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The Minimum Wage Wars

By Maura Deady

In March, the Senate rejected two proposals, one by a Democrat and the other by a Republican, that would have raised the minimum wage from its present rate of \$5.15 an hour. A measure sponsored by Sen. Ted Kennedy (D-Mass.) would have raised minimum wage to \$7.25 over the next 24 months, and a measure by Sen. Rick Santorum (R-Penn.) would have raised minimum wage to \$6.25 over the next 18 months. Despite the legislative defeats, the debate over minimum wage continues at all levels of government.

In 1938, the Fair Labor Standards Act, 29 U.S.C. s. 201 *et. seq.*, was enacted, establishing a federal minimum wage of \$0.25 an hour. According to the American Federation of Labor - Congress of Industrial Organizations' Web site, AFL-CIO members believe the purpose of the FLSA is to act as the nation's wage floor, or the lowest amount employers can legally and fairly pay workers. The FLSA has been amended over the years, increasing the federal minimum wage to the current \$5.15 an hour. Historically, minimum wage has risen in tandem with inflation, with several exceptions. According to the U.S. Bureau of Census, minimum wage nearly doubled in the 1950s. Then, during the Reagan administration, regular increases in minimum wage were halted. It was not until 1991 that the

George H. W. Bush administration again raised minimum wage. After that, Americans waited another five years until the Clinton Administration raised minimum wage to \$5.15 in 1996. The AFL-CIO argues that if minimum wage had kept pace with inflation it should have reached \$8.63 an hour by 2003.

The Economic Policy Institute (EPI) reports that when minimum wage is not indexed to inflation, the value of minimum wage erodes overtime, making it difficult for low-wage workers to make ends meet. A study by the National Low Income Housing Coalition found that a full-time minimum wage worker earns \$10,712 annually, which is below the poverty line for a family of two. *The New York Times* reported that in only four of the nation's 3,066 counties can someone who works full-time and earns the federal min-

imum wage afford to pay rent and utilities for a one-bedroom apartment.

Advocates for the increase in minimum wage believe this is not only an economic issue; it is also a moral one. The AFL-CIO believes that if the United States government opts out, a raise in minimum wage would "eliminate the national wage floor, making minimum wage nothing more than a wage suggestion."

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Minimum Wage, continued on page 18

Minimum Wage, continued from page 17

raise the salary of 7.4 million workers, or 5.9 percent of the population. The EPI also noted that such an increase could have "spillover effects," meaning that workers earning above minimum wage would likely see an increase in their salaries as well. This spillover effect would raise the income of 8.2 million additional workers, or 6.2 percent of the population. Most notably, this raise in minimum wage would benefit both women and minority workers who are disproportionately earning at or slightly above the minimum wage.

According to *The New York Times*, those in opposition to the minimum wage increase are comprised largely of owners of small businesses. These small business owners pay their employees minimum wage and believe that the proposed increase will hurt their profits. Small business owners, as well as some Republicans, believe that wages should be determined by market forces instead of a government mandate.

The New York Times also reported that opponents of raising the federal minimum wage believe that raising the federal minimum wage will only hurt the employment of the nation's least

skilled workers. Opponents argue that the labor of those who flip hamburgers, for example, is not worth more than \$5.15 an hour and owners of fast food chains would have to decrease their workforce if the federal minimum wage is increased.

Some states have not waited for Congress to raise minimum wage. Instead, 13 states have enacted laws raising minimum wage for their residents. In these states, where the state minimum wage differs from the federal minimum wage, the Department of Labor allows employees to be paid the higher of the two. Most recently, in November 2004, Nevada and Florida approved ballot measures to raise their states minimum wage by an overwhelming

majority. These states joined Washington and Oregon, who require moderate annual adjustments of minimum wage to account for changes in the cost of living.

Other states, however, have resisted raising their minimum wage arguing that a higher minimum wage will ultimately lead to a weaker labor force in their state. Craig Garthwaite of the Employment Policies Institute said "it is no coincidence that the three states with the highest minimum wage in the nation, Oregon, Washington and Alaska, are among the five states with the highest unemployment rates in the nation."

The EPI called Garthwaite's interpretation of the unemployment rates in those three states "an oversimplification of the unemployment rates and some key facts about each state show that a number of factors unrelated to minimum wage are actually responsible for high unemployment rates."

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For example in Alaska, EPI found that the job growth has been the highest in the United States since the recession. According to the EPI, unemployment rates in Alaska are the not the result of increases in minimum wage, but instead of an overall increase in the work force. Similarly, EPI contends that Oregon's unemployment has not coincided with the state's decision to increase minimum wage. The group said that the increase in minimum wage took effect in 1999 while the rise in unemployment did not occur until 2001. Finally in Washington, EPI argues that the weakness in the state's labor market has been predominately caused by the decrease in manufacturing employment, which is a relatively high-paying

Minimum Wage, continued on page 19

Minimum Wage, continued from page 18

industry virtually unaffected by minimum wage.

Some states have looked outside minimum wage to help their citizens earn a fair wage. In Atlanta, the City Council adopted a "living wage" ordinance that "encouraged - not forced" businesses that provide services to the city to pay their employees at least \$10.15 an hour. This legislation, adopted on January 3, 2005, would give preference to companies bidding for city work if they paid their employees the living wage set forth in the recent ordinance. One Council member criticized the ordinance, noting that it would not affect the pay at many companies and organizations.

Other cities that have enacted living wage legislation have also faced opposition. In Berkeley, Calif., a living wage ordinance was adopted in 2000, and according to *The New York Times*, mandated minimum hourly wages and employee benefits for some employees that receive financial benefits from the city. This ordinance was later amended to include employers at the Berkeley Marina, which the city of Berkeley held in public trust. In 1996, the Marina's lease was assigned to RUI One Corp., who agreed to increased rent and other stipulations. Later in 2002, RUI One Corp. filed a declaratory judgment and injunctive relief against the city, alleging that Berkeley's living wage ordinance and the Marina Amendment were unconstitutional. A California federal court granted summary judgment in favor of the City and the Ninth Circuit Court of Appeals affirmed this decision, holding that the living wage ordinance does not violate the Equal Protection clause of the Constitution. The court went on to note that "since the Marina receives so many benefits from the city, such as no competition due to a development moratorium, it is the business's responsibility to give back to the community from which it receives such benefits."

As the debate over minimum wage continues, it is clear that advocacy by the labor lobby, initiatives by business owners, and continued research into the effect of minimum wage by the nation's elected officials will determine the future of America's low-wage workers.

Thirteen states have a minimum wage greater than the federal wage.

Two states have a minimum wage lower than the federal wage.

Seven states have no minimum wage.

<http://www.dol.gov/esa/minwage/america.htm>

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