

Minimum Wage Laws

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The Federal Minimum Wage: \$7.25 (effective July 24, 2009)

State Minimum Wages for 2014 range from \$5.15 in Wyoming to \$9.32 in Washington State (California has raised their minimum wage to \$10.00, effective January 1, 2016, with an interim step to \$9.00 July 1, 2014).

The federal minimum wage, designated by the Fair Labor Standards Act, is a labor standard that ensures a basic level of compensation for workers in the United States. As costs go up, the buying power of the minimum wage is eroded, resulting in millions of workers who struggle to afford their most basic needs, such as housing. Increasing the minimum wage puts more money in the hands of low wage workers, thereby contributing to economic recovery. The 2008 and 2009 increases to the federal minimum wage boosted consumer spending by about \$8.6 billion.

Most recently raised in 2009, the federal minimum wage is currently set at \$7.25 per hour. Because of the ongoing impact of inflation, five years of inflation have already significantly eroded the value of the minimum wage.

The U.S. Department of Labor enforces federal minimum wage laws, while state labor departments handle state laws.

HISTORY AND PURPOSE

The federal minimum wage was established in 1938 during the Great Depression as a measure to prevent the exploitation of workers and to limit income inequality.

Although the nominal level of the minimum wage has increased over time, prices have also increased, eroding the wage's buying power over the years. This buying power peaked in 1968 at \$9.40 in 2013 dollars (inflation adjusted using the CPI-U-RS). In 2007, after 10 years of inaction on this issue, Congress passed a three-step increase to the federal minimum wage, raising it from \$5.15 to \$5.85 in 2007, to \$6.55 in 2008, and to \$7.25 in 2009. This restored much of the buying power of the minimum wage to its historical levels, but it remains well below the peak reached in 1968, and its value is further eroded with each passing day.

ISSUE SUMMARY

Federal minimum wage legislation ensures that employers, both private and public, provide their employees with a minimum level of compensation for hours worked. Almost all workers are covered by this law, with exemptions for teenagers during their first 90 days of employment, some seasonal workers, and a few other groups.

A full-time minimum wage worker takes home just \$14,500 a year, well below the poverty line for a family of three. According to a study by the Economic Policy Institute (EPI), there are about 5 million workers who earn at or near the federal minimum wage, with more than 70% of this group 20 years old or older. In addition, almost 25% of these workers have children; over two million children depend on parents who are earning close to the minimum wage. More than half of minimum wage workers have a family income of less than \$35,000 a year. A 2012 U.S. Bureau of Labor Statistics report shows that more than two-thirds (72.2%) of those earning the federal minimum wage or less have completed high school, with more than a third (34.6%) having completed some college or an associate's degree.

As NLIHC's report, *Out of Reach*, shows, there is no jurisdiction in the United States in which a worker earning the federal minimum wage can afford even a one-bedroom apartment at the fair market rent (FMR).

According to the 2014 edition of *Out of Reach*, a minimum wage worker would have to work 104 hours a week, the equivalent to 2.6 full-time jobs, in order to afford a two-bedroom apartment at the national average FMR.

FORECAST FOR 2014

A lot has changed since the President indicated in the 2013 State of the Union address that he would support raising the federal minimum wage to \$9.00. Today, the President and Congressional leaders in the House and Senate have publicly thrown their support behind proposals to increase the federal minimum wage to \$10.10. Representative George Miller (D-CA) and Senator Tom Harkin (D-IA), long-time leaders on this issue, continue to push for a \$10.10 minimum wage and an increase in the federal tipped minimum wage to 70% of the regular minimum wage. The tipped minimum of \$2.12 has not been increased since 1991 (not a typo – that’s 23 years!).

Indexing the minimum wage. The lack of a strong minimum wage contributes to growing wage inequality. Workers today are better educated and more productive than ever before, but real wages for minimum wage workers are now lower than they were 40 years ago. Although the purchasing power of the minimum wage has fallen, it can be restored to help working families support themselves.

Ten states have ensured that the real value of the minimum wage will not decline over time by indexing it to inflation, and Congress should follow their lead. This is an improvement over the current system whereby the minimum wage is raised only when it is politically expedient. In addition to maintaining a constant real value of the minimum wage, indexing also ensures that each increase is small and predictable. Indexing the minimum wage to a level equal to 50% of average, non-supervisory workers’ wages (as suggested in a 2009 EPI paper, *Fix it and Forget it: Index the Minimum Wage to Growth in Average Wages*), would result in even more stable increases, and would do a better job of promoting wage equality.

Stimulating the economy. Because minimum wage workers typically come from low income families, any wage increases given to them will likely be spent quickly, providing a boost to the local economy. Analysis of the most recent proposal to increase the minimum wage to \$10.10 per hour indicates that such an increase would add \$22 billion to the economy over the phase-in period.

TIPS FOR LOCAL SUCCESS

As the federal minimum wage stagnated from 1984 to 2007, several states decided to take up this issue themselves and set their own minimum wages higher than the federal minimum. In 1984, only one state, Alaska, had a minimum wage higher than the federal minimum. By the end of 2007, 31 states and the District of Columbia had set their minimum wages above the federal level. In addition, many of these states have indexed their minimum wage to inflation so that the purchasing power of the minimum wage does not decline over time. This strategy has proven successful at the state level, and should be adopted at the federal level as well.

Advocates interested in fair wages in their states or localities can contact the groups listed below to connect with campaigns to enact a higher state or local minimum wage. In 2013, five states – New York, New Jersey, Connecticut, Rhode Island, and California, either passed legislation or approved ballot initiatives to increase the minimum wage. There were also successful local campaigns in SeaTac, Washington and the District of Columbia (including neighboring Montgomery and Prince George’s Counties in Maryland). 2014 campaigns are underway in several states, with 28 states considering legislative increases, as of February 17, 2014.

WHAT TO SAY TO LEGISLATORS

Advocates should urge their Members of Congress, as well as state elected officials, to increase the minimum wage. Working Americans should be duly compensated for their labor with a wage that allows them to provide for their families. Even after the latest increase in the minimum wage, its inflation-adjusted value

is significantly lower than historic levels, and it is still at a level that makes it nearly impossible for these workers to pay for basic necessities, including housing.

Advocates should tell their federal and state legislators that the way forward has two steps: first, increase the minimum wage to a livable level, and second, index it to protect against inflation.

Increasing the minimum wage, at either the federal or state level, contributes to economic growth at a time when the economy remains in need of further expansion. Increasing the minimum wage improves the well-being of low income workers, while improving the economy for all. Increasing the minimum wage is smart public policy.

FOR MORE INFORMATION

- Economic Policy Institute, 202-775-8810, www.epi.org
- National Employment Law Project, 212-285-3025, www.nelp.org