



Minimum Wage

The current federal minimum wage - \$5.15 per hour – is set so low that a full-time worker earning minimum wage cannot support a family. Advocates have urged Congress to raise the minimum wage to \$7.00 per hour. Increasing the minimum wage would increase the incomes of millions of low-wage workers, 38 percent of whom had family incomes under 200 percent poverty – under \$29,000 for a family of three – in 2002.¹ Congress has not enacted legislation to increase the federal minimum wage since 1996, when the wage floor was increased by 90 cents.

A BRIEF HISTORY

The minimum wage was first enacted in 1938 as part of the Fair Labor Standards Act (FLSA). Initially just 25 cents per hour, it has been raised several times in the decades since. In real (inflation-adjusted) terms, the minimum wage reached its peak in 1968, when it was worth \$8.78 in 2004 dollars.² Its value eroded somewhat in the 1970s, despite several increases, because of rapidly accelerating inflation. It deteriorated significantly in the 1980s, when no increases were enacted during the Reagan years. Although there were increases in the 1990s, its value has fallen again in the 21st century.

The latest increase, enacted in 1996 and fully phased in on September 1, 1997, raised the minimum wage from \$4.25 to \$5.15 per hour. Its real value, however, is far less than it was in 1968 and is still far below what most consider a living wage. In fact, the annual income of a minimum wage worker is almost \$5000 below the poverty line for a family of three.³ Moreover, because the minimum wage is not indexed to rise with inflation, much of the value of recent increases has already been lost. According to the Economic Policy Institute (EPI), the current minimum wage of \$5.15 is the equivalent of only \$4.23 in 1995 dollars, lower than the \$4.25 level before its last increase. The inflation-adjusted value of the federal minimum wage is 26 percent lower in 2004 than in 1979. Today, the minimum wage represents one-third of the average hourly wage of American workers, which is the lowest level since 1949.⁴

FOUR REASONS TO INCREASE THE MINIMUM WAGE

1) **\$5.15 an hour is not a livable wage:** A single earner working full time on the current minimum wage only earns \$10,712 per year— almost \$5000 below the 2004 poverty line for a family of three. Insufficient wages, combined with recent cuts in welfare and food stamps, are forcing increasing numbers of the working poor to seek emergency food assistance. According to a study by America's Second Harvest, a national network of food banks, 39 percent of households seeking emergency food aid in 2001 had at least one member who was working.⁵ Minimum wage workers not only serve our food at local restaurants, they take care

of our children, our parents, and our grandparents. They should be able to provide for their own families as well.

2) An increase in the minimum wage would positively affect millions of low-wage workers: According to EPI, 7.4 million workers (5.9 percent of the workforce) would directly benefit from an increase in the minimum wage from \$5.15 to \$7.00 per hour by 2006.⁶ An additional 8.2 million workers earning up to \$1.00 over minimum wage would also be likely to benefit from the increase due to “spillover effects” (for example, employers often like to maintain wage differentials between entry-level workers and more advanced workers).⁷ The Children’s Defense Fund estimates that an increase in minimum wage would benefit many of the 12.1 million American children living in poverty today. An increase to \$7.00 would allow a low-income family of three to pay for about 9 months of child care, 2.5 years of health care for two children, or nearly 9 months of transportation costs.⁸

3) An increase in the minimum wage would benefit women, minorities, and the nation's poor. According to EPI, 7.5 percent of working women and up to 12.4 percent of the workforce in some southern and western states would benefit from an increase in the minimum wage to \$7.00 in 2006. Of the workers who would benefit from this increase, 60.9 percent are women, 14.8 percent are African Americans and 18.9 percent are Hispanics. Most of the benefits of a minimum wage increase would go to households in the bottom 40 percent of the income scale, with 39.2 percent of the benefits going to households in the bottom 20 percent of the income scale. Increases in minimum wage help all low-wage workers, regardless of whether they are below the official poverty line.⁹

4) An increase in the minimum wage will not increase joblessness: Opponents of the minimum wage often argue that it increases unemployment for entry-level workers, thereby hurting the very people it is meant to help. Numerous empirical studies, however, have found that the minimum wage has had little or no effect on job levels. A recent study by the Fiscal Policy Institute determined that states with minimum wage set above the federal level experience job growth similar to or better than states with minimum wage set at the federal level. Data for the study were gathered during both a period of economic expansion (1998-2000) and a period of recession (2001-2003), with the higher-wage states matching or surpassing the others in terms of job growth under both circumstances. In addition, the researchers found that small businesses – whom opponents claim are hurt the most by minimum wage increases – grew in larger numbers and experienced more employment and payroll growth in states with the higher minimum wage. The researchers suggest that raising the minimum wage helps businesses “by improving the skills of their workers” and that the losses incurred by raising the minimum wage would be offset by “savings from reduced turnover and higher productivity.”¹⁰

