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# THE MINIMUM WAGE: ISSUES TO CONSIDER

(1999 UPDATE)<sup>1</sup>

Since its adoption in 1938, there continues to be a great deal of debate over the role and impact of the minimum wage in the United States. After years of precipitous decline in its real value, the federal minimum wage was finally raised in 1996 (to \$4.75) and 1997 (to \$5.15). Given that the annual income of a minimum wage earner is still substantially below the poverty guidelines for a family of three (see Table Three), there remains a strong need for accurate and up-to-date information on this important public policy debate.

## Who Are the Minimum Wage Earners?

Despite clear-cut and irrefutable evidence to the contrary, many people continue to perpetuate the myth that teenagers make up the overwhelming majority of minimum wage earners. While a large number of teenage workers do earn the minimum, over two-thirds (70 percent) of the workers earning the minimum wage or less, are adults 20 years of age or older.<sup>2</sup> In addition, while blacks, Hispanics and other racial minorities are overrepresented among *adult* minimum wage earners, overall 81 percent of hourly paid workers with wages at or below the minimum wage are white.<sup>3</sup> The next table also shows how 62 percent of people making the minimum wage or less are women.

**TABLE ONE: Demographic Composition of People Earning the Minimum Wage or Less in the U.S.\*, Compared to the Total Hourly Workforce, 1997<sup>4</sup>**

### Workers at or Below the Minimum Wage

Groups	Number of Workers (in 1,000's)	As a Percent of Minimum Wage Workforce	Groups as a Percent of Total Hourly Workforce
Sex			
Male (16+)	1,820	38.3	50.2
Female (16+)	2,935	61.7	49.8
Age (both sexes)			
Teenagers (16-19)	1,438	30.2	8.6
Adults (20+)	3,316	69.8	91.4
Race and Hispanic Origin (both sexes)			
White			
Black	3,855	81.1	82.3
Hispanic Origin	727	15.3	13.4
(may be of any race)	751	15.8	12.3
TOTAL = 4,754			

The Maine Department of Labor reports that in Maine, there were roughly 20,000 hourly workers with earnings at or below the minimum wage in 1997.<sup>5</sup> However, it is widely acknowledged that the actual number of workers earning at or below the minimum wage is higher than in estimates based only on hourly employed workers. At least one economist has argued that the true number of

<sup>1</sup> See also the more extensive analysis of the minimum wage in the Bureau's earlier fact sheet, "What's Important to Know About the Minimum Wage" (1995, Bureau of Labor Education).

<sup>2</sup> Bureau of Labor Statistics, U.S. Department of Labor; *Unpublished Tabulations from the Current Population Survey: 1997 Annual Averages*, Table A-7; Washington D.C.

<sup>3</sup> *Ibid.* The higher proportion of whites among *teenage* minimum wage earners tends to obscure the opposite racial pattern among older workers.

<sup>4</sup> *Ibid.* Data courtesy of Gloria Goings, economist, Bureau of Labor Statistics, U.S. Department of Labor.

<sup>5</sup> Maine Department of Labor, "Minimum Wage Workers," March 13, 1998 (courtesy of Dana Evans, Maine Dept. of Labor). More detailed demographic breakdowns for the minimum wage workforce in Maine were not available for these 1997 data.

such workers may be as much as four times the official estimates by the U.S. Bureau of Labor Statistics and Current Population Survey.<sup>6</sup>

### Who Would Benefit from an Increased Minimum Wage?

Another approach to the minimum wage issue is to ask who, and how many people, would benefit from an increase in the minimum wage. One general answer is that any group which has lower wages in the labor market is likely to gain the most. A more specific way to address the issue is to focus on those groups whose wages were most likely to go up following an increase — not only current minimum wage workers, but also those who earn slightly more.

