# EPI Issue Brief

## STEP UP, NOT OUT

## THE CASE FOR RAISING THE FEDERAL MINIMUM WAGE FOR WORKERS IN EVERY STATE

*by Edith Rasell, Jared Bernstein, and Heather Boushey*

As inflation continues to slowly erode its value, the minimum wage is again being considered by Congress. Currently at $5.15 an hour, it was increased most recently from $4.25 in two steps in 1996 and 1997. A proposal currently before Congress would raise the minimum wage by $1.50 in three steps, to $6.65 in 2003. In addition, the Bush Administration has suggested that states should be allowed to opt out of any minimum wage increase. Before deciding on these important issues, Congress should understand who would benefit from increases in the minimum wage and changes in its coverage.

Among the important facts to be considered in the debate are the following findings about the minimum wage:

- The real value of today's minimum wage is 30% below its peak in 1968, and 24% below its level in 1979 (**Figure 1**).

- If the minimum wage were increased to $6.65 today, 11.9 million workers, or 9.9% of the workforce, would be affected.

- By 2003, when the proposed increase would be fully phased in, 5.8% of the workforce would benefit.

- Adults, women, and racial minorities are disproportionately helped by increases in the minimum wage.

- There is no good rationale for allowing states to opt out of the increase. The states most likely to do so are the lowest-wage states, where the increase is most needed. Relative to higher wage states, those states with the lowest wages were not negatively affected by the last minimum wage increase.

- The slowing economy should not preclude the proposed increase. Evidence from the last time the minimum wage was raised during a downturn (1990-91) reveals that there were no job losses associated with the increase.

## FIGURE 1

### Real value of the federal minimum wage, 1956-2003
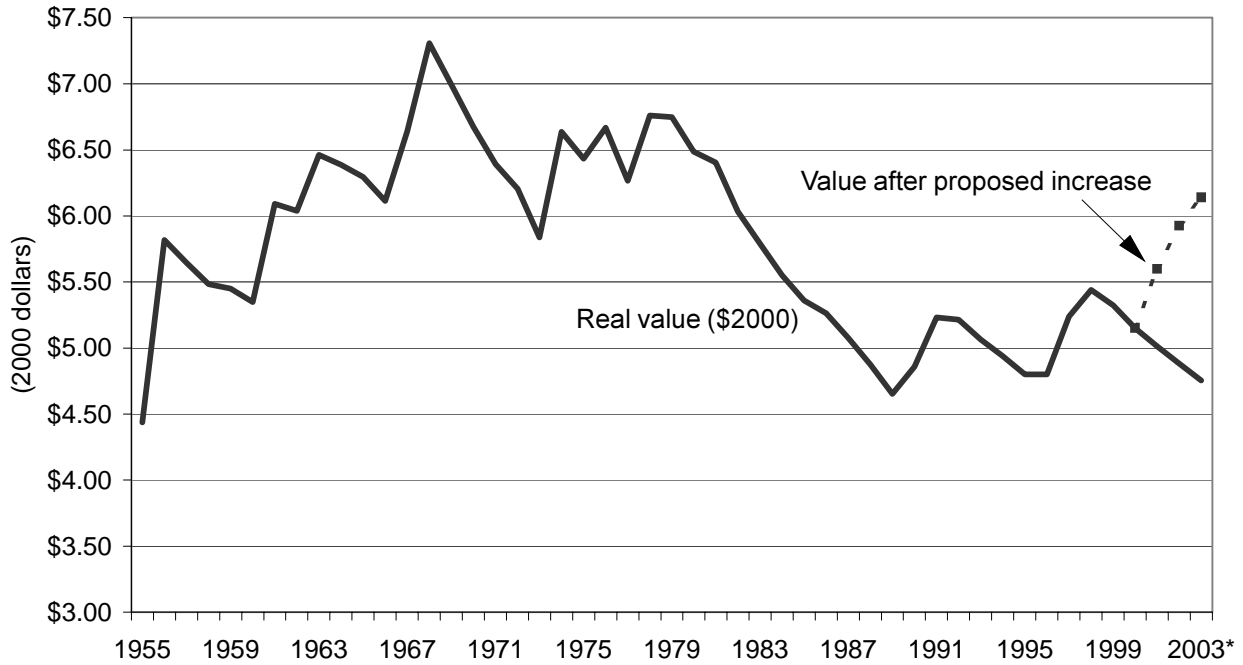


Value after proposed increase

Real value ($2000)

## Who would be affected by the increase?

If the minimum wage had been at the proposed level of $6.65 in 2000, 11.9 million workers, or 9.9% of the workforce, would have seen an increase in their wages.  However, the current proposal phases in the increase over three years ($0.60 in 2001, $0.50 in 2002, and $0.40 in 2003).  If wages grow to keep pace with inflation, by the time an increase is fully implemented in 2003, just 5.8% of the workforce (representing 6.9 million workers in the 2000 workforce) would receive a pay increase.

