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## NINE YEARS OF NEGLECT

### Federal Minimum Wage Remains Unchanged for Ninth Straight Year, Falls to Lowest Level in More than Half a Century

by Jared Bernstein and Isaac Shapiro<sup>1</sup>

The federal minimum wage has remained at \$5.15 an hour since September 1, 1997. So as of September 1, 2006, the minimum wage will have remained the same for nine years, while the costs of medical care, gasoline, and other necessities have grown considerably. Further, the minimum wage has fallen exceptionally far below the wages of other workers, including the nation's CEOs.

- This lack of Congressional action is approaching an unprecedented stretch. Since the inception of the minimum wage, there has been only one other period in which the minimum wage has remained unchanged for more than nine years. The minimum wage remained the same for the nine-year-and-three-month period from January 1981 until April 1990.
- While since September 1997 the minimum wage has remained at \$5.15 an hour, the cost-of-living has risen by 26 percent. After adjusting for inflation, the value of the minimum wage is at its lowest level since 1955.
- The minimum wage now equals just 31 percent of the average wage for private sector, nonsupervisory workers. This is the lowest share since at least the end of World War II.

This December 1st will mark nine years and three months since the last increase. Thus, unless Congress acts quickly, so that a federal minimum wage increase is actually put into place before then, on December 2nd the federal minimum wage will have remained at the same level for the longest period since it was established.

#### Adjustments to the Wage Floor

The federal minimum wage has never included a feature by which it automatically increases each year to ensure that it maintains its purchasing power. As a result, Congress has to act to provide such adjustments.

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These adjustments have not always occurred in a timely fashion. Nonetheless, from 1938 to 1981, they did occur with enough regularity that the minimum wage generally either rose in purchasing power or remained relatively stable in real value.

Then from January 1981 to April 1990 the value of the minimum wage was frozen at \$3.35 an hour, the longest period without an adjustment in the wage floor. As a result, the minimum wage eroded markedly in value.

Two series of minimum wage increases took effect in the 1990s, the first of which was signed into law by the senior President Bush. These served to restore some of the lost value of the minimum wage. But the last of that series of increases took effect in September 1997, when the federal minimum was raised to its current level of \$5.15 an hour.

### Minimum Wage has Remained the Same While the Cost of Living Has Risen

One standard for assessing the value of the minimum wage is to track its buying power; that is, to adjust its value to take into account changes in the cost of living. Each year that Congress fails to raise the wage floor and that the cost-of-living rises, the purchasing power of the minimum wage erodes. Thus, the fact that the minimum wage has remained the same for nine years means that its real value has declined considerably over this period.

- The real value of the minimum wage peaked in 1968, when it was equivalent to a wage of \$7.73 an hour.<sup>2</sup> During the 1970s, the wage floor averaged \$6.92 an hour in today’s dollars.
- Since September 1, 1997, the overall inflation rate has increased by 26 percent. The costs of certain necessities have risen even more sharply. A gallon of gas costs more than twice as much as it did nine years ago; the cost of medical care increased by 43 percent. (See Table 1.)
- Once an adjustment for inflation is taken into account, the purchasing power of the minimum wage has now declined to its lowest level since 1955. (See Figure 1 and Table 2.)

Overall inflation	26%
Food	23%
Housing	29%
Medical care	43%
Child care and nursery school	52%
Educational books and supplies	61%
Gasoline, unleaded regular	134%
Minimum wage	0%

Source: Bureau of Labor Statistics

<sup>2</sup> We adjust for inflation using the CPI-RS (research series). The “RS” is a historically consistent series used by many analysts, including the US Bureau of the Census, to adjust for price changes. Relative to the more commonly used CPI-U, the CPI-RS grows more slowly, meaning that the real minimum wage deflated by the CPI-U has a higher peak level: \$9.11 in 1968 in today’s dollars. Real values in this report are based on the growth of the price index through July of this year.

