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# EPI Issue Brief

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Issue Brief #130B

Economic Policy Institute

Revised March 8, 2000

## THE NEXT STEP

### The new minimum wage proposals and the old opposition

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Discussion in Congress is again underway over whether to increase the federal minimum wage from its current level of \$5.15 to \$6.15. The proposal by Rep. David Bonior (D-Mich.) would increase the minimum wage to \$6.15 by 2001, while the proposal by Rep. Rick Lazio (R-N.Y.) would increase it to the same level by 2002.<sup>1</sup>

**Figure 1** shows the inflation-adjusted minimum wage from 1955-2003 (projected). The figure clearly shows the sharp decline in the minimum wage over the 1980s, when Congress failed to adjust the wage floor for nine years. Even with the recent increases in the 1990s, the inflation-adjusted minimum is 21% lower today than in 1979.

The lines at the end of the figure show the impact of the new proposals. Without another increase, the real value of the minimum wage would fall to \$4.67 (1999 dollars) by the year 2003 (according to inflation projections by the Congressional Budget Office). By 2003, the proposed increases would restore the wage floor to slightly above its 1983 level, still leaving it 15% below its 1979 peak.

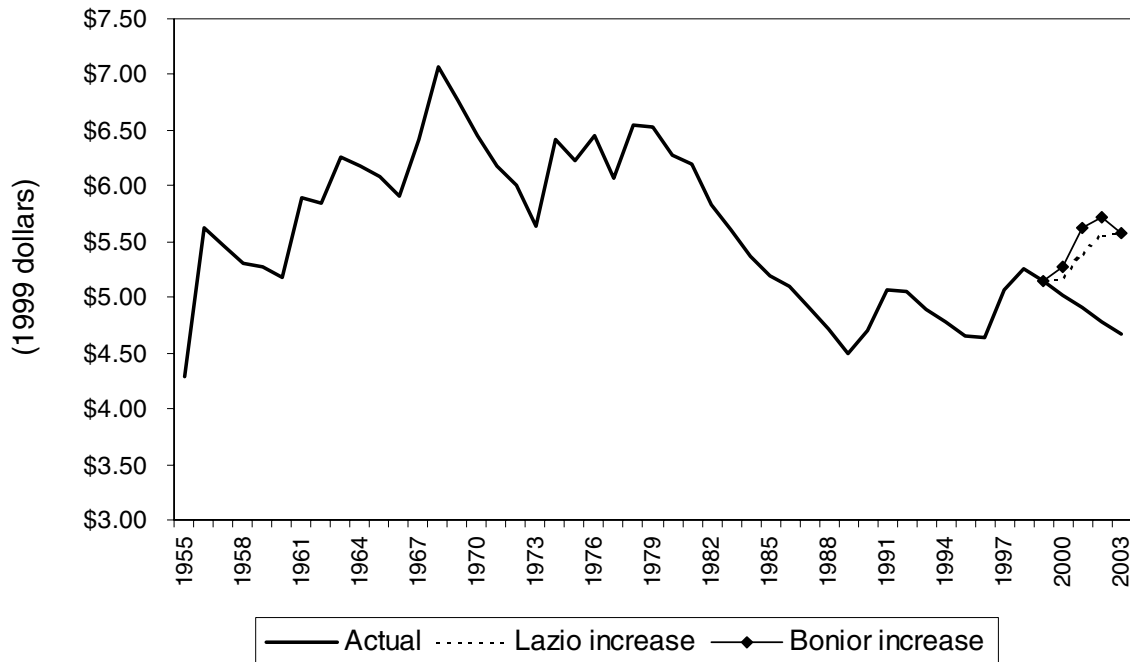
Workers would initially see larger gains under the Bonior bill, which is phased in over two years, in comparison to the Lazio bill, which is phased in over three years. A full-time, year-round worker would gain an additional \$1,000 over the course of three years under Rep. Bonior's proposal relative to the gains under the Lazio bill. By 2003, the Lazio proposal "catches up" to that of Bonior, leaving the minimum wage at \$6.15 under both plans.