CURRENT EFFORTS TO INCREASE THE MINIMUM WAGE

In Congress, efforts to increase the federal minimum wage have borne little fruit. On January 7, 2003, Senators Edward Kennedy (D-MA) and Tom Daschle (D-SD) introduced the Fair Minimum Wage Act of 2003 (S. 20) as one of the Democratic Leadership bills (bills that the Democratic Leader introduces on the first day of the Congress to mark the Democratic priorities for the upcoming session). The act would have raised the minimum wage by \$1.50 per hour in just over a year. After the introduction of an identical bill in late January (S. 224) and a companion piece of legislation in late February (H.R. 965), no further action was taken on the

bill in the 108th Congress, and the issue is unlikely to be brought up again in the 109th Congress as many in the leadership are staunchly opposed to increasing the minimum wage.

Efforts to increase the minimum wage are generally opposed by conservative organizations and the business community, especially small businesses and retailers. Supporters include the human needs community, labor unions, progressives, and the American public. A poll taken in 2000 reports that 94 percent of Americans agree that “as a country, we should make sure that people who work full-time should be able to keep their families out of poverty,” including 80 percent who “strongly agree.”¹¹

STATE-LEVEL EFFORTS

As of July 2004, 13 states and the District of Columbia have set their minimum wages higher than the federal level:¹²

State	Minimum Wage (as of July 2004)
Alaska	\$7.15
California	\$6.75
Connecticut	\$7.10
Delaware	\$6.15
District of Columbia	\$6.15, set \$1.00 above federal minimum wage
Hawaii	\$6.25
Illinois	\$5.50, scheduled to rise to \$6.50 in 2005
Maine	\$6.25
Massachusetts	\$6.75
Oregon	\$7.05, indexed to rise with inflation
Rhode Island	\$6.75
Vermont	\$6.75, scheduled to rise to \$7.00 in 2005
Washington	\$7.16, indexed to rise with inflation

In November 2004, Florida and Nevada approved ballot proposals to raise minimum wage by \$1.00 and index the wage to rise with inflation. The proposals received overwhelming support in both states, winning 71 percent of the vote in Florida and 68 percent of the vote in Nevada.

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- ¹ Jeff Chapman and Michael Ettlinger, “The Who and Why of the Minimum Wage,” Economic Policy Institute, August 6, 2004, p. 2. Available at <http://www.epinet.org/issuebriefs/201/ib201.pdf>
- ² Calculated using the CPI index at <http://www.bls.gov/bls/inflation.htm>.
- ³ The 2004 poverty guideline for a family of three is \$15,670. *Federal Register*, Vol. 36, No. 30, February 13, 2004, p. 7336. Available at <http://aspe.hhs.gov/poverty/04fedreg.pdf>
- ⁴ Economic Policy Institute, “Minimum Wage Facts at a Glance,” July 2004. Available at http://www.epinet.org/content.cfm/issueguides_minwage_minwagefacts
- ⁵ Myoung Kim, Jim Ohls, and Rhoda Cohen, *Hunger in America 2001*, America’s Second Harvest, October 2001. Available at <http://www.mathematica-mpr.com/publications/pdfs/hunger2001.pdf>
- ⁶ Economic Policy Institute, “Minimum Wage Facts at a Glance,” July 2004. Available at http://www.epinet.org/content.cfm/issueguides_minwage_minwagefacts
- ⁷ Amy Chasanov, “No Longer Getting By: An Increase in the Minimum Wage Is Long Overdue,” Economic Policy Institute, 2004. p. 4. Available at <http://www.epinet.org/briefingpapers/151/bp151.pdf>
- ⁸ Children’s Defense Fund, “Increasing the Minimum Wage: An Issue of Children’s Well-Being.” July 8, 2004. Available at http://www.childrensdefense.org/familyincome/minimum_wage_report_2004.pdf
- ⁹ Economic Policy Institute, “Minimum Wage Facts at a Glance,” July 2004. Available at http://www.epinet.org/content.cfm/issueguides_minwage_minwagefacts
- ¹⁰ Fiscal Policy Institute, *State Minimum Wages and Employment in Small Businesses*, April 20, 2004. Available at <http://www.fiscalpolicy.org/minimumwageandsmallbusiness.pdf>
- ¹¹ Jobs for the Future, “A National Survey of American Attitudes towards Low-Wage Workers and Welfare Reform,” May 2000. Available at <http://www.jff.org/jff/PDFDocuments/LWSurvey2000.pdf>
- ¹² Economic Policy Institute, “Minimum Wage Facts at a Glance,” July 2004. Available at http://www.epinet.org/content.cfm/issueguides_minwage_minwagefacts