## Minimum Wage has Fallen Far Below the Wages of Other Workers

The federal minimum wage has also often been set with the wage level of other workers in mind. This approach reflects the principle that minimum-wage workers should share in economic gains and should not fall too far behind other workers

- During the 1950s and the 1960s, the minimum wage averaged 50 percent — or half — the average wage of workers in nonsupervisory positions.
- The minimum wage has now fallen to 31 percent — or less than one-third — of the average hourly wage for nonsupervisory workers of \$16.76 in July. This is the lowest share in the history of this data series, which begins in 1947. (See Figure 2 and Table 2.)<sup>3</sup>
- Research has shown that the fall in the relative value of the minimum wage has contributed to the persistent increase in wage inequality since the latter 1970s.<sup>4</sup>

The minimum wage has also remained stagnant while the pay of chief executive officers has risen sharply. As a result, the gap between the pay of CEOs and the minimum wage has grown dramatically. For example, in 1978, even before the gap began to grow quickly, the average CEO was still paid 78 times as much as a full-time year-round worker earning the minimum wage. By 2005, the average CEO was paid 821 times as much as a minimum wage earner; this is the widest discrepancy on record. As an earlier report from the Economic Policy Institute observed: “An average CEO earns more before lunchtime on the very first day of work in the year than a minimum wage worker earns all year.”<sup>5</sup>

## Changes in the Minimum Wage and Changes to the Estate Tax

In reaction to this sharp erosion in the value of the minimum wage, action to raise the minimum wage in Congress has finally begun to stir. In an awkward twist, however, the House adopted legislation that links a dramatic reduction in the estate tax with an increase in the minimum wage. This linkage has been rejected once by the Senate, but the approach may be voted on again by the Senate in September.

The two proposals should not be linked, however. Since 1997 Congress already has been quite generous to the relatively modest number of wealthy estates subject to taxation. High-income households, moreover, seem to be faring reasonably well during this recovery while low-income households are not. Recent Census data reveal, for example, that the average real income of the top five percent of households rose 3.1 percent last year, while that of the bottom fifth of households was up only 0.6 percent.

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<sup>3</sup> The table indicates that the minimum wage was also 31 percent of the average private nonsupervisory wage in 1949, apparently the same as currently. This similarity reflects rounding. More precise calculations indicate the minimum wage currently is a slightly smaller share of the average wage than in 1949.

<sup>4</sup> See, for example, David Lee, “Inequality in the United States During the 1980s: Rising Dispersion or Falling Minimum Wage?” *Quarterly Journal of Economics*, 1999, 114(3), 1977-1023.

<sup>5</sup> Lawrence Mishel, “CEO pay-to-minimum wage ratio soars,” Economic Policy Institute, June 27, 2006.

Specifically, while the minimum wage has remained stagnant since 1997, Congress has enacted legislation that has reduced estate tax burdens in eight of the past nine years.<sup>6</sup> Of further note, in the bill that recently passed the House, the minimum wage increase would benefit 5.6 million workers, while the estate tax reduction would primarily benefit 8,200 very wealthy estates.<sup>7</sup>

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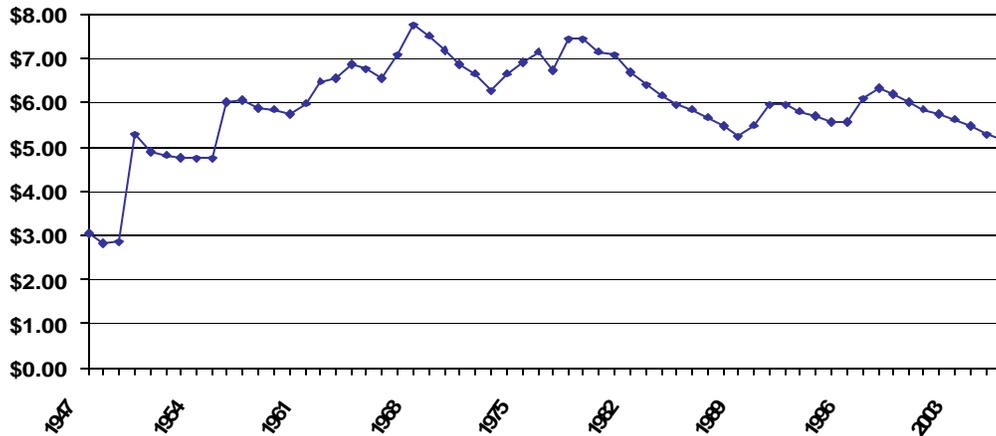
<sup>6</sup> Aviva Aron-Dine, "Since Last Minimum Wage Increase, Congress Has Reduced Estate Tax Burden Eight Times," Center on Budget and Policy Priorities, Revised August 30, 2006,

<sup>7</sup> See Joel Friedman and Aviva Aron-Dine, "Comparing the House Minimum Wage and Estate Tax Proposals: Who Benefits and By How Much?" Center on Budget and Policy Priorities, revised August 3, 2006.

