

# Raising the Minimum Wage in Hard Times

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## Summary

- The federal minimum wage was enacted during the Great Depression to promote economic recovery.
- The long-term fall in worker buying power is one reason we are in the worst economic crisis since the Great Depression.
- An America that doesn't work for working people is not an America that works.
- Raising the minimum wage boosts consumer purchasing power and economic recovery.
- Raising the minimum wage does not increase unemployment in good times or bad.
- Raise the floor to lift the economy.

### ■ The federal minimum wage was enacted during the Great Depression to promote economic recovery.

The federal minimum wage was not enacted during good times, but during the extraordinarily hard times of the Great Depression.<sup>1</sup> When the federal minimum wage was established in 1938, the unemployment rate was still a very high 19 percent.

President Franklin Roosevelt called the minimum wage “an essential part of economic recovery.” It would put a floor under worker wages, alleviate the hardship of inadequate wages, and stimulate the economy and job creation by increasing consumer purchasing power. The federal minimum wage was also meant to promote economic development and stop the original “race to the bottom” of employers moving to cheaper labor states in a downward spiral.

In his January 3, 1938 annual message to Congress, calling for passage of the historic Fair Labor Standards Act, Roosevelt said, millions of workers “receive pay so low that they have little buying power. Aside from the undoubted fact that they thereby suffer great human hardship, they are unable to buy adequate food and shelter, to maintain health or to buy their share of manufactured goods.”

Roosevelt said, “The increase of national purchasing power [is] an underlying necessity of the day.” And so it is today.

### ■ The long-term fall in worker buying power is one reason we are in the worst economic crisis since the Great Depression.

Consumer spending makes up about 70% of our economy. The minimum wage sets the wage floor. A low minimum wage institutionalizes an increasingly low-wage workforce.

Even after the increase to \$7.25, the minimum wage will be lower than the \$7.93 minimum wage of 1956 and much lower than 1968's \$9.92, adjusting for inflation.

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<sup>1</sup> For a good overview, see Jonathan Grossman, “Fair Labor Standards Act of 1938: Maximum Struggle for a Minimum Wage,” U.S. Department of Labor, [www.dol.gov/dol/esa/public/minwage/history.htm](http://www.dol.gov/dol/esa/public/minwage/history.htm). Also see Kirstin Downey, *The Woman Behind the New Deal: The Life of Frances Perkins, FDR's Secretary of Labor and His Moral Conscience* (New York: Doubleday, 2009).

A growing share of workers make too little to buy necessities—much less afford a middle-class standard of living. More and more two-paycheck households struggle to afford a home, college, healthcare and retirement once normal for middle-class households with one paycheck.

There has been a massive shift of income from the bottom and middle to the top. By 2006, the richest 1% of Americans had increased their share of the nation's income to the second-highest level on record. The only year higher was 1928—on the eve of the Great Depression.

- In 1973, the richest 1% of Americans had 9% of national income. By 2006, they had 23%.

As we are seeing so painfully, an economy fueled by rising debt, greed and speculation, rather than rising wages, is a house of cards.

“When businesses don't pay a living wage all society pays,” said U.S. Women's Chamber of Commerce CEO Margot Dorfman in signing a statement by national business leaders and small business owners from every state supporting a minimum wage increase. “We pay through poverty and needless disease, disability and death from inadequate healthcare. We pay as women struggle to put food on the table. We pay as businesses and communities suffer economic decline.” ([www.businessforafairminimumwage.org](http://www.businessforafairminimumwage.org))

### ■ **An America that doesn't work for working people is not an America that works.**

Let Justice Roll predicted the economic meltdown in our first report, *A Just Minimum Wage: Good for Workers, Business and Our Future*, in 2005. We called for an end to the low-wage, low-social responsibility low road, saying, “The high road is not only the better road, it is the only road for progress in the future. An America that doesn't work for working people is not an America that works. We will not prosper economically or ethically in the global economy relying on low wages, outsourcing and debt in place of innovation and opportunity. We will not prosper in the global economy relying on disinvestment in place of reinvestment. We can't succeed that way any more than farmers can 'compete' by eating their seed corn.”

We said, “The United States is an increasingly shaky superpower with a hollowed-out manufacturing base, large trade deficit and growing debt held heavily by other countries. Households have propped themselves up in the face of falling real wages by maxing out work hours, credit cards and home equity loans... This is not a sustainable course... The low road is like a 'shortcut' that leads to a cliff.”

