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Restore the Floor: It's Time to Raise the Minimum Wage

Abstract
[Excerpt] In 1994 there were 4.1 million hourly workers who were paid the minimum wage or less which represents 6.2 percent of all workers paid on an hourly basis. These estimates are conservative as this total does not include all the salaried workers with trumped up titles such as "assistant manager" or "management trainee" who, because of long hours, are often paid at the minimum wage rate or less. Individuals who are employed at the minimum wage can be characterized by their strong work ethic as they work even though their low wage jobs do not provide enough earnings or income for a decent standard of living. Adopting a higher minimum wage is the most straight forward "program" to help the "working poor." An increase in the minimum wage is good policy, is beneficial to the economy and it is supported by the vast majority of Americans.

Keywords
key workplace documents, ILR, AFL-CIO, minimum, wage, FLSA, fair, earnings, workers

Comments
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AFL-CIO

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October, 1995

Reviews the Issues

Restore the Floor . . .
It's time to raise the Minimum Wage

Let's put the "fair" back in the Fair Labor Standards Act and take the "minimum" out of the Minimum Wage.

President Clinton has called for a 90-cent adjustment in the minimum wage over the next two years. While the increase in the minimum wage to $5.15 two years from now is a step in the right direction, it is still below the historical purchasing power of the minimum wage. The Clinton administration proposal partially restores the purchasing power of the minimum wage, after the 90-cent adjustment, the minimum wage would still be 14% below its 1979 level of purchasing power.

The high point of the purchasing power of the minimum wage, in 1968, translates to a minimum wage of $6.29 per hour today. The historical level of the minimum wage (50 percent of the average hourly earnings) calls for a minimum wage of $5.69 an hour today. Over the last 15 years, prices have eroded the minimum wage by 26 percent, and by 11 percent since 1991 (the last time the minimum wage was increased).

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Individuals who are employed at the minimum wage can be characterized by their strong work ethic as they work even though their low wage jobs do not provide enough earnings or income for a decent standard of living.

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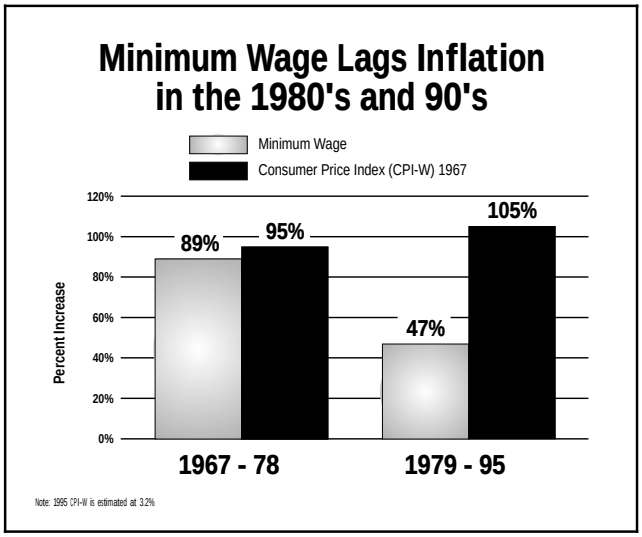
Fair Labor Standards Act

The Fair Labor Standards Act (FLSA) first set a minimum wage of 25 cents an hour when passed by Congress in 1938. The federal policy behind the national minimum wage was and still is to assure "the maintenance of the minimum standard of living necessary for health, efficiency, and general well-being of workers."

Congress last voted to raise the minimum wage in 1989 to its current level of $4.25 an hour effective April 1, 1991 (with an interim step of $3.80 in 1990). The minimum wage remained static at $3.35 an hour from 1981 to 1990, despite the fact that the cost-of-living increased 46 percent. Yet the adjustment in the minimum wage to $3.80 amounted to only a 13 percent increase.

