

The Minimum Wage

By David Cooper, Senior Economic Analyst,
Economic Policy Institute

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

State minimum wages range from \$5.15 in Wyoming and Georgia (where the federal minimum wage applies) to \$11 in Massachusetts and Washington. Five states (Alabama, Louisiana, Mississippi, South Carolina, and Tennessee) have no state minimum wage; the federal minimum wage applies in these states as well. The District of Columbia has a minimum wage of \$11.50 that will increase to \$12.50 on July 1, 2017. Several other states have passed additional minimum wage increases that will take effect in the coming years – the most notable being California, where the minimum wage will reach \$15 in 2022.

The federal minimum wage, established by the Fair Labor Standards Act, is a labor standard that ensures a basic level of compensation for workers in the United States. Yet as prices go up and the minimum wage is left unchanged, its buying power is eroded, resulting in millions of workers who struggle to afford their basic needs, including food and housing. Increasing the minimum wage not only improves affected workers' well-being, it also puts more money in the hands of people likely to spend those additional earnings quickly, thereby spurring additional economic activity and promoting growth. The 2008 and 2009 increases to the federal minimum wage boosted consumer spending by approximately \$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, seven years of inflation have already significantly eroded the real value of the minimum wage. Today's minimum wage is worth more than 10 percent less in 2017 than it was worth when it was last increased in 2009, and 25 percent less than at its inflation-adjusted peak value in 1968.

The U.S. Department of Labor enforces federal minimum wage laws, while state labor departments handle enforcement of state wage laws. However, states with minimum wages equal to the federal minimum wage often defer enforcement to the

U.S. Department of Labor and not all states—even those with higher minimum wages—have a state department of labor.

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 \$9.66 in 2016 dollars (inflation adjusted using the Consumer Price Index Research Series Using Current Methods (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, but it remained well below the peak value reached in 1968, and its real value has eroded with each passing day since then. At the start of 2017, the federal minimum wage is worth roughly 25 percent less in purchasing power than the minimum wage in 1968.

ISSUE SUMMARY

Federal minimum wage legislation ensures that employers, both private and public, provide their employees with a minimum level of compensation for each hour worked. Almost all workers are covered by this law, with exemptions for teenagers during their first 90 days of employment, some seasonal workers, workers at businesses with gross receipts of less than \$500,000 that do not engage in interstate commerce, and a number of other small occupational groups.

A full-time minimum wage worker takes home just \$15,080 a year—an annual income below the federal poverty line for any worker with at least one child. According to a study by the Economic Policy Institute (EPI), there are about 2.4 million workers who earn at or near the federal minimum wage, with 75% of this group 20 years old or older. In addition, more than 25% of these workers have

children; over one million children depend on parents who are earning close to the minimum wage. More than 60% of minimum wage workers have a family income of less than \$50,000 a year. A 2016 U.S. Bureau of Labor Statistics report shows that more than three-quarters (78.3%) of those earning the federal minimum wage or less have completed high school, with more than a third (33.6%) having completed some college or an associate's degree.

As NLIHC's report, *Out of Reach*¹, 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 2017

A lot has happened since the president indicated in the 2013 State of the Union address that he supported raising the federal minimum wage to \$9. Since then, 22 states and the District of Columbia have passed state minimum wage increases, many of which will reach or exceed \$10 within the next two years. Additionally, 40 cities and counties have passed local wage floors, as of January 2017. These local ordinances have set minimum wages as high as \$15.34 in SeaTac, WA. In 2015, Congressional leaders in the House and Senate introduced legislation to raise the federal minimum wage in five steps to \$12 by 2020. Representative Bobby Scott (D-CA) and Senator Patty Murray (D-WA) garnered more initial co-sponsors for their proposal (The Fair Minimum Wage Act of 2015) than any previous minimum wage legislation since the last federal minimum wage bill was passed in 2007; however, the bill was not put to a floor vote in either house of Congress. The longer that Congress waits to approve any increase, inflation will reduce the real value of the eventual target wage level. For this reason, lawmakers may ultimately target an even higher minimum than the current proposal, phased-in over a longer time period, in order to achieve the desired inflation-adjusted value. Lawmakers are also expected to call for an increase

in the federal tipped minimum wage, which has remained unchanged at \$2.13 since 1991.

Indexing the Minimum Wage: The lack of an adequate 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 almost 50 years ago. Although the purchasing power of the minimum wage has fallen, it can be restored to help working families support themselves.

Eighteen states and the District of Columbia 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 in which the minimum wage is raised only when it is politically expedient. In addition to maintaining a constant purchasing power of the minimum wage, indexing also ensures that each increase is small and predictable. Rather than simply indexing to changes in prices, the minimum wage could also be indexed to changes in wages. For example, indexing the minimum wage 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*², would help combat the growth in inequality by ensuring that the wages for lowest paid workers never fall too far from the wage for the average worker.

Strengthening Government Assistance Programs: Many low-wage workers (many of whom work full time) are paid so little that they must turn to public assistance programs in order to make ends meet. As the value of the minimum wage is left to erode and more workers' wages slip to levels that are insufficient to afford basic necessities, it places greater stress on government assistance programs that must take up the slack in workers' earnings. Accordingly, if the minimum wage were raised, it would lift the labor earnings of many low-wage workers such that they would no longer need public assistance or would still be better off even if their benefits were reduced. An EPI study, *Balancing paychecks and public assistance*³, describes how

1 National Low Income Housing Coalition, *Out of Reach 2016*. Retrieved on March 2017: <http://nlihc.org/oor>

2 Shierholz, H. (2009). *Fix it and Forget it. Index the Minimum Wage to Growth in Average Wages*. Economic Policy Institute, 17.

3 Cooper, D. (2016). *Balancing paychecks and public assistance*. Economic Policy Institute. Retrieved on March 2017: <http://www.epi.org/publication/wages-and-transfers/>

raising the federal minimum wage to \$12 by 2020 would generate \$17 billion in annual savings to public assistance programs—funds that could then be used to strengthen anti-poverty programs or make long-needed investments in education, public infrastructure, or other key policy priorities.

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. Between 2013 and 2016, 22 states – Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Hawaii, Maine, Maryland, Massachusetts, Michigan, Minnesota, Nebraska, New York, New Jersey, Oregon, Rhode Island, South Dakota, Vermont, Washington, and West Virginia either passed legislation or approved ballot initiatives to increase the minimum wage. There were also successful local campaigns in a multitude of cities and counties throughout California, including Berkeley, Cupertino, Emeryville, Los Altos, Los Angeles, Mountain View, Oakland, Palo Alto, Richmond, San Diego, San Francisco, San Jose, San Mateo, Santa Clara, Santa Monica, Sunnyvale; as well as Chicago, Il.; Johnson, Polk, and Wapello Counties, IA; Montgomery and Prince George’s Counties, Md.; Portland, Maine; Kansas City, Mo.; St. Louis, Mo.; Albuquerque, N.M.; Las Cruces, N.M.; SeaTac, Wash.; Seattle, Wash.; Tacoma, Wash.; and the District of Columbia.

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. 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