

Minimum Wage Laws

A Brief History and Overview

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A **minimum wage** is the lowest amount of money that an employer is allowed to pay its workers.

The first attempt at a minimum wage in the US was in Massachusetts in 1913.

Later that same year, at the urging of the Minnesota Woman Suffrage Association, Minnesota passed a law establishing work standards for women and children and created a Minimum Wage Commission.

In its first order, which was supposed to go into effect in November of 1914, the Minimum Wage Commission called for a **weekly** minimum wage of between **\$8.25 and \$8.50*** for women and minors in the state's lowest-paid jobs.

*\$208-215 per week in 2018 dollars

The new minimum wage faced a legal challenge before it was even implemented, however, with businesses claiming the regulated wage was unconstitutional and deprived the employer and employee of their right to make contracts.

State attorneys defended the minimum wage, stating:

“The protection of the health, morals and happiness of the citizens has always been held a proper subject legislation and not an inhibition of the federal constitution.”

“Our laws must change and develop with changing conditions of society.”

**Ramsey County Judge
Frederick Catlin agreed with
the businesses, and found
the minimum wage to be too
radical a measure, and
economically infeasible.**

**“Manifestly, many women
and minors incapable of
earning the ‘minimum wage’
must lose their employment.”**



Judge Catlin issued an injunction preventing the implementation of the minimum wage. On appeal, however, the Minnesota Supreme Court unanimously found the wage commission to be constitutional in 1918.



During the Great Depression, FDR made several attempts to pass a federal minimum wage, with little legal success. After years of legal battles, however, the minimum wage was finally found to be constitutional in 1941 when the Supreme Court upheld the Fair Labor Standards Act (FLSA) with *US v. Darby Lumber Co.*

Meanwhile in Minnesota, Gov. Floyd Olson signed an executive order in 1931, implementing a **45 cents* per hour** minimum wage.

The state of Minnesota would not address the minimum wage again until 1973.

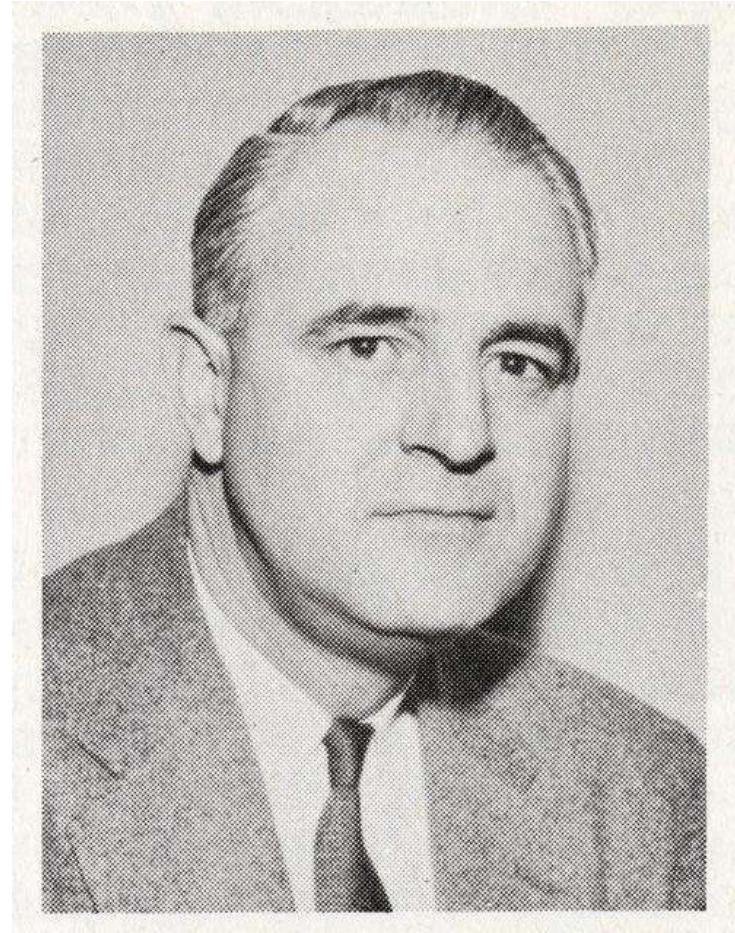
*\$11.39 in 2018 dollars

In 1973, state representatives passed Minnesota's own version of the Fair Labor Standards Act, including a **\$1.80/hr*** minimum wage, and safeguards for “existing minimum wage and overtime compensation standards that maintain workers' health, efficiency, and general well-being against the unfair competition of wage and hour standards that do not.” (Minn. Stat. 177.22)

*\$10.15/hr in 2018

Although it passed, the bill's opponents said it would result in job losses from small businesses that can't afford the expense.

“You can talk about paying a minimum wage,” House Minority Leader Aubrey Dirlam told the chamber, “but first they’ve got to have a job.”



Minimum Wage Today

In the United States, over 130 million workers are currently covered at the federal level by the Fair Labor Standards Act.

For 2016, an estimated 248,000, or 15.4%, of Minnesota's 1.61 million hourly workers earned the effective minimum wage of \$9.50 or less*. The percentage at or below the minimum had been 4.7% percent as recently as 2013, when the effective minimum wage was the federal level of \$7.25. (MN Dept. Labor & Industry)

***Workers' reported wages may be less than the full effective minimum because:**

- the workers may be exempt**
- a lower minimum than the full minimum may apply to them**
- they may be illegally paid less than the applicable minimum**
- their hourly earnings may be misreported**

Metro vs. Nonmetro Residents

About 1,176,000 of Minnesota's hourly workers (73 percent) lived in metropolitan areas and about 439,000 (27 percent) in nonmetropolitan areas.