**Table 1** shows the characteristics of the workers who would be directly affected by the increase, i.e., those earning between $5.15 and $6.65.[1]  In states with a minimum wage that exceeds the federal level, affected workers are those earning between their state minimum and $6.65.  The majority of affected workers are women (60.6%).  Just 31.8% of the affected workers are teens, age 16 to 19, with fully 68.2% being adults.  Close to half (45.3%) of the affected workers are employed full time, and another third (34%) work between 20 and 34 hours per week.

Comparing those workers affected directly by the increase (first column) and all workers in the labor force (last column) shows the extent to which different types of workers are over- or under-represented in the affected range.  The comparison shows that blacks and Hispanics would disproportionately benefit from the increase in the minimum wage.  While 11.7% of the total workforce is black, and 11.3% is Hispanic, a much higher 18.1% of blacks and 14.4% of Hispanics would benefit from an increase.

Various studies have found that, due to the so-called "spill-over effects," the group of workers earning just above the minimum wage (perhaps as much as a dollar above) also receive a wage gain as a result of an increase.[2]

**TABLE 1**
**Characteristics of workers by wage range after full increase in 2003**

| Characteristic | Affected directly by increase | Other low-wage workers (minimum+$1) | $7.65 and above | All |
|---|---|---|---|---|
| Employment (in millions) | 6.9 | 10.5 | 99.8 | 120.4 |
| Share of total | 5.8% | 8.7% | 82.9% | 100.0% |
| **Demographics** | | | | |
| Male | 39.4% | 42.1% | 54.3% | 52.1% |
| 16-19 | 14.9 | 9.4 | 1.3 | 3.0 |
| 20+ | 24.5 | 32.7 | 53.0 | 49.0 |
| Female | 60.6 | 57.9 | 45.7 | 47.9 |
| 16-19 | 16.9 | 9.9 | 1.0 | 2.9 |
| 20+ | 43.7 | 48.1 | 44.6 | 45.0 |
| White | 64.1 | 59.0 | 74.6 | 72.4 |
| Male | 24.9 | 22.8 | 40.6 | 37.7 |
| Female | 39.3 | 36.2 | 34.0 | 34.7 |
| Black | 18.1 | 13.3 | 11.1 | 11.7 |
| Male | 6.6 | 5.2 | 5.3 | 5.4 |
| Female | 11.5 | 8.1 | 5.8 | 6.3 |
| Hispanic | 14.4 | 23.0 | 9.7 | 11.3 |
| Male | 6.5 | 11.9 | 5.9 | 6.5 |
| Female | 7.9 | 11.1 | 3.7 | 4.7 |
| Teens(16-19) | 31.8 | 19.2 | 2.4 | 5.9 |
| **Work hours** | | | | |
| Full time (35+) | 45.3% | 61.3% | 88.2% | 82.5% |
| Part time | | | | |
| 20-34 hours | 34.0% | 25.8% | 8.6% | 12.1% |
| 1-19 hours | 20.7 | 12.9 | 3.2 | 5.4 |
| **Industry** | | | | |
| Manufacturing | 7.0% | 11.8% | 17.3% | 15.9% |
| Retail trade | 45.7 | 35.5 | 12.6 | 16.9 |
| **Union** | | | | |
| Union | 4.9% | 6.0% | 16.8% | 14.9% |
| Nonunion | 95.1 | 94.0 | 83.2 | 85.1 |

Note: "Affected directly by increase" indicates those workers who earn between the minimum wage level in their state (legislated before January 2001) and the proposed new federal level ($6.65). The increase is assumed to be implemented in three steps. The table shows the impact of a fully phased in increase. Between 2000 and 2003, wages are projected to rise at the rate of inflation (CPI-U).

Source: EPI analysis of 2000 CPS ORG data.

