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ANOTHER MODEST MINIMUM WAGE INCREASE Clinton Proposal Would Help Close Gap Between Current and Historic Value

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Now that President Clinton has endorsed a new increase in the minimum wage, critics on both sides are gearing up for another battle. Opponents of the increase are already raising the objection that it will push the minimum wage too high, pricing low-wage workers out of the labor market. But in light of the historical evidence, a dispassionate assessment of the current proposal suggests that such fears are unfounded.

The Clinton Administration's plan is to increase the current minimum wage of \$5.15 by \$0.50 in January 1999 and another \$0.50 a year later, thus setting the wage floor at \$6.15 in the year 2000. By comparison, this increase is smaller than that recently proposed by Senator Edward Kennedy, which called for three annual \$0.50 increases beginning in September 1998. In order to appropriately evaluate Clinton's more modest proposal, we must first consider inflation's effect on these figures between now and the year 2000, when the proposed increase will be fully phased in. Using the Congressional Budget Office's inflation projections, \$6.15 in the year 2000 translates into \$5.72 in 1997 dollars. So if the new policy were fully phased in today, the minimum would actually be only about \$0.60 higher than its current level of \$5.15.

That would be a historically small increase—smaller than the last increase, and smaller than most of the increases throughout the history of the minimum wage. But what's novel about this increase is that it follows so closely on the heels of the last one, from \$4.25 to \$5.15, which was just fully phased in this last September. Some critics will always ideologically oppose any increase in the minimum (or even the idea of a minimum wage itself). But even among the vast majority of Americans who agree that the labor market needs a wage floor, some may question whether this proposed increase might be too much too soon, pushed through before the labor

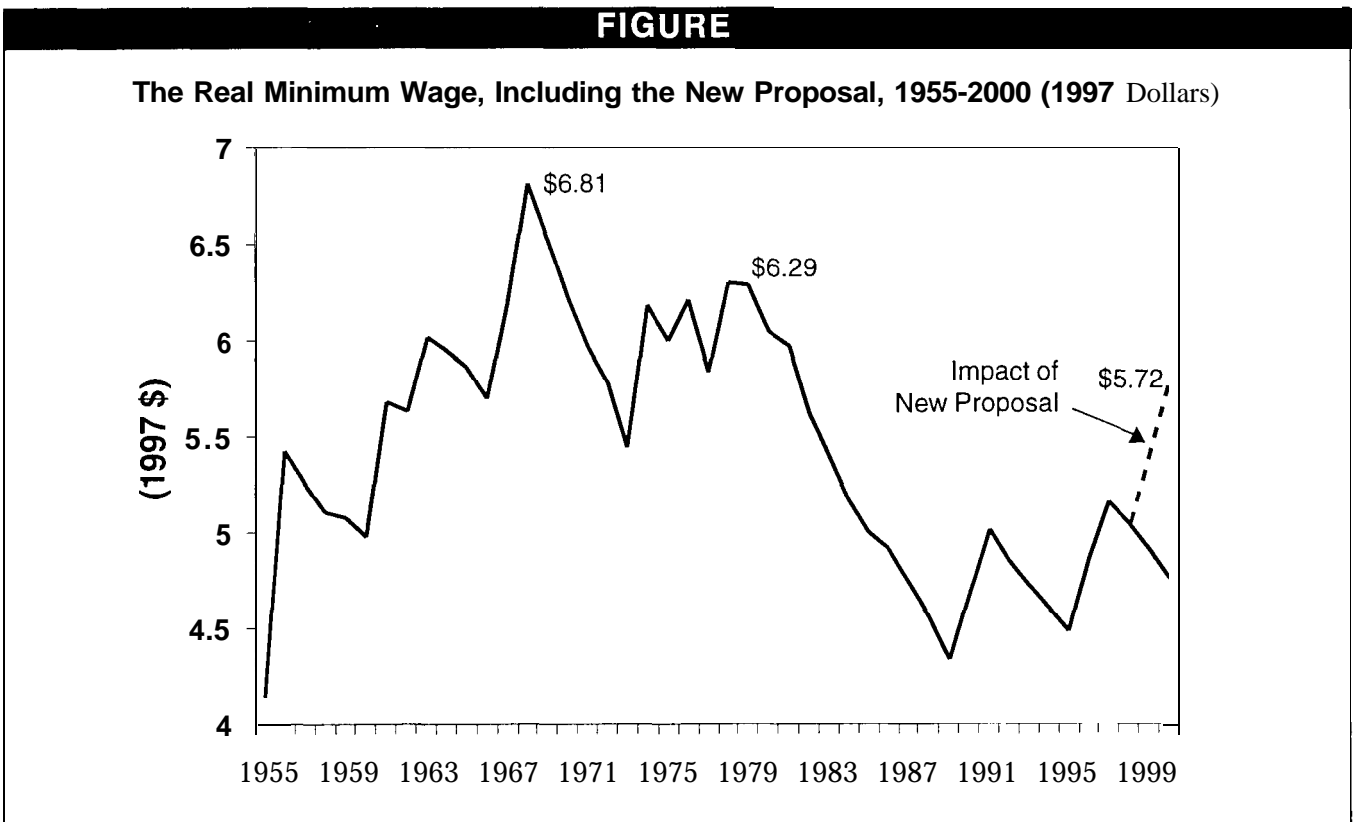
market has had a chance to absorb the last increase. This analysis addresses these concerns and shows that, far from setting the minimum wage too high, the new proposal only partially restores its historical value; in this regard, it can be expected to help raise the earnings of low-wage workers without costing them jobs.