The underlying intent of the FLSA was to make work rewarding and thus encourage individuals to earn a living on their own. However, the continuing decline in real wages for the large majority of workers, coupled with the growing wage gap between the "haves" and "have-nots" is a concern for all Americans. Low-wage workers (bottom 10 percent) have seen their real wages drop by 13 percent from 1979 to 1993, while the top 10 percent of workers have seen their real wages increase 5 percent over the same time period. Working at $4.25 an hour is neither rewarding nor does it provide a minimum standard of living for health, efficiency, and general well-being for the vast majority of workers.



Set the Minimum Wage to 50% of Private Sector Average

Between 1960 and 1980, the United States Congress tried to provide a minimum wage roughly equal to 50 percent of average hourly earnings. In the 20 years from 1961 to 1981, the Congress adjusted the minimum wage 11 times, averaging 51 percent of average hourly earnings. Over the last 14 years, the minimum wage was adjusted only twice and has failed to recapture lost ground. In fact, the minimum wage is now, as a proportion of the average hourly wage, at its lowest levels ever.

Fairness to the working poor demands that the federal minimum wage should be not less than 50 percent of average hourly earnings of non-supervisory workers and production workers in non-farm private industry. If this adjustment were automatic, then the minimum wage worker would get an increase when everyone else got one, creating a steady relationship between wages of workers in general. For this reason, the federal minimum wage should automatically be adjusted to the private industry hourly earnings.

Poverty on Minimum Wage Pay

Nearly 40 million people lived in poverty in the United States in 1993, most of the poor were children (according to the most recent Census data). That figure represents 15 percent of the entire US population. More striking is that of the 11.6 million persons in the labor force below the poverty level, 8.2 million were employed at some time during the year, with 4.7 million of them usually working full-time. The number of families in poverty totaled 4.2 million despite the fact that one or more members participated in the labor force. Low earnings were cited as the single largest factor contributing to poverty for full-time workers. In fact, 7 out of 10 of the "working poor" experienced low earnings with the others suffering from unemployment spells, or curtailed hours of work.

The annual income of minimum wage workers was sufficient to maintain a family of three above the poverty line — in 1980. The current level of the minimum wage $4.25, represents annual earnings of $8,840 which falls $3,350 below the estimated 1995 poverty line for a family of three. This wage is clearly not a living wage. Firms that pay their workers at the minimum wage often have some of their workers living in poverty. Consequently, to survive they must utilize public assistance programs such as earned income tax credit (EITC), leaving taxpayers to make up the difference between the real cost of living and the minimum wage.

The EITC provides a federal subsidy, in the form of a tax credit, to low income working families until their annual income reaches a certain amount. Thus, an increase in the minimum wage, which has the effect of increasing family incomes higher, benefits the US taxpayer. As it is now, the taxpayers are subsidizing inefficient businesses that are profiting from paying less than a fair wage. Republicans calling for a smaller government should embrace an increase in the minimum wage with open arms, as it forces the private sector to fulfill its responsibilities.

The minimum wage is not a poverty program. It was designed as a wage floor that would ensure that an individual working full-time could maintain a minimal standard of living. The minimum wage is based on work performed not family needs. However, when earnings fail to cover the costs of day to day survival, public assistance programs are needed. Those talking of welfare reform and workfair programs have too little to say about a fair minimum wage. Welfare reform without a real minimum wage is short term political pandering and an act of cruelty. We need to make work rewarding by making sure that all jobs pay a living wage. As workers earn more money they will be able to purchase more increasing aggregate demand which is good for the economy in general. A higher minimum wage is an important measure to reward work and provide real incentive to choose work over welfare.

Who gets paid the minimum wage?

An increase in the minimum wage would affect the 4.1 million workers earning the minimum wage and an additional 2.6 million workers who earn between $4.26 and $4.69 and 5.8 million workers who earn between $4.70 and $5.14 an hour. Thus, 12.6 million hourly workers would be directly affected by an in-

crease in the minimum wage under the Clinton administration proposal.