### Who would be affected by the increase?

**Table 1** shows that 10.3 million workers (8.7% of the workforce) would receive an increase in their hourly wage rate if the minimum wage were raised to \$6.15. Since these workers earn, on average, \$5.69 per hour, the average hourly increase would be \$0.46.<sup>2</sup>

The rest of the table examines the demographic characteristics of workers by wage levels. The first column looks at those directly affected by the increase in the minimum wage (i.e., workers whose earnings are

**FIGURE 1: Real value of the federal minimum wage, 1956-2003**



Source: Economic Policy Institute.

between their state’s 1999 minimum and \$6.15). Most of these workers (59.7%) are female, and 70.8% are adults (age 20 or older). Close to half (48.0%) work full time, and about another third (31.8%) work between 20 and 34 hours per week.

Comparing the first column (*Affected directly by increase*) to the last (*All*) shows the extent to which different types of workers are over- or under-represented in the affected range. Note, for example, that a disproportionate share of minorities would be affected by an increase in the minimum wage. While African Americans represent 11.7% of the overall workforce, they represent 15.7% of those affected by an increase; similarly, 10.8% of the total workforce is Hispanic, compared to 19.2% of those that would be affected by the minimum wage increase.

The table also shows that minimum wage workers are concentrated in the retail trade industry and under-represented in the higher-paying manufacturing sector. An analysis by occupation reveals that those affected by the increase are concentrated in female-dominated occupations such as cashiers and food preparation. Minimum-wage workers are also the least likely group of workers to be represented by unions.

Various studies have found that, due to so-called “spillover effects,” the group earning just above the minimum (perhaps as much as a dollar above) also benefits from the increase.<sup>3</sup> Workers in this group, shown in the *Other low-wage workers* column, are more likely to be older (84.3% are adults) and to work more hours (65.4% are full time) than those in the directly affected range.

**TABLE 1**  
**Characteristics of Workers by Wage Range, 1999**

Characteristic	Affected directly by increase	Other low-wage workers (minimum + \$1)	\$7.15 and above*	All
Average wage	\$5.69	\$6.72	\$16.87	\$14.67
Employment	10,277,666	9,689,592	94,754,539	118,480,912
Share of total	8.7%	8.2%	80.0%	100.0%
<i>Demographics</i>				
Male	40.3%	41.1%	55.0%	52.1%
16-19	14.1	8.1	1.1	3.0
20+	26.2	33.0	53.9	49.0
Female	59.7	58.9	45.0	47.9
16-19	15.0	7.6	0.8	2.9
20+	44.6	51.3	44.3	45.0
White	60.9	63.4	75.8	73.1
Male	23.7	24.8	41.7	38.2
Female	37.1	38.6	34.1	34.9
Black	15.7	15.0	10.9	11.7
Male	5.6	5.5	5.3	5.3
Female	10.1	9.5	5.6	6.4
Hispanic	19.2	17.3	8.9	10.8
Male	9.4	9.0	5.6	6.3
Female	9.8	8.3	3.3	4.5
Teens (16-19)	29.2	15.7	1.8	5.9
<i>Work hours</i>				
Full time (35+)	48.0%	65.4%	88.4%	81.9%
Part time				
20-34 hours	31.8%	23.9%	8.5%	12.4%
1-19 hours	20.3	10.6	3.0	5.7
<i>Industry</i>				
Manufacturing	8.5%	11.2%	18.1%	16.3%
Retail trade	42.6	33.6	12.0	17.0
<i>Occupation</i>				
Sales	9.8%	10.9%	8.5%	8.8%
Cashiers	11.9	7.4	0.9	2.5
Service	14.6	13.6	4.3	6.3
Food preparation	16.7	11.4	2.7	5.1
<i>Union Membership</i>				
Union	4.7%	6.9%	17.7%	15.3%
Nonunion	95.3	93.1	82.3	84.7

Note: "Affected directly by increase" indicates those workers who earn between the minimum wage level in their state and the proposed new level (\$6.15).