Placing the proposal in historical context

Much of the debate over the proposed increase implicitly hinges on the question of what is the optimal level for the minimum wage. Such a level would be one that—in tandem with other wage supports, such as the earned income tax credit—would allow low-wage workers to support themselves and their families, without eliminating jobs.

There are two common approaches to addressing this concern, both of which reference the history of the policy. The first looks at the historical levels of the minimum wage to determine how much inflation has been allowed to erode its real value. The second examines the history of the minimum wage relative to other key wage levels in the labor market. Both of these approaches suggest that the administration's current proposal is not too high.

First, **Figure 1** shows the history of the minimum adjusted for inflation in 1997 dollars. The proposed increase, shown in the dotted line at the end of the graph, gets the minimum wage only back to where it was in the early 1980s, before inflation was allowed to erode the real value of the minimum by 30%. Throughout the 1960s and during much of the 1970s the minimum wage was as much as a dollar above the current proposal. Thus, the minimum wage increases in the 1990s—including the one currently under consideration—simply serve to restore some of the lost ground.



Some critics object to using this kind of historical precedent to set the minimum wage. They correctly point out that the current labor market differs from that of the late 1970s, when real wages for most workers were higher than they are now. This view cautions that if we use historical levels as a guide, we are likely to set the minimum too high. The solution to this dilemma is to peg the minimum to relative, not absolute, values. Instead of setting the minimum back to an absolute level from its past (e.g., its 1979 value), it could be set where it once was relative to a related wage measure. This method would explicitly take into account the changes in the wage structure that have occurred since the late 1970s.

One such relative measure to which we can compare the minimum is the wage at the 40th percentile (60% of the workforce earn more than this wage; 40% earn less). The 40th percentile wage serves as a useful benchmark because it is low enough to represent the lower end of the labor market but high enough so it is not itself affected by the minimum (we want to avoid comparing the minimum to a wage level that is partly determined by the minimum itself). Again, adjusting for inflation (putting all values in 1997 dollars), the 1979 minimum wage was \$6.29. The 40th percentile wage that year was \$10.13, making the minimum wage 62% of the 40th percentile wage in 1979. In 1997, the 40th percentile wage had fallen to \$9.25, and the minimum that year—\$5.15—was 56% of the 40th percentile. In order to re-establish the relationship between the minimum and the 40th percentile wage that existed in 1979, the minimum wage would have to be increased to \$5.75, a few cents above the new proposal.

By the year 2000, if the wage trends of the last two years continue, the 40th percentile wage will be \$10.10. If the current proposal is passed, the minimum will be \$6.15 in that year, or 61% of the 40th percentile. This too would bring the minimum back in line with its historical relationship to this particular benchmark.

Why benchmark the minimum to its 1979 level, either in absolute or relative terms? There are two reasons. First, wage inequality, in particular the gap between those at the bottom and the middle of the wage scale, has grown precipitously since the late 1970s, and the decline in the real value of the minimum wage explains much of this widening. Raising the minimum back to its 1979 level (again, in either relative or absolute terms) would help to close the gap and ensure that low-wage workers get a fairer share of the economic growth that has occurred over the last two decades, without leading to the job losses that might be triggered if we set the minimum too high.

