



CASCADE POLICY INSTITUTE

# CASCADE COMMENTARY

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## Summary

Oregonians will decide this election whether to raise the state's minimum wage and automatically increase it each year based on the consumer price index. Unfortunately, minimum wage laws perpetuate the problems they aim to solve, and Measure 25 proposes to make the negative effects perpetual.

**Word count: 694**

***“Minimum wage laws are blunt tools to use to reduce poverty because only a small group of people earning minimum wage live in poverty.”***

## Harming those we think we're helping

*By Ayse Y. Evrensel, PhD*

On November 5 Oregonians will determine the fate of Measure 25, a proposal to increase the state's minimum wage, already among the highest in the country. If the initiative passes, the minimum wage would go up automatically each year, with increases tied to the consumer price index.

Before voting we should ask a few fundamental questions. Who are we trying to help? Do we have any evidence that such laws produce the desired results? What will happen if minimum wage increases are automatically linked to cost of living changes?

Minimum wage laws have been with us for 90 years. Between 1912 and 1938, 28 states, the District of Columbia, and Puerto Rico passed them; the majority of these laws covered women and children, or only women. The first federal minimum wage law, the Fair Labor Standard Act, was enacted in 1938.

Proponents of minimum wage legislation 90 years ago, like Measure 25 proponents today, cite the same goal: reducing poverty among the working population. Proponents argue that such laws provide support to people on the low rungs of the economic ladder. Those who are behind this year's Oregon initiative further argue, it is only logical that the government's minimum wage reflect annual increases in the cost of living. The question looms: do minimum wage laws actually help to reduce poverty?

To start, let's consider the number and composition of minimum wage earners. Nationally, minimum wage earners account for only 10 percent of all people employed, and less than one-fifth of minimum wage earners are the sole providers for their families, this represents under two percent of all people employed. In fact, the majority of minimum wage earners are young people, many of them teenagers, from nonpoor families. Studies show that minimum wage increases affect teenagers the most. Minimum wage laws are blunt tools to use to reduce poverty because only a small group of people earning minimum wage live in poverty.

Standard economic theory predicts that minimum wage laws create unemployment among low-skilled workers. This theory is verified by numerous empirical studies, including “Employment and the 1990-1991 Minimum Wage Hike,” published May 1995 in the distinguished *American Economic Review*. As the cost of labor increases, firms will hire fewer workers. A minimum wage law does not guarantee a job.

Automatic increases in the minimum wage will raise unemployment and the number of people living in poverty. Two characteristics of the Oregon economy are likely to make the negative effects of Measure 25 even worse. First, the Oregon Employment Department reports that 13 percent of all hourly wage earners in Oregon make the minimum wage, which is above the U.S. average. Second, the highest rates of unemployment occur in the service and trade sectors. Because the minimum wage primarily affects these sectors, they will experience even higher unemployment rates.

Minimum wage laws aim to reduce poverty through the redistribution of income from employers to low-income people. However, the actual income redistribution takes place among low-income people: some will have higher wages, while others will have no wages at all. Given the above characteristics of Oregon’s economy, income redistribution between low-income people will become even more severe if Measure 25 passes.

The fact that the minimum wage has been around for 90 years reveals that someone must profit from it. Politicians, people engaged in social policy, and union workers comprise the group that has enjoyed positive returns from minimum wage laws. Supportive politicians appear caring, thus earning them recognition and helping them get reelected. Policies that make it harder for low-skilled workers to find jobs ensure steady demand for social workers. And, union members benefit because minimum wage laws reduce the number of employable workers, thus improving union bargaining power with employers. Voters who favor minimum wage laws also benefit; they gain by thinking they have helped others in need.

Poverty deserves our attention. However, making it a crime to work below the minimum wage is not the answer. Since its first appearance in the U.S. in 1912, minimum wage legislation has perpetuated the very problems it aims to solve. In 2002, Oregon’s Measure 25 proposes to make the negative effects of the minimum wage perpetual.

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