Joint Economic Committee Republicans
January 24, 1995

Minimum Wage

President Clinton wants Congress to increase the minimum wage from $4.25 per hour to $5.00 per hour. Majority Leader Dick Armey, on the other hand, has said that he will "fight [an increase in the minimum wage] with every fiber in [his] being."

Why oppose the minimum wage? Two reasons:

- It hurts the very people it is designed to help by drying up the number of jobs available to them.
- It places a tax on small businesses that are the engines of growth for entry-level jobs.

Governments cannot repeal the law of economics by dictating a minimum wage.

Economists recognize that the economy suffers when politicians interfere with the natural balance between supply and demand. Simply put, when the price of butter is too high, people buy less butter. The result: grocers are left with excess inventories and will reduce the price of butter.

The "supply and demand of butter" example is easily translated to the labor market. When the workforce prices itself too high, employers will react by conducting business with less of a workforce. The result, then, is less business activity and increased unemployment. **[The Congressional Budget Office (CBO) estimated that a $1.34 increase in the minimum wage would cost approximately 250,000 to 500,000 jobs or about 0.2 to 0.4 percent of the labor force].**

Contrary to what the President will suggest, the unemployment generated by the minimum wage will hurt the employees that, generally speaking, have the fewest skills, i.e. the poor and the young. The minimum wage narrows the available job opportunities and, therefore, places significant restraints on their attempt to move up the economic ladder.

The minimum wage also hurts small entrepreneurs. Small entrepreneurs take enormous risks. Each day, they struggle to make a minimal profit. The minimum wage acts as a tax on labor. If the minimum wage prices labor beyond small businesses' ability to pay, they will not hire new employees. Small entrepreneurs will be unable to expand operations or start up new businesses.

Additional Sources: **The Cato Institute**, (202) 842-0200; **Citizens for a Sound Economy** (CSE), (202) 783-3870; **Employment Policies Institute** (EPI), (202) 347-5178; **The Heritage Foundation** (202) 546-4400; **Institute for Research on the Economics of Taxation** (IRET) (202) 463-1400; **National Federation of Independent Business** (NFIB), (202) 554-9000; **Institute for Policy Innovation** (IPI) (214) 219-0811.