

ISSUE BRIEF

Minimum Wage

The minimum wage has not been raised in five years, and its real (inflation-adjusted) value is approaching historical lows. Minimum wage workers already have lost all their gains since the last increase in 1997, and the real value of the minimum wage has declined 27 percent since 1968. Congress should raise the minimum wage by \$1.50 an hour as a first step toward restoring its historical value and then index the minimum wage to annual cost-of-living increases tied to inflation.

The Fair Labor Standards Act (FLSA) establishes the minimum wage, currently set at \$5.15 per hour. The minimum wage was increased from \$3.35 to \$4.25 in 1990 and 1991, and from \$4.25 to \$5.15 in 1996 and 1997. While the minimum wage operates as a national floor, the FLSA allows states and communities to set higher rates and to cover more workers. Eleven states and the District of Columbia have set their minimum wages at rates higher than \$5.15. Minimum-wage workers are concentrated in service, agricultural and sales occupations; most are adults; many are sole breadwinners or contribute substantially to family income; and many earn the minimum wage for quite some time.

The real value of the minimum wage has plummeted. The real value of the minimum wage plummeted during the 1980s, and increases in 1990, 1991, 1996 and 1997 were not enough to restore its lost value. The real value of the minimum wage in 2001 was 21 percent less than in 1979, and 27 percent less than its 1968 peak. The real value of the minimum wage today is \$2.14 less than what it was in 1968.

Failure to increase the minimum wage will erode its value. Every day the minimum wage is not increased, it loses value due to inflation. Minimum-wage workers already have lost all their gains since the last increase in 1997. Without an increase by 2004, the real value of the minimum wage will fall to \$4.82—less than in any year (but one) since 1955.

Americans support an increase in the minimum wage. A January 2002 poll found that 77 percent of likely voters support a \$1.85 increase in the minimum wage to \$8 per hour. Some 79 percent support regular increases to keep up with inflation.

A low minimum wage contributes to poverty. During the 1960s and 1970s, the poverty level for a family of three was roughly equal to the annual earnings of a full-time, year-round worker earning the minimum wage. But the real value of the minimum wage plummeted in the 1980s, and by 2000 about 3.2 million workers working full-time, year-round lived in poverty. To reach the poverty line for a family of three in 2001, a full-time, year-round employee would have to have earned \$6.80 per hour—\$1.65 more than the current minimum wage.

Raising the minimum wage would help low-income families. A \$1.50 increase in the minimum wage would add \$3,120 to the income of full-time, year round workers. A \$1.50 increase by 2004, in conjunction with the Earned Income Tax Credit (EITC), would lift a family of three out of poverty. Some 58 percent of the gains from the 1996 and 1997 increase went to households at the bottom 40 percent of the income scale. Some 61 percent of the gains from an additional \$1.50 increase would go to households in the bottom 40 percent of the income scale, and 39 percent of the gains would go to households in the bottom 20 percent.

A fair minimum wage promotes broad-based economic growth. An increase in the minimum wage would help reduce economic inequality and promote more broad-based, demand-driven economic growth. In the three years after the 1996 and 1997 increase, the economy experienced its strongest growth in more than three decades. Nearly 11 million new jobs were created, at a pace of 218,000 per month.

Raising the minimum wage does not cause job loss. A solid body of research has found no job loss resulting from modest minimum wage increases. A renowned study by Princeton University economist David Card showed that the 1990 and 1991 increase, although it occurred during a recession, had no negative effect on employment. According to the Economic Policy Institute (EPI), the 1996 and 1997 increase did not cause job loss among teens, adults, minorities or women. In fact, EPI found that raising the minimum wage was associated with statistically significant employment increases among teenage Latinas, less educated adult women and less-educated African American women.

Congress must restore the historical value of the minimum wage and index it to inflation. Congress should raise the minimum wage to its historic value of 50 percent of the average private-sector wage, with an annual cost-of-living adjustment keyed to the consumer price index.

Congress must raise the minimum wage by at least \$1.50. As a first step towards restoring the historic value of the minimum wage, Congress should enact an increase of \$1.50 an hour by 2004. A \$1.50 increase would directly benefit 5.6 million workers, with spillover effects for 8.4 million more.

Sources: U.S. Department of Labor, Bureau of Labor Statistics, *History of Federal Minimum Wage Rates Under the Fair Labor Standards Act 1938–1996* (Jan. 17, 2003), www.dol.gov/esa/minwage/chart.htm; U.S. Department of Labor, Employment Standards Administration, *Minimum Wage and Overtime Premium Pay Standards Applicable to Non-Supervisory, Non-Farm, Private Sector Employment Under State and Federal Laws* (Jan. 1, 2002); U.S. Department of Labor, Bureau of Labor Statistics, *2000 National Occupational Employment and Wage Estimates* (2000); William J. Carrington and Bruce C. Fallick, “Do Some Workers Have Minimum Wage Careers?,” *Monthly Labor Review* (May 2001); Jared Bernstein and Jeff Chapman, *Time to Repair the Wage Floor—Raising the Minimum Wage to \$6.65 Will Prevent Further Erosion of Its Value*, Economic Policy Institute (May 22, 2002); Lake, Snell, Perry, *Poll for Ms. Foundation* (Jan. 2002); U.S. Department of Commerce, Bureau of the Census, *Preliminary Estimate of Weighted Average Poverty Thresholds for 2001* (Jan. 22, 2002); U.S. Department of Labor, Bureau of Labor Statistics, *A Profile of the Working Poor 1999* (Feb. 2001); Jared Bernstein and Chauna Brocht, *The Next Step: The New Minimum Wage Proposals and the Old Opposition*, Economic Policy Institute (March 8, 2000); Jared Bernstein and John Schmitt, *Making Work Pay: The Impact of the 1996–1997 Minimum Wage Increase*, Economic Policy Institute (1998); Edith Rasell, Jared Bernstein, and Heather Boushey, *Step Up, Not Out—The Case for Raising the Federal Minimum Wage for Workers in Every State*, Economic Policy Institute (Feb. 7, 2001).