Figure 1

### Minimum Wage Purchasing Power Lowest Since 1955

(The Inflation-Adjusted Value of the Minimum Wage, 1947-2006, in 2006 Dollars)

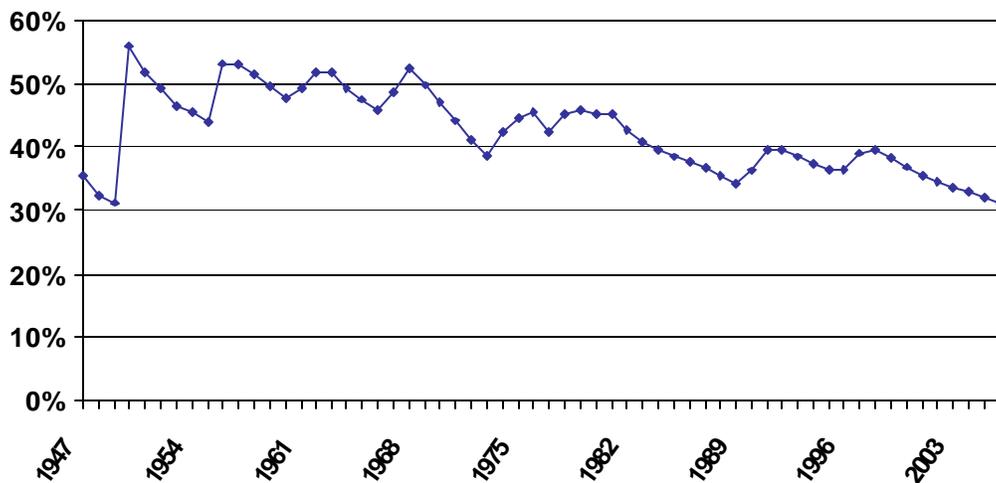


Source: Authors' calculations based on data from the U.S. Department of Labor.

Figure 2

### Minimum Wage at Post-World War II Low Relative to Average Wage

(Minimum Wage Relative to the Average Private Nonsupervisory Wage, 1947-2006)



Source: Authors' calculations based on data from the U.S. Department of Labor.

Table 2

## The Value of the Minimum Wage, 1947-2006

Year	Nominal	Adjusted for Inflation (using CPI-rs)	As a share of average private nonsupervisory wage
1947	\$ 0.40	3.05	35%
1948	0.40	2.82	33%
1949	0.40	2.86	31%
1950	0.75	5.29	56%
1951	0.75	4.90	52%
1952	0.75	4.82	49%
1953	0.75	4.77	47%
1954	0.75	4.74	45%
1955	0.75	4.75	44%
1956*	0.96	6.00	53%
1957	1.00	6.05	53%
1958	1.00	5.88	51%
1959	1.00	5.84	50%
1960	1.00	5.74	48%
1961*	1.05	5.97	49%
1962	1.15	6.47	52%
1963*	1.18	6.56	52%
1964	1.25	6.85	49%
1965	1.25	6.75	48%
1966	1.25	6.56	46%
1967*	1.39	7.08	49%
1968*	1.58	7.73	52%
1969	1.60	7.50	50%
1970	1.60	7.16	47%
1971	1.60	6.86	44%
1972	1.60	6.65	41%
1973	1.60	6.26	39%
1974*	1.87	6.66	42%
1975	2.10	6.90	44%
1976	2.30	7.15	45%
1977	2.30	6.72	42%
1978	2.65	7.42	45%
1979	2.90	7.43	46%
1980	3.10	7.15	45%
1981	3.35	7.06	45%
1982	3.35	6.67	43%
1983	3.35	6.40	41%
1984	3.35	6.16	40%
1985	3.35	5.96	38%
1986	3.35	5.85	38%
1987	3.35	5.66	37%
1988	3.35	5.46	36%
1989	3.35	5.23	34%
1990*	3.69	5.49	36%
1991*	4.14	5.95	39%
1992	4.25	5.96	39%
1993	4.25	5.81	39%
1994	4.25	5.69	38%
1995	4.25	5.56	37%
1996*	4.38	5.57	36%
1997*	4.88	6.09	39%
1998	5.15	6.33	40%
1999	5.15	6.20	38%
2000	5.15	6.00	37%
2001	5.15	5.84	35%
2002	5.15	5.75	34%
2003	5.15	5.62	34%
2004	5.15	5.47	33%
2005	5.15	5.29	32%
2006	5.15	5.15	31%

\* Minimum wage changed during the course of the year; value reflects weighted average for the year.