Contrary to popular opinion, minimum wage earners are not predominantly teenagers, according to the latest BLS figures. An estimated 87 percent of all people currently earning the minimum wage are adults aged 18 or older. Sixty-nine percent of all people currently earning the minimum wage are 20 years or older. Thus an increase in the minimum wage along the lines of the Clinton proposal would predominantly affect working adults.

Women are especially hurt by a low minimum wage. Data from 1994 indicate that women represented 46 percent of the total labor force yet, 62 percent (2.6 million) of all hourly workers were women who were paid the minimum wage or lower.

The current minimum wage disproportionately discriminates against minorities, according to the 1994 figures. Hispanic persons made up 9 percent of the labor force yet, people of Hispanic origin constituted 15 percent of all workers earning $4.25 or less. Blacks made up 12 percent of civilian labor force while 14 percent of blacks earned the minimum wage or less. These figures indicate that minorities are represented disproportionately among minimum wage earners. If all groups were to be similarly affected, there would be parity between the labor force participation percent and the percent earning the minimum wage.

Unemployment Effects?

The age old myth—that an increase in the minimum wage causes an increase in unemployment— has been challenged by a number of recent studies. Three separate studies, conducted by Princeton Economists David Card and Alan Krueger, examining the 1988 increase in California's minimum wage, the 1990 and 1991 increases in the federal minimum wage and the 1992 increase in New Jersey's minimum wage, are at the forefront of the current research. In each case, the anticipated positive effect of an increase in the minimum wage—the increase in wages of low-wage workers—was observed. However, much to the researchers surprise, the anticipated negative effect—an increase in jobless—was not observed. These results have not only shaken the foundation of conventional economic models but also rekindled the debate over the employment effects of the minimum wage. The mounting evidence suggests that there may not be adverse employment effects associated with an increase in the minimum wage.

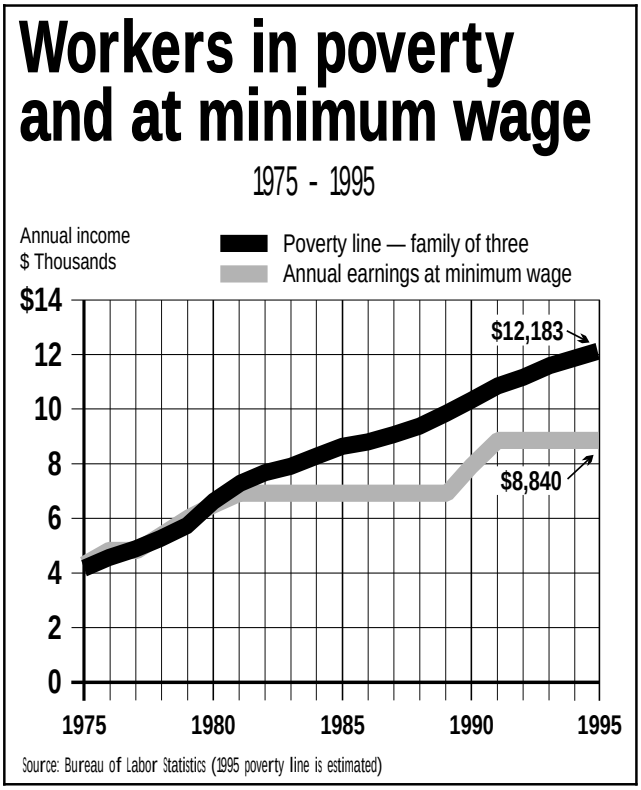
Robert M. Solow, a Nobel Laureate in economics at the Massachusetts Institute of Technology, sums up the current debate well "[T]he main thing about (minimum wage) research is that the evidence of job loss is weak. And the fact that the evidence is weak suggest that the impact on jobs is small."

Social Effects of a Low Minimum Wage

Business and the economy generally suffer when low-wage workers do not have enough income and buying power to maintain a minimum quality of living.