We have fallen off the cliff.

Underpaid workers and responsible businesses are bailing out banks and corporations run by reckless overpaid bosses who milked their companies and our country like cash cows – and trashed the global economy. Enough is enough.

### ■ **Raising the minimum wage boosts consumer purchasing power and economic recovery.**

We hear a lot of talk about the importance of consumer spending to recovery from our current economic crisis. Well, consumers can't spend what they don't have.

If consumer purchasing power is at the heart of economic recovery, wages are at the heart of consumer purchasing power.

Minimum wage workers, like all workers, are also consumers. Minimum wage raises are well-targeted stimulus because they go directly to those who most need to spend additional dollars on food, fuel, housing, healthcare and other necessities.

Minimum wage workers don't put raises into Wall Street's many Ponzi schemes, commodity speculation or offshore tax havens. They recycle their raises back into local businesses and the economy by buying needed goods and services.

According to the Economic Policy Institute report, *A Stealthy Stimulus: How boosting the minimum wage is helping to stimulate the economy*, the first two minimum wage increases “will have generated an estimated \$4.9 billion of spending by July 2009, precisely when our economy needed it the most. The final increase in July 2009 is expected to generate another \$5.5 billion over the following year.”

### ■ Raising the minimum wage does not increase unemployment in good times or bad.

Critics routinely oppose minimum wage increases in good times and bad, claiming they will increase unemployment, no matter the real world record to the contrary. Extensive research refutes the claim that increasing the minimum wage causes increased unemployment and business closures. Key national, state and citywide studies appear in the Appendix.

The buying power of the minimum wage reached its peak in 1968. The unemployment rate went from 3.8% in 1967 to 3.6% in 1968 to 3.5% in 1969. The next time the unemployment rate came close to those levels was after the minimum wage raises of 1996 and 1997.

As *Business Week* put it in 2001, “Many economists have backed away from the argument that minimum wage [laws] lead to fewer jobs.”

The decade between the federal minimum wage increase to \$5.15 an hour on Sept. 1, 1997 and the July 24, 2007 increase to \$5.85 was the longest period in history without a raise. Numerous states raised their minimum wages higher than the federal level during that period. Research by the Fiscal Policy Institute and others showed that states that raised their minimum wages above the federal level experienced better employment and small business trends than states that did not.

Three important newer studies, carefully controlling for non-minimum wage variables, published by the Institute for Research on Labor and Employment (Univ. of Calif., Berkeley), further advanced the research on minimum wage employment effects. *Minimum Wage Effects Across State Borders* compared all neighboring counties in the U.S. located on different sides of a state border with different minimum wage levels between 1990 and 2006 and found no adverse employment effects from higher minimum wages.

*Do Minimum Wages Really Reduce Teen Employment?* analyzed the 1990-2007 period, which includes the last two recessions (July 1990 to March 1991 and March 2001 to November 2001) as well as the 2007 minimum wage increase. Researchers found no significant teen employment loss due to minimum wage increases. *Spacial Heterogeneity and Minimum Wages: Employment Estimates for Teens Using Cross-State Commuting Zones* furthers the research, finding “no discernable disemployment effect, even when minimum wage increases lead to relatively large wage changes.”

### ■ Raise the floor to lift the economy.

The minimum wage sets the wage floor. As Roosevelt and his advisers understood, we have to raise the floor to lift the economy.

Frances Perkins was Secretary of Labor from 1933 to 1945 and the first woman to serve in a presidential cabinet. She accepted the position after securing Roosevelt's commitment to champion the minimum wage, a 40-hour workweek, unemployment insurance, Social Security and other hallmarks of the New Deal. In 1933, while still serving as Industrial Commissioner of the New York State Department of Labor, Perkins wrote in the magazine, *Survey Graphic*, about the real "cost of a five-dollar dress":

It hangs in the window of one of the little cash-and-carry stores that now line a street where fashionable New Yorkers used to drive out in their carriages to shop at Tiffany's and Constable's. It is a "supper dress" of silk crepe in "the new red" . . . A cardboard tag on the shoulder reads: "Special \$4.95." Bargain basements and little ready-to-wear shops are filled with similar "specials."

But the manufacturer who pays a living wage for a reasonable week's work under decent conditions cannot turn out attractive silk frocks to retail at \$5 or less . . .