A recent study by the Economic Policy Institute explored the effects of the 1996-97 increases in the minimum wages by examining the workers most likely to directly benefit from the increases. These included workers whose wages (before the increases) ranged from the earlier minimum wage level (\$4.75) to just below the new minimum wage of 1997 (\$5.15). This is because the workers who would see their wages increase included not only those earning the earlier minimum (\$4.75), but also everyone in between the old and new minimum wage. In other words, all covered (nonexempt) workers earning from \$4.75 to \$5.14 saw their wages go up once the new minimum wage went into effect.<sup>7</sup>

Using this approach, their study found that the numbers of people who benefited from (were "affected by") the 1996-1997 increases were much greater than the number of hourly workers at or below the minimum wage (see Table Two). Almost 10 million U.S. workers saw their wages go up as a result of the increases (about 8.9 percent of the workforce). The workers were predominantly female (58.2 percent), white (62.8 percent), and adults (71.4 percent). The increases also primarily benefited lower-income households.<sup>8</sup>

**TABLE TWO: Hourly Workers Paid At or Below the Minimum Wage (1997) and Workers Directly Affected by 1996-1997 Minimum Wage Increases, Maine and U.S.**

	Employed Wage and Salary Workers Paid Hourly Rates at or Below the Minimum Wage, 1997 <sup>9</sup>		Workers Directly Affected by the 1996-1997 Minimum Wage Increases (Hourly and Salaried Workers Earning \$4.75-\$5.14, 1995-1996 group) <sup>10</sup>	
	Maine	U.S.	Maine	U.S.
<b>Number</b>	20,000	4,754,000	40,631	9,886,158
<b>Percent of All Workers</b>	5.5	6.7	7.9	8.9

In Maine, over 40,000 people were directly affected by the new minimum wage increases, according to the EPI study. It is also important to note that among all the New England states, Maine had the highest percentage of workers who directly benefited from these increases (7.9 percent). It is likely that any future increase in the minimum wage would similarly benefit a relatively high proportion of workers in Maine, which may have a higher percentage of low wage earners than in other New England states.

<sup>6</sup> The Maine Department of Labor (*ibid.*) states that the actual numbers of minimum wage workers in the Current Population Survey estimates are understated, due to the exclusion of some salaried and other non-hourly workers (most likely "relatively small"). See also Bruce W. Klein, "Real Estimates of Poor Minimum Wage Workers." *Challenge*, Vol. 35 (May-June), 1992, pp. 53-55.

<sup>7</sup> Jared Bernstein and John Schmitt, *Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase*. Wash., D.C.: 1998. Workers Earning under the minimum wage were not included since they are probably exempt from coverage.

<sup>8</sup> The report also notes that adult women were the single largest group (43.2 percent affected by the increase. *Ibid.*, p. 3. & 5.

<sup>9</sup> Maine Department of Labor (*ibid.*) and Bureau of Labor Statistics, Current Population Survey (*ibid.*).

<sup>10</sup> Bernstein and Schmitt, *ibid.* Data were from the Oct. 1995-Sept. 1996 Outgoing Rotation Group of the Current Population Survey.

## The Minimum Wage was Just Increased in 1996 and 1997 — Isn't That Enough?

The 1996-97 increases in the minimum wage happened only after years of decline in its real value (see Figure One). As inflation continues to rise, the real value and purchasing power of the 1997 wage will continue to decline. Even at the current level of \$5.15, it is difficult or impossible for a family to meet the most basic living expenses from a 40-hour week minimum wage job. This can be shown clearly in two ways.

**FIGURE ONE: Real Value of the Minimum Wage, 1997 Dollars, 1955-1997**

(Source: Bernstein and Schmitt, *ibid.*; Economic Policy Institute, 1998, p. 2)



First, the annual earnings from a 40-hour week, year-round job at the minimum wage — \$10,712 before deductions — will still result in a net income (take-home pay) that is only 72.5 percent of the 1998 poverty guidelines for a family of three (see Table Three). Given that women workers are more likely than men to earn at or below the minimum wage, this is particularly concerning for family well-being. In addition, the proportion of families with children who are headed by women has been growing steadily both in Maine and nationwide. A low minimum wage hence puts female-headed families, particularly children, at great risk.

