

Norbert Wagner: Minimum Wages in the USA

When, in January of this year, a bill to increase the statutory minimum wage nationwide was passed by the US House of Representatives, the Democrats landed their first success, the implementation of one of the most important items listed on their 'first 100 hours agenda'. In February, the bill was also passed by the Senate, though not without concessions to the Republicans in the shape of simultaneous tax cuts for small enterprises. President Bush has already indicated his willingness to sign the draft into law, although it still remains to be harmonised. After all, both chambers of Congress must ratify the same version.

What is needed now is work in the mediation committee. However, as the majority of the population shows a positive attitude towards the minimum-wage increase, and since it is supported by all Congress parties, it may be expected that the bill will be passed quite soon.

The first attempt to introduce an – albeit not compulsory – minimum wage for women and children was made in Massachusetts in 1912. It was followed by other initiatives: Within the framework of the Fair Labor Standards Act of 1938, a national minimum wage of \$ 0.25 per hour was ratified, which corresponds to \$ 3.22 in 2005. The present bill provides for a minimum wage of \$ 7.25. Under President Clinton, the White House had granted the federal states authority to determine their own minimum wages even in excess of national rates. Progressive politicians are endeavouring to tie the minimum wage rate to the consumer index and to obtain a yearly automatic adaptation – a model which is already being practised in four federal states, namely Ohio, Oregon, Missouri, and Washington. Kansas is the federal state with the lowest minimum wage.

According to estimates by the labour department, 75.6 million of the country's employees, i.e. just over 60 percent of the wage-earners in the entire USA, were paid on an hourly basis in 2005. Half a million of them earned the minimum wage, and c. 1.43 million were paid at an even lower rate. Numerous American economists share the opinion that minimum wages lead to higher unemployment. Others, on the other hand, demanded an increase of the minimum rate in 2006, as they regarded its 'effects on the labour market, the employees, and the economy as a whole' as positive.

Those who favour the minimum-wage increase claim that 14 million people, i.e. 9.8 percent of American employees, would benefit from it, as the increase of the minimum wage would raise the annual income of minimum-wage earners by almost one third to \$ 15,000. They do not agree that such a raise would stimulate inflation and retard employment growth. Another of their arguments is that the increase is very popular, as shown by the fact that the majority of Americans had declared themselves for the raise and 29 federal states had already implemented it. Opponents of the project, on the other hand, argue that a minimum-wage increase is not an effective tool to combat poverty, but would cause entrepreneurs to hire fewer workers and cut down on their working week.

What is more, advocates of the idea of freedom have also had their say. They think that the current efforts of Congress undermine the 'liberal principles of private property, freedom of contract, and a limited state' laid down in the constitution. Rather, in a free society, an employer should have the right 'to hire and fire', as an employee should have the right to compete for a job in open competition. They say that an arbitrary raise of minimum wages would, if anything, increase the price of work but would not change the capabilities of the employer or other factors that lead to low wages in any way. According to the advocates of freedom, the USA should steer a new course not towards a 'false enthusiasm for progress' but towards a return to true liberalism.

In recent times, the classical pros and cons to the increase have been contradicted: The effects of the minimum wages on the labour market were said to be not as severe as previously assumed. One labour-market expert believes that today's debate is not about how great the effect is but about how small it is. Joseph Stiglitz, winner of the Nobel Prize, holds the view that 'the minimum-wage increase has been completely superimposed by other factors'.

As early as the autumn of 2005, Lee Scott – CEO of Wal-Mart, the biggest company worldwide with more than 1.3 million employees in the USA alone, whose average pay just exceeds the minimum wage – called upon Congress to raise the minimum wage. In this, Scott was probably less concerned about the income of his employees than about the low purchasing power of minimum-wage earners: 'We have first-hand knowledge about how our customers struggle to make ends meet. Our customers simply do not have the money to buy the bare necessities of life from one payday to the next'. Senator Edward Kennedy was one of those who responded: 'If the CEO of Wal-Mart calls for a minimum-wage increase, the Republicans should take this appeal to heart on behalf of millions of working men and women who are living in poverty'.