\* Washington, D.C.'s minimum wage is set at one dollar above the federal level, and thus only workers earning over \$8.15 are included in this column.

Source: EPI analysis of 1999 CPS ORG data.

**TABLE 2**  
**Affected Workers by State, 1999**

STATE	Share	Number	STATE	Share	Number
<b>Northeast</b>	7.6%	1,686,370	<b>South</b>	10.4%	4,312,605
Maine	8.7	47,155	Delaware*	6.8	22,979
New Hampshire	5.7	31,889	Maryland	5.6	135,669
Vermont	7.7	20,934	D.C.	5.8	14,150
Massachusetts	5.3	151,833	Virginia	8.2	253,712
Rhode Island	9.0	38,723	West Virginia	15.3	107,321
Connecticut*	3.6	52,271	North Carolina	8.4	280,227
New York	8.6	643,749	South Carolina	9.4	160,235
New Jersey	6.2	224,418	Georgia	8.3	288,579
Pennsylvania	9.3	475,399	Florida	10.0	624,196
<b>Midwest</b>	8.0%	2,305,364	Kentucky	10.2	167,869
Ohio	8.9	443,887	Tennessee	9.5	227,791
Indiana	7.0	190,013	Alabama	12.1	220,806
Illinois	8.4	461,986	Mississippi	13.7	148,313
Michigan	8.0	358,982	Arkansas	14.3	150,071
Wisconsin	6.6	163,966	Louisiana	17.3	308,395
Minnesota	5.2	119,826	Oklahoma	13.4	186,569
Iowa	8.4	111,153	Texas	11.7	1,015,724
Missouri	7.5	183,743	<b>West</b>	7.6%	1,973,326
North Dakota	12.9	34,179	Montana	14.5	52,237
South Dakota	11.2	36,315	Idaho	11.2	58,631
Nebraska	9.6	71,555	Wyoming	12.0	25,302
Kansas	10.7	129,760	Colorado	4.8	92,008
			New Mexico	12.2	80,353
			Arizona	10.1	205,010
			Utah	7.2	66,727
			Nevada	6.3	51,599
			Washington*	4.2	107,194
			Oregon*	0.0	-
			California	8.6	1,185,893
			Alaska	2.6	6,470
			Hawaii	8.5	41,902
			<b>U.S.</b>	<b>8.7%</b>	<b>10,277,666</b>

\* Oregon's minimum wage in 1999 is \$6.50; therefore no workers in Oregon would be affected by the federal increase in 1999. By the year 2000, Washington, Connecticut, and Delaware will have state minimum wages at or above the federal level. Therefore, no workers will be affected by the federal increase in those states at that point.

Source: EPI analysis of 1999 CPS ORG data.

### **State-level results**

**Table 2** shows by state the number and share of workers affected by the proposed increase.<sup>4</sup> As expected, states with lower wage levels, such as those in the Southern region, have larger-than-average shares of workers affected by the increase. In Louisiana (17.3%), West Virginia (15.3%), Arkansas (14.3%), and Mississippi (13.7%), relatively large shares of the workforce would be expected to benefit from the increase. Some Western states, such as Montana (14.5%), Wyoming (12.0%), and New Mexico (12.2%), also have relatively large shares of workers that would be affected by the proposed increase.

Higher-wage states, such as those in the Northeast and some in the West, typically have higher-wage levels and thus fewer workers affected by an increase in the minimum. In Colorado, for example, 4.8% of the workforce would benefit from the increase. Furthermore, some states have set minimum wage levels above the federal level, resulting in a smaller share of workers affected by the proposals. For instance, in Oregon, no workers will be affected by the current federal proposals to go up to \$6.15 because the minimum wage in that state is currently \$6.50.

## **Will the proposed increase cause job losses among low-wage workers?**

Opponents of minimum wage increases frequently argue that the policy is misguided, since it prices low-wage workers out of the labor market, forcing employers to lay them off after the increase takes effect. This claim has been carefully studied by labor economists interested in testing the actual impact of increases in the minimum wage among low-wage workers. This research, summarized in Bernstein and Schmitt (1998), has generally found the job-loss effect to be either small or nonexistent. The estimates from this literature unequivocally show that the benefits of minimum wage increases to low-wage workers and their families far outweigh the costs.

