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The Minimum Wage: Two Generations of Neglect Add Up

By allowing the minimum wage to languish over two generations, Washington has effectively ceded to the states the good sense to shore up the living standards of the American workforce. -Economic Policy Institute.¹

Although a three-step raise in the Federal minimum wage that ended in July, 2009 is projected to generate a total of \$10.4 billion in increased consumer spending,² a survey of the wage situation in the U.S. today suggests that recent raises to the minimum wage are inadequate. Both Maine and the nation have been plagued by serious wage stagnation for many years. The overextended credit that helped fuel the recent economic crisis was exacerbated by what has been called a “collapse of hourly wage growth” by the Economic Policy Institute.³ In the longer term, the inflation-adjusted value of the minimum wage has dropped by 17 percent from 1968 to 2009.⁴ This has contributed to a very weak economy, dragged down by depressed wages that will make recovery more difficult. This paper discusses problems caused by stalled wages, and highlights some emerging trends regarding the minimum wage.

Background

The minimum wage is a statute that sets a base wage level that employers are required to pay covered classes of hourly wage workers. It was established by Congress with the Fair Labor Standards Act (FLSA) in 1938. Congress exercised its constitutional authority to regulate interstate commerce in passing the FLSA. The intent of Congress was to stabilize the U.S. economy by assuring a minimum standard of living that would protect the health and well-being of workers.⁵ The purpose of minimum wage legislation was to create a “wage floor” that could protect the lowest-paid workers who lack the bargaining power to win a subsistence-level wage.⁶ As the title of the statute suggests, the minimum wage and other provisions of the FLSA were designed to encourage ethical fairness in employment relationships. Not all hourly employees have to be paid the minimum wage. Examples of workers who are exempted from the minimum wage statutes include workers in fishing operations, many seasonal and recreational operations, babysitters, and agricultural workers on small farms.⁷

In addition to the federal minimum wage, some states set their own minimum pay rates. If the state and federal minimum wage rates differ, workers are paid at the higher rate. Maine’s first minimum wage law was enacted in 1939, and applied to women and minors who worked at packing fish products.⁸ Twenty years later, in 1959, Maine enacted a general minimum wage law.

¹Heidi Shierholz, “Fix It and Forget It;” Economic Policy Institute (EPI), EPI Briefing Paper #251, December 17, 2009; www.epi.org/publications/entry/bp251/, p. 16.

² Kai Filion, “Increases in minimum wage boost consumer spending, Economic Snapshot for May 27, 2009;” EPI, September 7, 2009; www.epi.org/economic_snapshots/entry/snapshot_20090527/, p. 1.

³ Lawrence Mishel, Heidi Shierholz, and Andrew Green, “The Recession’s Hidden Costs, September 4, 2009;” EPI, EPI Briefing Paper #240, September 7, 2009; www.epi.org/publications/entry/bp240/, p. 1.

⁴ Kai Filion, “Fact sheet for 2009 minimum wage increase-Minimum Wage Issue Guide;” EPI, July 20, 2009; http://www.epi.org/publications/entry/mwig_fact_sheet/, p. 2.

⁵ Cornell University Law School, Legal Information Institute, “The Minimum Wage: An Overview;” http://topics.law.cornell.edu/wex/minimum_wage, p. 1.

⁶ *Ibid.*

⁷ United States Department of Labor, (US DOL), Bureau of Labor Statistics (BLS), “Characteristics of Minimum Wage Workers, 2009,” (Min Wage 09); www.bls.gov/cps/minwage2009tbls.htm, p. 14.

See notes following Table 10 at bottom of page: “. . . The presence of a sizable number of workers with reported wages below the minimum does not necessarily indicate violations of the Fair Labor Standards Act, as there are numerous exemptions to the minimum wage provisions of the law.” See also the U.S. Department of Labor’s Employment Law guide on this topic, at: www.dol.gov/compliance/guide/minwage.htm, p. 1.

⁸ Charles A. Scontras, “Time-Line of Selected Highlights of Maine Labor History: 1636-2003;” University of Maine: Bureau of Labor Education, 2003, p. 51.

On October 1, 2009, Maine's minimum wage increased to \$7.50.⁹ This puts Maine ahead of the federal minimum wage rate, which increased to \$7.25 effective July 24, 2009.¹⁰ For New England, only New Hampshire and Rhode Island have rates lower than Maine's. New Hampshire's minimum wage is the same as the federal rate of \$7.25 for 2009;¹¹ Rhode Island's rate currently is \$7.40.¹² Connecticut has the highest rate in New England, at \$8.25 for 2010.¹³

For 2008, the U.S. Census Bureau estimated that 2,226,000 hourly workers, representing 3 percent of the total U.S. hourly workforce, earned at or below the minimum wage.¹⁴ For 2009, that estimate has grown to 3,572,000, or 4.9 percent of the hourly workforce, a 60 percent increase.¹⁵ Of these hourly workers, nearly 2.6 million workers were earning *below* the minimum wage.¹⁶