In addition, there are negative social effects when the minimum wage is too low- older children may work to raise a family income when they need to stay in school. Child care is too costly for low-wage workers and so they may leave "latch-key" children at home unsupervised. Minimum wage workers for the most part receive no health care benefits. This creates disincentive for low wage jobs as it proves more beneficial to stop working in order to remain eligible for Medicaid.

When only low wage jobs are available, crime and anti-social behavior become tempting alternatives to paid jobs. In an age where "family values" is a political issue, it is ironic that some Republicans are advocating the repeal of the minimum wage, causing more and more parents to work two or three jobs spending more hours away from the home just in order to provide basic necessities for their families.



History of the minimum wage and average hourly earnings

Date of Adustment.	Minimum Wage	Average Earnings	AHE Percent
Oct. 1938	$0.25	NA	NA
Oct. 1939	$0.30	NA	NA
Oct. 1945	$0.40	NA	NA
Jan. 1950	$0.75	$1.27	59%
Mar. 1956	$1.00	$1.71	58%
Sept. 1961	$1.15	$2.14	54%
Sept. 1963	$1.25	$2.28	55%
Feb. 1967	$1.40	$2.63	53%
Feb. 1968	$1.60	$2.78	58%
May 1974	$2.00	$4.19	48%
Jan. 1975	$2.10	$4.41	48%
Jan. 1976	$2.30	$4.71	49%
Jan. 1978	$2.65	$5.48	48%
Jan. 1979	$2.90	$5.97	49%
Jan. 1980	$3.10	$6.42	48%
Jan. 1981	$3.35	$7.03	48%
Apr. 1990	$3.80	$9.96	38%
Apr. 1991	$4.25	$10.30	41%
Jun. 1995	**$4.25**	**$11.36**	**37%**

State Minimum Wage Laws

The FLSA minimum wage applies to most businesses that are engaged in interstate commerce. The FLSA provides that the state minimum wage laws will be controlling—even for jobs that traditionally fall under federal jurisdiction—if the state minimum wage is higher than the federal minimum.

There are now ten jurisdictions that have extended to their citizens minimum wage requirements higher than the $4.25 per hour available under federal law. Those jurisdictions are: Alaska, Connecticut, District of Columbia, Hawaii, Iowa, New Jersey, Oregon, Rhode Island, Vermont and Washington.

Massachusetts will become the eleventh jurisdiction as the House and Senate overrode the veto of Gov. Weld (R). The bill which was passed on Oct. 24, the 57th anniversery of the federal minimum wage, increases the state minimum wage to $5.25 per hour by 1997.

Despite the overwhelming support of the American people the federal minimum wage is approaching its lowest levels in terms of purchasing power and percent of the average non-supervisory hourly wage.

Who Supports an Increase in the Minimum Wage?

The majority of the American people favor an increase in the minimum wage. A Time/CNN poll conducted January 25-26, 1995 found that 78 percent favor increasing the minimum wage and 20 percent oppose it. An NBC poll conducted January 25, 1995 also found 78 percent in favor with 18 percent opposed. A recent Gallup poll (February, 1995) further supports that the public strongly backs raising the minimum wage, with 77 percent in favor of the increase while 21 percent oppose it.

The Gallup poll shows that females (83 percent) and non-whites (88 percent), overwhelmingly favor an increase in the minimum wage to $5.15 over two years. Interestingly enough, 68 percent of those who classified themselves as conservatives favor an increase, while 83 percent of moderates and 84 percent of liberals also favored an increase. In any case, regardless of political ideology, a majority of those polled favor an increase in the minimum wage.

The last minimum wage increase received bipartisan support and was passed by votes of 382 to 37 (135 Republicans supporting) in the House and 89 to 8 in the Senate (36 Republicans supporting) and was supported by both Senator Dole (Ka-R) and Rep. Gingrich (Ga-R). However, despite the minimum wage being at all time lows in terms of historical levels and purchasing power, the Republican majority has come out against another increase in the minimum wage.

It's time for Congress to listen to the will of the American people.

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