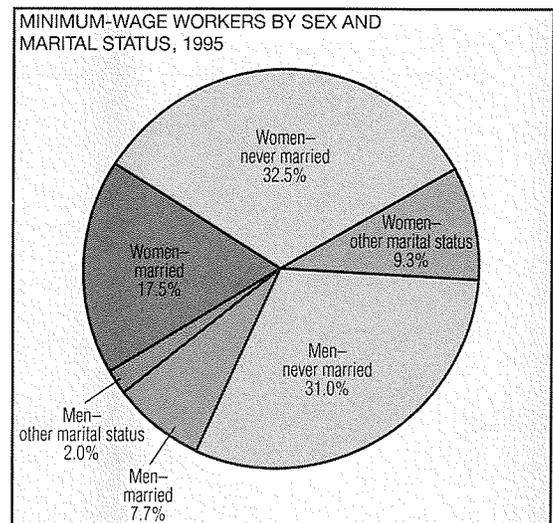
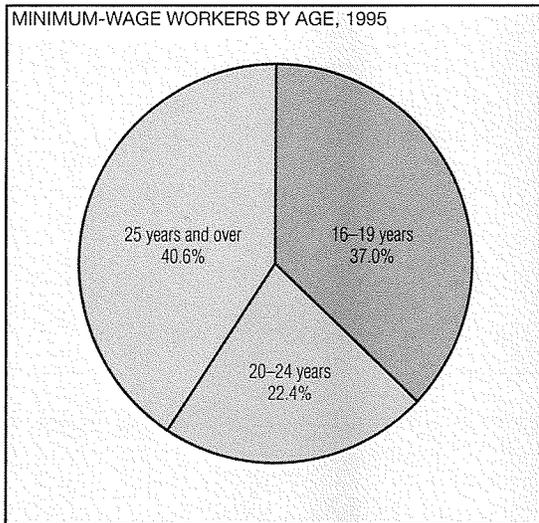
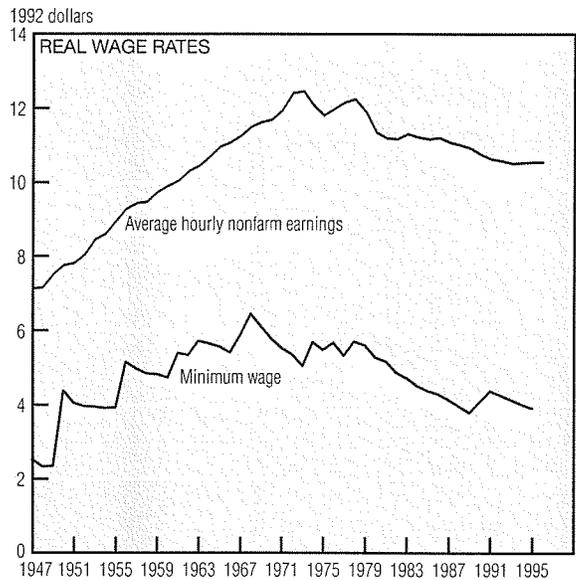
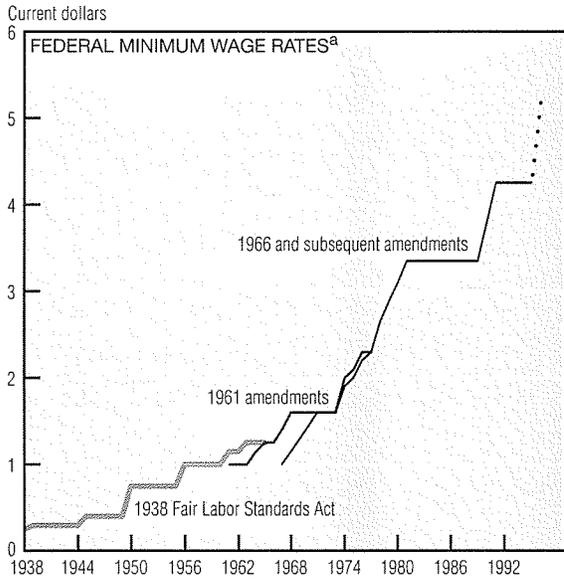


# The Minimum Wage



a. Dotted line indicates the proposed increase in the minimum wage.  
 SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.

Economists prefer solutions to social problems that make some people better off without making others worse off. Using this criterion, few economists find the minimum wage attractive.

Nearly 2 million workers received the \$4.25 federal minimum wage in 1995. Approximately 60% of them are under 25, most (64%) work part time, and their jobs feature very high rates of turnover. Compared to workers receiving hourly wages, minimum-wage earners include a

disproportionate share of minority workers. Almost 42% of minimum-wage earners are unmarried women.

Studies suggest that a 10% hike in the minimum wage will reduce employment rolls by 1% to 3%. This implies that the proposed 21% increase (to \$5.15) will cut between 41,400 and 124,000 minimum-wage jobs. Assuming that the approximately 1.8-1.9 million workers who remain employed work 27 hours per week (the current average), each will receive an additional \$24 weekly, or \$1,251 per year.

These rough calculations assume that all else remains constant. But a higher minimum wage will induce further substitution of capital for unskilled labor and will encourage the practice of working "off the books." Eventually, as economic growth and inflation advance the average wage rate, the relative size of the minimum wage will dwindle and demand for unskilled workers will rise. Both the positive and negative effects of the minimum wage will prove temporary.