Workers in this group (*other low-wage workers*) are more likely to be older (80.8% are adults) and to work more hours (61.3% work full time) than those in the directly affected wage range.

## State-level results

**Table 2** shows, by state, the number and share of workers affected by the proposed increase. In those states that set their minimum wage above the federal level, the affected workers are those earning between the state minimum and the new federal minimum.[3]

**TABLE 2**
**Affected workers by state after full increase (2003)**

| State | Share | Number | | State | Share | Number |
|---|---|---|---|---|---|---|
| **Northeast** | | | | **South** *(cont.)* | | |
| Maine | 6.3% | 34,945 | | North Carolina | 6.3% | 213,459 |
| New Hampshire | 3.8 | 21,785 | | South Carolina | 7.3 | 127,197 |
| Vermont | 3.0 | 8,229 | | Georgia | 6.6 | 240,543 |
| Massachusetts | 0.0 | - | | Florida | 7.5 | 476,443 |
| Rhode Island | 4.2 | 18,578 | | Kentucky | 8.6 | 147,171 |
| Connecticut | 0.0 | - | | Tennessee | 7.9 | 188,137 |
| New York | 6.8 | 520,672 | | Alabama | 11.4 | 212,861 |
| New Jersey | 5.0 | 181,132 | | Mississippi | 12.3 | 137,732 |
| Pennsylvania | 7.3 | 372,445 | | Arkansas | 11.9 | 125,130 |
| | | | | Louisiana | 13.3 | 226,684 |
| **Midwest** | | | | Oklahoma | 8.7 | 119,814 |
| Ohio | 6.8% | 344,882 | | Texas | 9.3 | 812,354 |
| Indiana | 5.8 | 155,010 | | | | |
| Illinois | 6.8 | 381,182 | | **West** | | |
| Michigan | 5.7 | 257,260 | | Montana | 13.6% | 49,840 |
| Wisconsin | 4.9 | 122,641 | | Idaho | 8.2 | 43,186 |
| Minnesota | 4.0 | 91,120 | | Wyoming | 10.6 | 22,641 |
| Iowa | 6.1 | 80,454 | | Colorado | 3.6 | 68,895 |
| Missouri | 5.1 | 129,544 | | New Mexico | 10.8 | 74,251 |
| North Dakota | 8.8 | 24,039 | | Arizona | 6.4 | 127,846 |
| South Dakota | 8.4 | 27,534 | | Utah | 6.4 | 60,400 |
| Nebraska | 7.5 | 58,310 | | Nevada | 5.6 | 48,890 |
| Kansas | 8.0 | 96,142 | | Washington | 0.0 | - |
| | | | | Oregon | 0.1 | 1,353 |
| **South** | | | | California | 0.0 | - |
| Delaware | 3.9% | 13,620 | | Alaska | 3.5 | 9,102 |
| Maryland | 4.4 | 107,253 | | Hawaii | 8.4 | 41,444 |
| D.C.* | 7.7 | 18,645 | | | | |
| Virginia | 6.1 | 193,548 | | U.S. | 5.8% | 6,929,194 |
| West Virginia | 13.2 | 94,856 | | | | |