If the purchaser does not pay a price that allows for a subsistence wage and reasonable hours and working conditions, then the cost of the "bargain" must be sweated out of the workers.

The red silk bargain dress in the shop window is a danger signal. It is a warning of the return of the sweatshop, a challenge to us all to reinforce the gains we have made in our long and difficult progress towards a civilized industrial order.

Perkins wanted the minimum wage to be a living wage. The Department of Labor is located in the Frances Perkins Building. It's time to stop undoing Perkins' legacy and build on it.

Paying workers enough to live on should not be optional—in good times or bad.

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## **Appendix: Research Shows Raising Minimum Wage Does Not Increase Unemployment**

### **Selected Research *in chronological order***

Lawrence F. Katz and Alan B. Krueger, "The Effect of the Minimum Wage on the Fast Food Industry," Industrial Relations Section, Princeton University, February 1992.

David Card, "Using Regional Variation in Wages to Measure the Effects of the Federal Minimum Wage," *Industrial and Labor Relations Review*, October 1992.

David Card and Alan Krueger, *Myth and Measurement: The New Economics of the Minimum Wage* (Princeton, NJ: Princeton University Press, 1995).

David Card and Alan B. Krueger, "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania: Reply," *American Economic Review*, December 2000 (in this reply, Card and Krueger update earlier findings and refute critics).

Jared Bernstein and John Schmitt, [Economic Policy Institute](#), *Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase*, 1998.

Jerold Waltman, Allan McBride and Nicole Camhout, "Minimum Wage Increases and the Business Failure Rate," *Journal of Economic Issues*, March 1998.

A Report by the National Economic Council, *The Minimum Wage: Increasing the Reward for Work*, March 2000.

Holly Sklar, Laryssa Mykyta and Susan Wefald, *Raise The Floor: Wages and Policies That Work For All Of Us* (Boston: South End Press, 2001/2002), Ch. 4 and pp. 102-08.

Marilyn P. Watkins, Economic Opportunity Institute, "Still Working Well: Washington's Minimum Wage and the Beginnings of Economic Recovery," January 21, 2004.

Amy Chasanov, Economic Policy Institute, *No Longer Getting By: An Increase in the Minimum Wage is Long Overdue*, May 2004.

[Fiscal Policy Institute](#), *States with Minimum Wages above the Federal Level Have Had Faster Small Business and Retail Job Growth*, March 2006 (update of 2004 report).

John Burton and Amy Hanauer, Center for American Progress and Policy Matters Ohio, *Good for Business: Small Business Growth and State Minimum Wages*, May 2006.

Paul K. Sonn, *Citywide Minimum Wage Laws: A New Policy Tool for Local Governments*, (originally published by Brennan Center for Justice) [National Employment Law Project](#), May 2006, includes a good summary of impact research.

Liana Fox, Economic Policy Institute, *Minimum Wage Trends: Understanding past and contemporary research*, November 8, 2006.

Paul Wolfson, Economic Policy Institute, *State Minimum Wages: A Policy That Works*, November 27, 2006.

Arindrajit Dube, Suresh Naidu and Michael Reich, "The Economic Effects of a Citywide Minimum Wage," *Industrial & Labor Relations Review*, July 2007.

Jerold L. Waltman, *Minimum Wage Policy in Great Britain and the United States* (New York: Algora, 2008), pp. 17-19, 132-136, 151-162, 178-180.

Sylvia Allegretto, Arindrajit Dube and Michael Reich, *Do Minimum Wages Really Reduce Teen Employment?*, [Institute for Research on Labor and Employment](#), Univ. of CA, Berkeley, June 28, 2008.

Arindrajit Dube, T. William Lester and Michael Reich, *Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties*, Institute for Research on Labor and Employment, Univ. of CA, Berkeley, August 2008.

Michael F. Thompson, Indiana Business Research Center, "Minimum Wage Impacts on Employment: A Look at Indiana, Illinois and Surrounding Midwestern States," *Indiana Business Review*, Fall 2008.

Sylvia Allegretto, Arindrajit Dube and Michael Reich, *Spacial Heterogeneity and Minimum Wages: Employment Estimates for Teens Using Cross-State Commuting Zones*, Institute for Research on Labor and Employment, Univ. of CA, Berkeley, June 25, 2009.

More research and links to be added in future versions of this resource.