The second reason is that, despite public perceptions to the contrary, there is no evidence that low-wage workers are less productive, skilled, or educated now than in the late 1970s. Whether by education level or test scores, low-wage workers are at least as skilled as they were 20 years ago; in fact, their age, labor market experience, and education credentials are higher. It is also worth noting that overall labor productivity has increased 22% since 1979. If the minimum were indexed to this measure, as some suggest it should be, it would be \$7.67 today.

Conclusion

In the U.S. labor market, many workers have little or no power to bargain with their employer for higher wages. The minimum wage is a vital policy tool to make sure that such workers have at least a fighting chance to get their fair share of growing prosperity. The proposed increase would raise wages for close to 10 million such workers across the country (see **Table 1**).

While the economic pie was growing over the 1980s, workers at the bottom of the wage scale got ever-smaller slices. This realization has led most Americans and their political representatives to support recent increases in the wage floor. The question now is where should the minimum be set? The evidence presented above shows that, far from being too high, an increase in the minimum wage to \$6.15 will only *partially* return it

to its historical level. It can thus be expected that the current proposal would return important benefits to low-wage workers without triggering job loss.

TABLE 1
Workers Affected by the New Minimum Wage Proposal, by State

	Percent of Workforce	Number		Percent of Workforce	Number
NORTHEAST	6.8%	1,505,725	SOUTH		
<i>New England</i>	5.4%	324,469	<i>South Atlantic (cont.)</i>		
Maine	7.9%	41,970	North Carolina	8.5%	283,832
New Hampshire	3.7%	19,855	South Carolina	10.4%	171,742
Vermont	7.5%	19,368	Georgia	8.1%	271,569
Massachusetts	4.8%	133,879	Florida	9.8%	576,973
Rhode Island	8.3%	35,740	<i>East South Central</i>	10.1%	674,056
Connecticut	5.0%	73,656	Kentucky	8.4%	132,340
<i>Mid-Atlantic</i>	7.4%	1,181,256	Tennessee	8.7%	192,818
New York	7.1%	523,458	Alabama	11.7%	211,217
New Jersey	6.0%	216,710	Mississippi	12.9%	137,681
Pennsylvania	8.7%	441,088	<i>West South Central</i>	11.6%	1,425,740
MIDWEST	7.8%	2,159,836	Arkansas	13.3%	132,059
<i>East North Central</i>	7.6%	1,474,846	Louisiana	12.7%	213,663
Ohio	8.9%	440,152	Oklahoma	11.9%	154,486
Indiana	7.3%	198,858	Texas	11.1%	925,533
Illinois	7.2%	374,273	WEST	8.5%	2,080,955
Michigan	7.3%	304,995	<i>Mountain</i>	8.3%	586,134
Wisconsin	6.3%	156,568	Montana	11.6%	39,348
<i>West North Central</i>	8.2%	684,990	Idaho	9.7%	49,433
Minnesota	6.7%	147,231	Wyoming	14.6%	29,266
Iowa	9.8%	127,608	Colorado	6.0%	109,088
Missouri	6.9%	169,210	New Mexico	11.4%	75,100
North Dakota	11.7%	32,387	Arizona	9.5%	178,798
South Dakota	10.3%	31,396	Utah	7.3%	64,497
Nebraska	8.8%	64,927	Nevada	5.3%	40,605
Kansas	10.2%	112,231	<i>Pacific</i>	8.6%	1,494,822
SOUTH	9.7%	3,851,376	Washington	6.9%	170,445
<i>South Atlantic</i>	8.5%	1,751,579	Oregon	7.8%	106,258
Delaware	6.6%	22,054	California	9.2%	1,179,533
Maryland	5.5%	129,352	Alaska	3.2%	8,074
District of Columbia	4.2%	9,262	Hawaii	6.4%	30,511
Virginia	6.6%	194,415	U.S.	8.4%	9,597,892
West Virginia	13.7%	92,379			

Note: Affected workers are those who earned between the current minimum and \$5.72 in 1997. \$5.72 is the proposed 2000 level (\$6.15) in 1997 dollars.

Source: EPI analysis of CPS ORG data.

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