* Because the D.C. minimum wage is tied to the federal level, any increase in the federal minimum also affects D.C. workers.
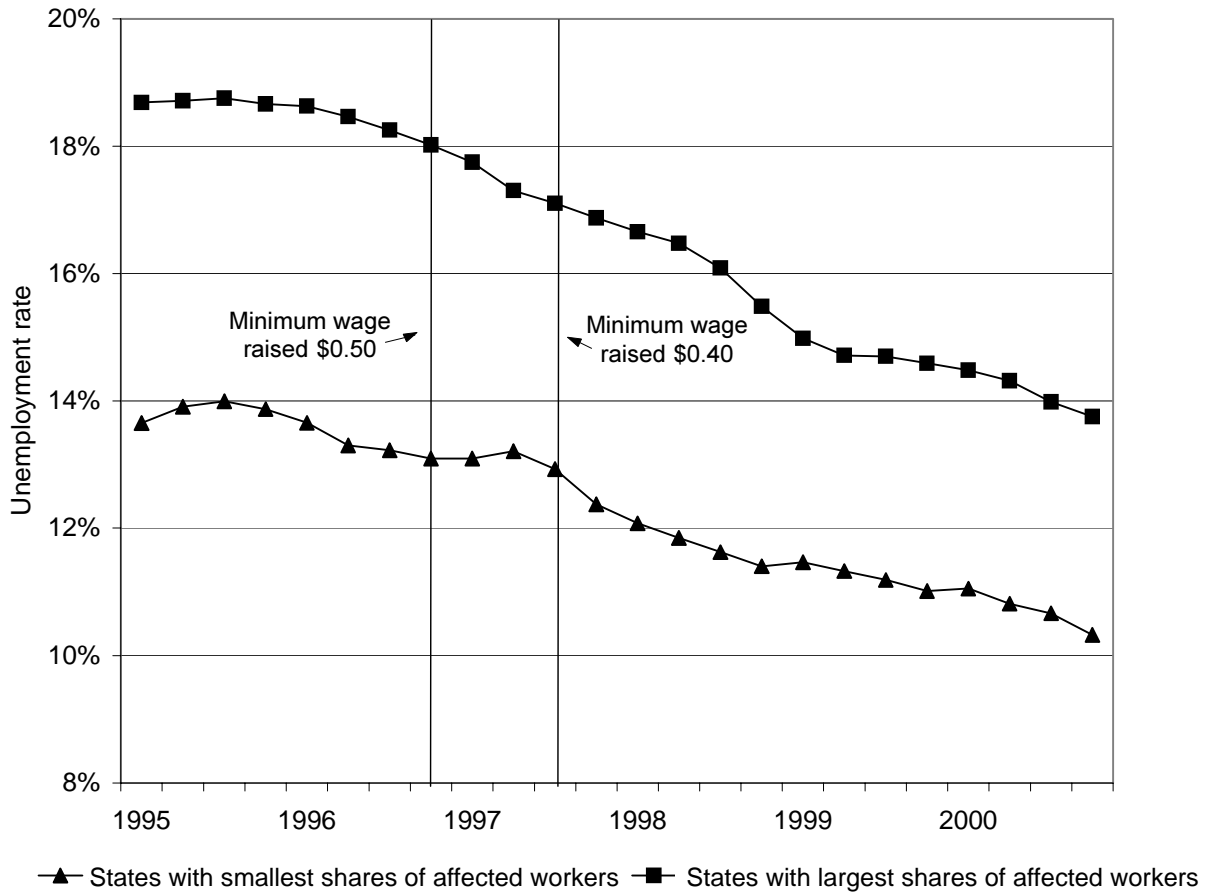Source: EPI analysis of 2000 CPS ORG data.

As expected, states with lower wage levels, such as those in the Southern or Mountain states, have a larger-than-average share of workers affected by the increase. In Montana, Louisiana, and West Virginia, over 13% of workers would see a wage increase. In California, Connecticut, Massachusetts, and Washington, no workers would be affected because the level of the state minimum wage is higher than the proposed federal minimum.

## Should states be allowed to opt out?

For years opponents of minimum wage increases have claimed that the very workers who might benefit from the increase in pay are instead harmed by a resulting increase in unemployment. These critics argue that, faced with rising labor costs, employers are forced to lay off workers. This claim has been carefully studied by labor econo-

## FIGURE 2

### Unemployment rates for low-wage women since the last minimum wage increase, states with many affected workers vs. states with few



Minimum wage
raised $0.50

Minimum wage
raised $0.40

▲ States with smallest shares of affected workers   ■ States with largest shares of affected workers

Source: Economic Policy Institute analysis of Bureau of Labor Statistics data.
Note: Trend unemployment rate, women age 16-25, high school diploma or less.

mists who have found little evidence that minimum wage increases lead to significant job losses.  In fact, the research unequivocally shows that the benefits to low-wage workers and their families far outweigh the costs.[4]

Despite this evidence, some opponents of the current proposal are suggesting that states should be allowed to opt out of the increase.   This should not be an option, especially since the states where wages tend to be low are the ones with the largest shares of affected workers.   Permitting states to opt out would likely mean that the states where workers most need the increase could instead be exempt.