While 4.9 percent of the hourly workforce may seem like a small number of workers, the grim fact remains that more than three and a half million workers are struggling to survive on earnings at or below the minimum wage, which provides a grossly inadequate income. Moreover, minimum wage workers are not the only workers who are struggling to get by in the U.S. today. As Table 1 demonstrates, one can be earning well above the minimum wage and still not have enough for daily necessities. For a family of four with two children and two earners, both workers would need to make more than \$5 *per hour per earner* above the minimum wage rate to meet the family's expenses.¹⁷

Women workers are more likely than men to earn at or below the minimum wage. In 2009, 3.9 percent of male hourly workers in the U.S. earned at or below the minimum wage, compared to 5.9 percent of female hourly workers. For all hourly wage earners in 2009, 48.5% were men, and 51.5 percent were women.¹⁸ The gender distribution for U.S. workers earning at or below the minimum wage also shows that women are the majority of this category: over three-fifths were women (62 percent, or 2,215,000 workers), while almost two fifths (38 percent, or 1,358,000 workers) were men in 2009.¹⁹

Current data for Maine give only a rough estimate of the number of workers earning at or below the Maine minimum wage. Available data for 2009 show that 6,000 workers were paid less than \$7.00 per hour, and another 24,000 were paid from \$7.00 to \$7.99 per hour. Of these 30,000 workers, which also includes people making somewhat over the minimum wage, approximately 63 percent were female.²⁰

⁹ Maine Department of Labor, "Minimum Wage Information;" Augusta, Maine; http://www.maine.gov/labor/labor_laws/minwagehistory.html. Maine has raised its minimum wage each of the last eight years. However, there have been three notable lapses: 1959-1965, 1991-96, and 1997-2002.

¹⁰ US DOL, "History of Federal Minimum Wage Rates Under the Fair Labor Standards Act, 1938-2009;" www.dol.gov/whd/minwage/chart.htm.

¹¹ US DOL, "Minimum Wage Laws in the States – January 1, 2010;" www.dol.gov/whd/minwage/america.htm; p. 7.

¹² *Ibid.*, p. 9.

¹³ *Ibid.*, p. 3.

¹⁴ US DOL, BLS. "Characteristics of Minimum Wage Workers, 2008," Table 7; <http://www.bls.gov/cps/minwage2008.htm>, p. 10; follow link to tables at bottom of page.

¹⁵ US DOL, BLS, Min Wage 09, *ibid.*, Table 7, p. 8. Much of this increase is undoubtedly due to the 2009 raise in the minimum wage, which automatically captured a larger number of workers by raising the wage ceiling.

¹⁶ *Ibid.* Some classes of hourly workers are exempted from minimum wage statutes; see footnote 7 of this paper.

¹⁷ Maine Center for Economic Policy, Augusta, Maine; "2008 Estimated Livable Wage in Maine Counties and Metropolitan Areas by Family Size;" http://www.mecep.org/documents/LivableWageTable_2008.pdf

¹⁸ US DOL, BLS, Min Wage 09, *ibid.*

¹⁹ *Ibid.*

²⁰ Maine's minimum wage in 2009 was \$7.25 from January through September, and \$7.50 from October through December, making exact numbers even more difficult. Unpublished 2009 data (annual averages) from the Current Population Survey provided by Dana Evans, Maine Center for Workforce Research and Information, Maine Department of Labor, Augusta ME; Personal Communication, 3/16/2010.

A historical overview of this topic demonstrates that Congress has done a poor job of maintaining an adequate national minimum wage. For example, there have been two decade-long lapses during which there were no raises to the minimum wage: from 1981 to 1990, and from 1997 to 2007.²¹ As of 2007, 70 percent of the U.S. labor force had a state minimum wage that was higher than the federal rate.²²

The Problem with Wage Stagnation

These decade-long lapses in the progression of the federal minimum wage also have contributed to serious wage stagnation that is adversely affecting the economy. Even after the recent increases in the minimum wage, this low wage cannot sustain working families. In fact, in recent years the growing divide between official poverty levels and the actual cost of living has spawned the concept of a “livable” or “living” wage. The livable wage is calculated based on the actual subsistence-level costs faced by workers and their families, and it shows the gap between subsistence earnings and the minimum wage.