About 18% of those in nonmetropolitan areas were paid the minimum wage or less, as opposed to 15% in metropolitan areas. (MN Dept. Labor & Industry)

Generally speaking, minimum wage workers tend to be **younger** and are more likely to be **women**.

According to the BLS, 20.6% of all minimum wage workers are 16-19 years old, and 61.6% of all minimum-wage workers are women.

Research shows that, although they tend to be younger than the average wage worker, minimum wage workers have grown older and **more educated** in the past few decades.

According to the Center For Economic and Policy Research, the average age of a national minimum wage worker has risen, from **32.3 years of age in 1979, to **35** years old by 2015.**

People who had attended or completed college made up 25% of minimum wage workers in 1979, but by 2011, they composed 43% of the same workforce.

The BLS reports that in 2016, **two-thirds** of all workers paid minimum wage or less were in **service occupations**, and **over half** of all minimum wage workers are specifically in **food-related service occupations**.

Since 1938, Congress has raised the federal minimum wage 28 times. In 2007, it increased it to its current level of **\$7.25/hr**

Minnesota's tiered system of minimum wages:

- Large employers (gross sales over \$500k): **\$9.65/hr**
- Small employers: **\$7.87/hr**
- Training Wage: **\$7.87/hr**
- Youth Wage: **\$7.87/hr**

Starting in 2018, the Minnesota's minimum wage is indexed to inflation.

Impact on Employment

There continues to be some disagreement among economists about the general impact of minimum wage increases. While some believe that slow increases in the minimum wage create **slight negative impacts** to employment, others believe that an increase will have **no impact** at all, while some economists believe an increase in wages can have **positive impacts on** employment

Minimum Wage As Economic Stimulus?

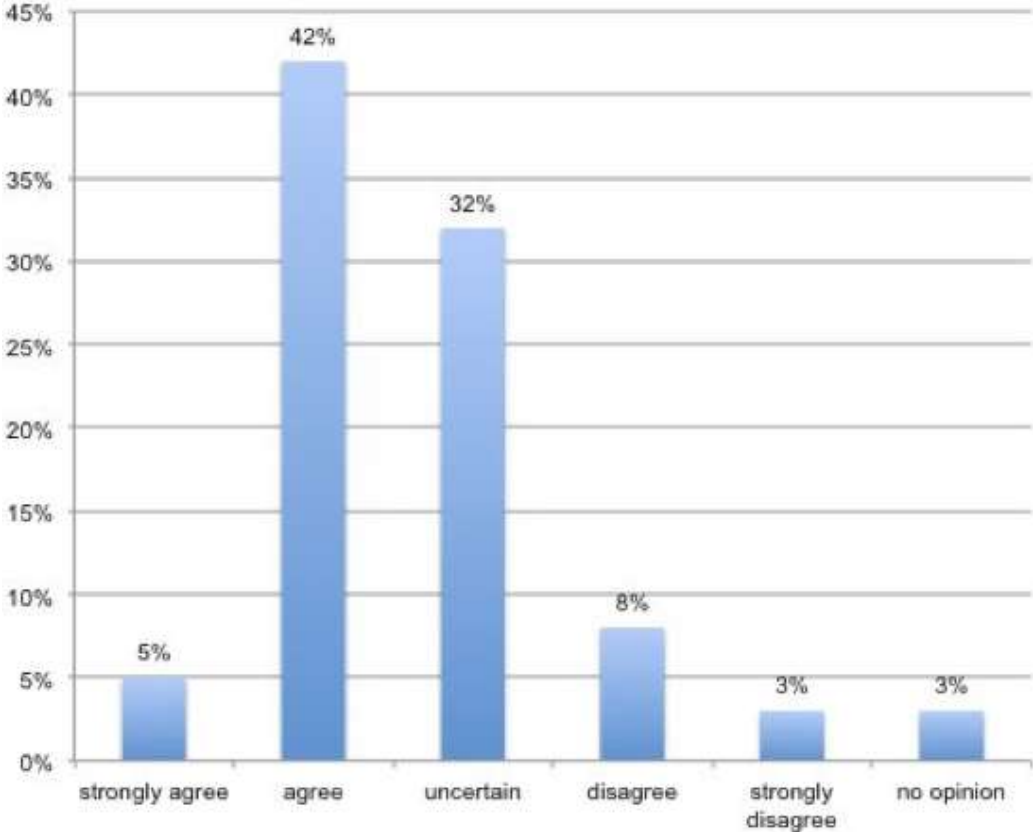
It is also debated among economists if raising the minimum wage will stimulate an economy.

The Chicago Federal Reserve predicted in a 2013 study that a \$1.75 increase in the federal minimum wage would nationally raise aggregate household spending by \$48 billion in the year following the increase.

Other economists, including Christina D. Romer, President Obama's head of the Council of Economic Advisors, are more skeptical of the stimulation claim, stating that "it's far from obvious" what a minimum wage increase would accomplish.

U. of Chicago Survey of Economists, 2013

Question B: The distortionary costs of raising the federal minimum wage to \$9 per hour and indexing it to inflation are sufficiently small compared with the benefits to low-skilled workers who can find employment that this would be a desirable policy.



Questions? Comments? Requests for further research?