The 1996-97 minimum wage increase demonstrated that allowing states this option is unnecessary.  **Figure 2** shows the impact of the last increase in the federal minimum wage on the workers who were most affected — women age 16 to 25 with a high school education or less.[5] The trend in the unemployment rate of these women during and after the minimum wage increase is compared in the 10 states with the largest share of affected workers (Texas, New Mexico, Wyoming, North Dakota, Alabama, Oklahoma, West Virginia, Arkansas, Louisiana, and Mississippi) and the 10 states with the smallest share of affected workers (Connecticut, New Jersey, Massachu-

setts, New Hampshire, Washington, District of Columbia, Maryland, Minnesota, Colorado, and Delaware). Between 1995 and 2000, unemployment among women in the most affected states declined by 4.9 percentage points, from 18.7% to 13.8%.  In the least affected states, unemployment fell 3.3 percentage points, from 13.7% to 10.4%.  This trend clearly shows that the decline in unemployment among women in the most affected states was *not* slowed by the increase in the minimum wage.[6]  Thus, concerns about unemployment among affected workers do not justify allowing states to opt out of the federal minimum wage increase.

## Should the slowing economy preclude an increase in the minimum wage?

Some opponents to raising the minimum wage are now arguing that  it should not be increased because of the recent slowdown in economic growth.   Most of the critics making this claim are those who always oppose an increase, regardless of the larger economic climate, and are now simply using the slowdown in an attempt to fend off the policy change.  Nevertheless, it is worth considering whether the increase is likely to further slow the growth of the overall economy.

It is by no means clear what causes a recession or, for that matter, what is causing the current slowdown. Ultimately, the question of raising the minimum wage during a slowdown is an empirical one, and the most recent evidence suggests that moderate increases, such as the current proposal, will not hurt the economy's future growth.  In 1990-91 the minimum wage was raised from $3.35 to $4.25 while the economy was in a recession.  A highly regarded analysis of the impact of that increase (Card 1992), which controlled for overall economic conditions, showed no negative effects on employment generated by the increase.  The study found that, "although the 1990 and 1991 minimum wage increases led to significant earnings gains for teenagers and retail-trade workers in many states, these wage increases were not associated with any measurable employment losses."[7] Thus, given the modest magnitude of the current proposal, and the fact that an increase enacted in the last recession did not result in job losses (beyond those caused by the recession itself), it seems safe to discount arguments that use the specter of a downturn to preclude a minimum wage increase.

Throughout much of the past 30 years, many low-wage workers have seen their wages decline.  This drop was due, in part, to the erosion in the value of the minimum wage and in part to changes in the economy.  To enable these workers to begin to catch up with their higher-wage coworkers, it is time to raise the federal minimum wage. All workers, in all states, should share in this increase.  No states should be allowed to opt out, especially not those with the largest shares of low-wage workers.

## Endnotes

1.    "Affected workers" are all those ultimately impacted in 2003.  Between 2000 and 2003, wages are assumed to rise at the rate of inflation (CPI-U).

2.    See, for example, Spriggs and Klein (1994).

3.    In 2003, when the increase is fully phased in, we assume the following state minimum wages will be in effect (based on legislated increases as of January 2001):  Alaska ($5.65), Connecticut ($6.70), California ($6.75), Delaware ($6.15), District of Columbia ($1 above the federal minimum), Hawaii ($5.25), Massachusetts ($0.10 above the federal minimum), Oregon ($6.50), Rhode Island ($6.15), Vermont ($6.25), and Washington ($7.09—indexed to CPI-U, based on CBO projections printed in 2000 *Economic Report of the President*).

4.    This literature is summarized in Bernstein and Schmitt (1998).

5.    The data in the figure represent the trend component of the unemployment rate, extracted using the basic structural model described in Harvey (1989).  Trend extraction was done with STAMP 6.0 software.

6.    The unemployment decline in each group of states is statistically significant ($p<0.01$); the difference in the decline between the two groups is not statistically significant.

7.    Card and Krueger (1995, 114-15).

_____

## References

Bernstein, Jared, and John Schmitt.  1998.  *Making Work Pay:  The Impact of the 1996-97 Minimum Wage Increase.*  Washington, D.C.: Economic Policy Institute.

Card, David.  1992.  "Using Regional Variation in Wages to Measure the Effects of the Federal Minimum Wage."  *Industrial and Labor Relations Review,* 46:22-37.

Card, David, and Alan Krueger. 1995. *Myth and Measurement: The New Economics of the Minimum Wage*. Princeton, N.J.: Princeton University Press.

Harvey, Andrew C.  1989.  *Forecasting, Structural Time Series, and the Kalman Filter*.  Cambridge University Press.

Spriggs, William, and Bruce Klein.  1994.  *Raising the Floor: The Effects of the Minimum Wage on Low-Wage Workers.* Washington, D.C.: Economic Policy Institute.

_____