**TABLE THREE: Income from a Full-Time Minimum Wage Job as A Percent of the Poverty Level<sup>11</sup>**

Household Size	1998 U.S. Poverty Level Guidelines	Net Income as A Percent of Poverty Level	Wage Required to Have Income Equal to Poverty Level
1	\$8,050	122.9	\$4.11
2	\$10,850	91.2	\$5.62
3	\$13,650	72.5	\$7.06
4	\$16,450	60.1	\$8.51
5	\$19,250	51.4	\$9.96

In addition, the nature and severity of this increased economic risk for women workers and their families in Maine was analyzed by economist Stephanie Seguino in her 1995 study. She calculated that in order to meet a "basic needs" budget in Maine in 1993, a single parent with one child under age six, working full time, would have needed an hourly wage of \$10.19 — almost double the current minimum wage.<sup>12</sup>

## Wouldn't an Increase in the Minimum Wage Result in Fewer Jobs?

One of the most common arguments used by opponents of a higher minimum wage is that such an increase would result in the loss of low-wage jobs, thereby hurting the very people who can afford it the least. However, several recent studies of this question do not support this. The Economic Policy

<sup>11</sup> Data courtesy of Joyce Benson, Maine State Planning Office, based on U.S. poverty level guidelines (U.S. Department of Health and Human Services). Income and wage calculations reflect take-home pay after Social Security withholding.

<sup>12</sup> Stephanie Seguino, *Living on the Edge: Women Working and Providing for Families in the Maine Economy, 1979-1993*. Margaret Chase Smith Center for Public Policy, University of Maine, Orono, ME: 1995, p. 42.

Institute's extensive analysis of the 1996-1997 increases in the minimum wage showed no systematic loss of employment among low-wage earners affected by the increases. Using four different statistical tests, their study found that "not only are the estimated employment effects generally economically small and statistically insignificant, they are also almost as likely to be positive as negative."<sup>13</sup> The authors of the study concluded that "the 1996-97 increase in the minimum wage has proven to be an effective tool for raising the earnings of low-wage workers without lowering their employment opportunities."<sup>14</sup>

A number of other studies focusing on the employment impacts of the 1990-91 minimum wages on the fast food industry also found no systematic or significant loss of employment. These studies were based on surveys of the fast food industry in a number of states: Texas, California, Pennsylvania and New Jersey, and in Jackson, Mississippi; and Greensboro, N.C. In some of these cases, employment actually rose.<sup>15</sup>

Some earlier critics of the minimum wage have begun to admit that in the long run, a higher wage would have positive effects for society overall. This would be likely to happen as "rising wages force companies to buy new equipment, improve productivity — and eventually create jobs requiring higher skills that raise the standard of living and boost the total economy."<sup>16</sup> Other possible effects of a higher minimum wage include a reduction in the poverty rate among families (particularly female-headed households)<sup>17</sup>, more spending in local economies due to increased disposable income among low wage workers, and a reduction in government support costs resulting from greater economic self-sufficiency among families.<sup>18</sup>

## Conclusions

The current minimum wage of \$5.15 is clearly inadequate to support any family — only a one-person household can stay above the federal poverty guidelines on a full-time minimum wage job. The minimum wage will continue to decline in its real value, putting individuals, families and especially children at growing risk of poverty. This economic hardship is heightened by the fact that many of the new jobs being created in the U.S. economy are low-wage service jobs, often without benefits. With a growing consensus that a minimum wage increase is not likely to harm employment, there is overwhelming evidence that another increase in the minimum wage is a necessity both for Maine and in the U.S. more generally.

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*A Member of the University of Maine System*

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<sup>13</sup> Bernstein and Schmitt, *ibid.*; p. 1

<sup>14</sup> *Ibid.*

<sup>15</sup> See the Bureau's earlier fact sheet on this topic, "What's Important to Know About the Minimum Wage" (*Ibid.*).

<sup>16</sup> Aaron Bernstein, "A Higher Minimum Wage: Minimal Damage?", *Business Week*, March 22, 1993; p. 92-93.

<sup>17</sup> Linda R. Martin and Demetrios Giannaros, "Would a Higher Minimum Wage Help Poor Families Headed by Women?", *Monthly Labor Review*, August, 1990: pp. 33-37.

<sup>18</sup> Peter T. Kilborn, "A City Built on \$4.25 an Hour," *New York Times*, February 12, 1995.