills necessary for advancement to higher wage levels are never learned. Such a development can contribute to even higher levels of public assistance and/or crime levels.

The Argument For a Boost

Many Democrats, as well as many "enlightened" communities (the community leader view), strongly favor a higher minimum wage. Advocates suggest that any total employment decline tied to a higher minimum wage is a fallacy. Advocates argue that the wage must move higher in order to keep pace with the rise in the cost-of-living of recent years.

Republicans many times challenge the "no impact" view of Democrats, noting that if a \$1.50 per hour or so rise won't impact hiring levels, why not a \$5.00 or \$10.00 increase in the minimum wage?...

...Ouch

Many "enlightened" state and community leaders have mandated sharply

At the Fed

As widely expected, the Federal Reserve boosted its key federal funds rate for a 17th consecutive time last Thursday, June 29 to 5.25% from 5.00%. The stock market loved the tone of the accompanying Fed statement regarding its view of future monetary policy. The Dow soared more than 217 points on Thursday, its largest one-day gain in more than three years.



New Federal Reserve Chair Ben Bernanke

The Fed left the door open for an 18th move to 5.50% on August 8. At the same time, it also left the door open to having concluded tightening.



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higher minimum wage levels in recent years, noting the inability of the Congress to step up to the plate. Nearly half of the states already have a higher minimum wage.

Employers in many states face minimums ranging from \$5.70 to \$7.50 per hour. High cost-of-living areas including Santa Fe, NM and San Francisco, CA have even higher minimum wage levels of \$8.50 to \$9.50 hourly.

The Realities

Many communities or states with higher minimum wage levels also provide exemptions for smaller employers. For example, while the minimum wage in Santa Fe is a lofty \$9.50 per hour, employers with fewer than 25 employees (those most likely to offer lower wages and lesser-valued benefits) are exempt. Human nature suggests that many small companies whose total employment is rapidly approaching the magic number of 25 workers will cap employment, or split the company into two or more entities to avoid the mandated higher wage.

One factor which has made the minimum wage somewhat mute in many communities is the shortage of labor, which has forced wages higher. Nationwide unemployment is currently 4.6%, the lowest in five years. A widely-held projection that the U.S. labor force will grow at less than a 1.0% annual rate in coming years...the slowest ever...should keep labor markets extremely tight, helping to boost wages across the income spectrum.

Many of us who might inquire about the beginning wage at a fast food restaurant would find that it is \$6.50 to \$7.50 or more hourly. Finding potential employees at \$5.15 hourly?

...not a chance

At the Polls

Democrats in many states and communities have taken a page from the opposition party. Republicans worked hard in recent elections to bring emotional issues, such as the definition of marriage, to the November polls in order to draw a strong conservative turnout.

Democrats are actively pushing to place the minimum wage issue on ballots in order to draw supporting voters. A number

of states have actually seen Republican-controlled legislatures lead their state's minimum wage higher.

By doing so, Republicans could potentially nullify an even larger increase from being passed in November. In addition, such a Republican-induced increase would lessen the emotional need of Democrats to vote.

My View

This issue is largely one where the market will work. Tight labor markets will boost wages across the income spectrum in order for companies to be adequately staffed.

Note: As part of the Baby Boom generation, I entered the workforce in the late 1960s. The issue at that time was an enormous excess of workers of or near my age, with many, many fewer workplace opportunities (i.e. many fewer fast food restaurants).

The minimum wage at that time?...\$1.25 per hour, with an upward bounce to \$1.60 in the early 1970s. When I think of all the hours I worked at \$1.25 per hour!

The minimum wage does need to be increased...that much seems clear. An upward adjustment, phased in over two or three years to perhaps \$6.75 hourly, seems fair and affordable. What happens after that as far as future adjustments creates another problem.

The minimum wage debate is one that draws intense emotion and a mix of both good and bad evidence to support a point of view. A somewhat similar issue is currently in the political mainstream and draws only limited emotion as to how to regularly boost benefits...

...Social Security cost of living increases

Imagine the political nonsense and demagoguery if annual adjustments to Social Security payments were a political football. The issue is moot because annual adjustments are automatically tied to the rise in consumer prices...

...a good idea for the minimum wage as well

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