Table 1: Maine Livable Wage Comparison, 2008²³	Single adult	Single adult, 1 child	Single adult, 2 children	Two adults, 2 children, 1 earner	Two adults, 2 children, 2 earners, per earner	Maine minimum wage, as of October 2009
Hourly Earnings Needed (statewide figures)	\$10.65	\$16.94	\$20	\$17	\$13.07	\$7.50

As this table shows, in terms of providing a livable income, the minimum wage is not even sufficient for a single individual. Since economic health is tied to consumer spending, the current wage situation is not encouraging for recovery. Nationally, wages had already lost ground well before the current economic crisis. According to the Economic Policy Institute, the 2000-2007 business cycle is the only one on record in which a typical working family had less income at the end of the cycle than at the beginning.²⁴ During this same period, while worker productivity grew by 19.2 percent, the real median weekly wages of all prime-aged workers decreased by \$1 per week, and by \$3 for African-Americans.²⁵

The economic security of low-wage workers is further jeopardized by poor access to employee benefits. As of March 2009, 70 percent of private industry workers in the U.S. had access to employer-sponsored healthcare benefits. However, only 25 percent of workers with average hourly wages in the lowest 10 percent of all private industry wages enjoyed access to healthcare benefits at that time.²⁶

Currently, many economists have serious concerns over the effects of wage losses on economic recovery. An analyst at Goldman-Sachs observed in August 2009 that “the weakness in household income will make it harder to raise saving without significant constraints on consumption. One key issue is the sharp slowdown in hourly wage growth. . . .”²⁷ The director of Moody’s Economy.com expressed concern as well: “. . . where is consumption going to come from? Wages and salaries are not

²¹ US DOL, “History of Federal Minimum Wage Rates,” *ibid.*

²² Shierholz, *ibid.*, p. 17.

²³ Maine Center for Economic Policy, *ibid.*

²⁴ Mishel et al., “The Recession’s Hidden Costs,” *ibid.*

²⁵ Algernon Austin, “Reversal of Fortune,” EPI, EPI Briefing Paper #220, September 18, 2008; http://epi.3cdn.net/f205db387e418862d6_c5m6bhw0j.pdf, pp. 3-4.

²⁶ US DOL BLS, “Employee Benefits in the United States, March 2009;”

http://www.bls.gov/news.release/archives/ebs2_07282009.htm, p. 1.

²⁷ Mishel et al., *ibid.*, p. 2.

there.”²⁸ Indeed, in terms of real wage value, the new federal minimum wage rate of \$7.25 represents a 20 percent decrease in real value (adjusted for inflation) since the late 1960s.²⁹

What are the policy trends in this area?

Historically, the minimum wage has increased on both the state and national levels primarily through specific monetary amounts established by statute. In addition, there are currently ten states, such as Vermont, which have indexed the minimum wage to the Consumer Price Index (CPI).³⁰ This approach also is utilized by the federal government to determine increases in Social Security in order to keep pace with inflation. However, critics of this method argue that tying the minimum wage to the CPI is risky, due to fluctuations in the index, which can go down as well as up.³¹

The National Employment Law Project (NELP) and the Economic Policy Institute (EPI), in a joint memo from June 4, 2009, also propose indexing for the federal minimum wage, but with a difference: they suggest indexing to average wages rather than to prices.³² There are significant precedents for indexing to earnings. For instance, Unemployment Insurance (UI) benefit caps in most states are set as a percentage of state average wages, and are adjusted yearly as those wages change.³³ Maine’s maximum UI benefit is set at 52% of average weekly wages.³⁴ In comparison, the new federal minimum wage rate of \$7.25 comes to less than 40 percent of average wages.³⁵ NELP, however, suggests that the minimum wage be set at 50 percent of average wages.³⁶

As a matter of public policy, worker equity, and good economic sense, Congress and the President need to reassert their leadership by increasing the national minimum wage to a level that will not leave workers and their families struggling to survive. Since economic recovery depends in part on consumer spending, the falling value of compensation for workers will continue to have an adverse impact on our national and local economies. Indexing the minimum wage to average wages would be a constructive as well as important step towards restoring the minimum wage to a level appropriate to its original intent and purpose.

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²⁸ *Ibid.*

²⁹ Shierholz, *ibid.*, p. 1

³⁰ US DOL, “Minimum Wage Laws in the States;” *ibid.* “The Consumer Price Index (CPI) is a measure of the average change in prices over time of goods and services purchased by households.” U.S. DOL/BLS FAQ’s; <http://www.bls.gov/cpi/cpifaq.htm>, pp. 11-12.

³¹ This recently occurred in Colorado, the first state in the U.S. to reduce its minimum wage since 1938, when the federal minimum wage was first adopted. Colorado’s minimum wage fell by 3 cents in January, 2010. The drop in the CPI would have indicated a 4-cent cut, but that would have put the Colorado minimum below the Federal minimum of \$7.25. Dan Frosch, “Colorado Plans to Lower Minimum Wage in 2010;” *The New York Times*, http://www.nytimes.com/2009/10/14/us/14colorado.html?_r=1; p. A18 of print edition, 10/14/09.

³² National Employment Law Project (NELP), “Precedents for Indexing Labor Standards to Average Weekly Wages,” June 4, 2009; <http://www.nelp.org/site/publications/> p. 1, scroll down to find title by date.

³³ *Ibid.*

³⁴ *Ibid.*, p. 6.

³⁵ Shierholz, *ibid.*, p. 3.

³⁶ NELP, *ibid.*