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Debunking The Myths On Minimum Wage Laws

By DC Insider

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The federal minimum wage is currently \$7.25 an hour, but some states and cities have minimum wages that are significantly higher. Furthermore, eight states raised their minimum wage, effective January 1, 2012, says [Pamela Villarreal, a senior fellow with the National Center for Policy Analysis](#).

- Vermont raised its minimum wage from \$8.15 an hour to \$8.46 an hour.
- Oregon bumped its minimum wage from \$8.50 an hour to \$8.80.
- Washington state raised its minimum wage from \$8.67 to \$9.04 — the highest of any state.
- San Francisco, which imposed a city-level minimum wage a few years ago, increased its minimum from \$9.92 to \$10.24.

Some people argue the minimum wage is not enough and have proposed more generous “living” wages, which aim to provide a minimum standard of living. Proponents also argue that a higher minimum wage will help lift people out of poverty by offsetting the higher cost of living in some areas. After adjusting for the cost of living:

- New York City’s minimum wage has the buying power of a paltry \$3.24 an hour in Manhattan — the lowest effective wage of any metropolitan area.
- San Francisco’s \$10.24-an-hour minimum wage buys only \$6.35 worth of goods and services.
- On the other hand, the federal minimum wage in low-cost Harlingen, Texas, will buy \$8.87 worth of goods and services.

A higher minimum wage raises labor costs to employers. But this does not mean that the minimum wage is solely to blame for the cost of living in New York City or San Francisco. After all, desirable location raises costs.

Proponents also claim that higher pay means low-wage workers will have more to spend on goods and services, thus boosting the economy. But if employers cannot absorb an increase in the cost of labor, they will hire fewer workers, hire more productive (educated) workers, lay off workers, or pass the costs on to consumers. Thus, the stimulative effect on demand may be offset by reduced employment among potential consumers.