The most recent increase in the minimum wage — the \$0.90 increase phased in over the 1996-97 period — is a case in point. The study noted above examined the short-term effects of the increase and found that the policy had its intended effect: it raised the wages of low-wage workers from low-income families without leading to job losses.

However, many critics of the last increase argued that the negative effects take a few years to materialize.<sup>5</sup> If so, the current low-wage labor market should certainly be providing this evidence. Yet, month after month, low-wage and minority workers post historic employment gains. In recent months, the unemployment rates of African Americans, Hispanics, and 16-to-24-year-olds (who are likely to be low-wage earners) all hit 30-year lows. Similarly, the employment rate of young (16-25-year-old) African American women with a high school degree increased by 7.8 percentage points in 1995-99, and their unemployment rate fell by 6.4 percentage points. These gains are much larger than the average changes in these labor market indicators.

This last group (young minority females with high school degrees) is especially relevant in light of welfare reform, which has required many of these women to move from the welfare rolls and into the job market. Due to welfare reform and the growing economy, welfare caseloads have fallen precipitously since 1996, a trend that coincided with the most recent minimum wage increase. The relevant question is whether the increase has made it more difficult for these women to find work. If this were the case, we would expect the growth in their employment rates to have been dampened by the wage increase. However, the data show that, even with the 1996-97 minimum wage increase, the employment rates of single mothers, after stagnating for many years, rose steeply from 62% in 1995 to 71% by 1999. Of course, not all single mothers were on welfare, but among those who were, employment rates grew from 40% in 1995 to 56% in 1998, by far the highest level on record.<sup>6</sup> Finally, Lazere (1998) presents direct evidence that, in Oregon, the increase in the minimum wage was associated with higher wages for former welfare recipients.

Obviously, these dramatic improvements in the labor market conditions of historically disadvantaged groups stem largely from the tight labor market. But it is equally obvious that the last increase in the minimum wage did not prevent these gains from occurring. To the contrary, the last increase made sure that once they got to the labor market, low-wage workers would reap some of the benefits of the growing economy. Since then, the economy has continued to grow, but inflation has eroded the real value of the minimum wage. The proposed

increase to \$6.15 in 2001 would help ensure that those at the low end of the wage scale and those moving from welfare to work will continue to experience their fair share of the growth.

*Research assistance from Danielle Gao, Yvon Pho, and Abe Cambier.*

*The Economic Policy Institute is grateful to The Annie E. Casey Foundation, Charles Stewart Mott Foundation, The John D. and Catherine T. MacArthur Foundation, the Joyce Foundation, and The Rockefeller Foundation for their support of this work*

## Endnotes

1. The Bonior bill goes into effect 30 days after it is signed. For Figure 1 we assumed that the Lazio bill would follow the same phase-in pattern. For both bills, we assumed that the phase-in of the new minimum would go into effect in July 2000, with later increases occurring in July 2001 and 2002.
2. Using the data in Table 1 and the national wage bill of \$4.5 trillion (SCB, February 2000), we calculate that the increase amounts to 0.2% of national earnings.
3. See, for example, Spriggs and Klein (1994).
4. The affected range is not the same for each state because some states currently have minimum wage levels above the federal level of \$5.15. For example, in California, the minimum wage in 1999 was \$5.75. Thus, the affected range in this state ranged from \$5.75-\$6.15. Legislation in the state of Oregon raised the minimum to \$6.50 in 1999, so no workers will be affected by the federal increase. In 2000, the minimum wage will increase to \$6.50 in Washington, and to \$6.15 in Connecticut and Delaware; therefore no workers will be affected by the federal increase in these states. The numbers in Table 2 for Washington, Connecticut, and Delaware refer to those earning between the 1999 minimum wage for those states and the proposed increase to \$6.15.
5. Bernstein and Schmitt (1998, 36-7) offer a critique of this argument.
6. See Blank et al. (1998).

## References

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