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Historical Relationship Between the Minimum Wage and Poverty, 1959 to 2005

Abstract
This memorandum is in response to your request about the historical relationship between the federal minimum wage and poverty from 1959 to 2005. In particular, you were interested in the annual income a full-time, full-year worker earning the minimum wage would earn relative to the poverty level for a family of three.

Keywords
minimum wage, poverty, federal, population, wage, family, full- time, full-year, census bureau

Comments
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Congressional Research Service

Memorandum

July 5, 2005

TO: Honorable Jim McDermott
Attention: Nick Gwyn

FROM: Tom Gabe (7-7357)
Specialist in Social Legislation
Domestic Social Policy Division

SUBJECT: **Historical Relationship Between the Minimum Wage and Poverty, 1959 to 2005**

This memorandum is in response to your request about the historical relationship between the federal minimum wage and poverty from 1959 to 2005. In particular, you were interested in the annual income a full-time, full-year worker earning the minimum wage would earn relative to the poverty level for a family of three.

Table 1 shows the effective annual minimum wage from 1959 through 2005 for a full-time full-year worker, relative to the poverty level for a three-person family. The table shows when statutory changes to the federal minimum wage became effective. Average effective minimum wage rates for the year were calculated based on the pro-rated average of effective wage rates over the course of the year. For example, in 1997, the minimum wage was $4.75 per hour for the first eight months of the year (January through August), and $5.15 per hour for the last four months of the year (September through December). The average effective minimum wage for the year is thus: (($4.75 x 8) + ($5.15 x 4))/12, or $4.8833 per hour. Here, full-time full-year work is assumed to amount to 2,080 hours of work per year (40 hours per week x 52 weeks).

The poverty income level used here is the U.S. Census Bureau's average weighted poverty thresholds for a family of three. The earliest year for which official Census Bureau poverty income thresholds are available is 1959. Census Bureau poverty thresholds vary by family size and composition (e.g., the poverty threshold for a family of three differs by the number of children in the family). The *average weighted thresholds* reflect the average of the individual thresholds for a given family size by the observed distribution of families of varying composition in the population, as measured by the Census Bureau's Current Population Survey (CPS). Each year the Census Bureau updates the individual poverty thresholds to reflect changes in prices, and the average weighted thresholds, to reflect changes in the composition of the population for families of each size. The estimate for 2004 is based on the Census Bureau's preliminary average weighted poverty thresholds, which reflect price changes for 2004, but reflect the population weighting from 2003, as opposed to 2004. The final average weighted poverty thresholds for 2004, scheduled for release this

fall, may differ by a few dollars from those shown here.[1] The projected poverty thresholds for 2005 are based on the 2004 preliminary weighted poverty thresholds adjusted for average price inflation from January 2005 to May 2005, compared to the same period in 2004, which amounted to a 3.1% increase in the projected 2005 poverty thresholds, compared to the 2004 preliminary poverty thresholds. The Census Bureau will issue preliminary poverty thresholds for 2005 in January 2006, when price changes for the 2005 calendar year will be available. Final weighted poverty thresholds for 2005 won't be available until the fall of 2006.

Figure 1 depicts the basic trends shown in the table. **Table 1** and **Figure 1** show that the federal minimum wage was highest relative to poverty in 1968, when it amounted to 118.7% of poverty for a full-time full-year worker supporting three people. Since 1980, the minimum wage has been below the poverty line for a full-time full-year worker supporting a family of three. The most recent increase to the federal minimum wage to $5.15 per hour in September 1997 (from $4.75 per hour) brought full-time full-year minimum wage earnings for a family of three up to 82.4% of poverty. Since then, the nominal minimum wage of $5.15 per hour has eroded relative to the poverty level, which is adjusted each year for changes in prices. In 2005, full-time full-year earnings for a minimum wage worker amounts to $10,712, or 68.9% of the estimated projected poverty level for a family of three ($15,536). Based on the assumptions used, it is projected that the level of the minimum wage relative to poverty in 2005 will be at the lowest level seen at any time over the past 47 years.

[1] See [http://www.census.gov/hhes/www/poverty/threshld/04prelim.html].

Table 1. Relationship Between the Minimum Wage and Poverty for a Family of Three with One Full-Time Full-Year Worker Earning the Minimum Wage, 1959 to 2005

Year	Statutory federal minimum wage[a]	Average effective minimum wage for the year[b]	Annual earnings: 1 full-time full-year worker earning the effective minimum wage	Weighted average Census Bureau poverty threshold for a 3-person family[c]	Annual earnings as a percent of poverty for a 3-person family
1959	$1.00/hr., effective Mar. 1956	$1.00	$2,080	$2,324	89.5%
1960		$1.00	$2,080	$2,359	88.2%
1961	$1.15/hr., effective Sept. 1961	$1.05	$2,184	$2,383	91.6%
1962		$1.15	$2,392	$2,412	99.2%
1963	$1.25/hr., effective Sept. 1963	$1.18	$2,461	$2,442	100.8%
1964		$1.25	$2,600	$2,473	105.1%
1965		$1.25	$2,600	$2,514	103.4%
1966		$1.25	$2,600	$2,588	100.5%
1967	$1.40/hr., effective Feb. 1967	$1.39	$2,886	$2,661	108.5%
1968	$1.60/hr., effective Feb. 1968	$1.58	$3,293	$2,774	118.7%
1969		$1.60	$3,328	$2,924	113.8%
1970		$1.60	$3,328	$3,099	107.4%
1971		$1.60	$3,328	$3,229	103.1%
1972		$1.60	$3,328	$3,339	99.7%
1973		$1.60	$3,328	$3,548	93.8%
1974	$2.00/hr., effective May 1974	$1.87	$3,883	$3,936	98.6%
1975	$2.10/hr., effective Jan. 1975	$2.10	$4,368	$4,293	101.7%
1976	$2.30/hr., effective Jan. 1976	$2.30	$4,784	$4,540	105.4%
1977		$2.30	$4,784	$4,833	99.0%
1978	$2.65/hr., effective Jan. 1978	$2.65	$5,512	$5,201	106.0%
1979	$2.90/hr., effective Jan. 1979	$2.90	$6,032	$5,784	104.3%
1980	$3.10/hr., effective Jan. 1980	$3.10	$6,448	$6,565	98.2%
1981	$3.35/hr., effective Jan. 1981	$3.35	$6,968	$7,250	96.1%
1982		$3.35	$6,968	$7,693	90.6%
1983		$3.35	$6,968	$7,938	87.8%
1984		$3.35	$6,968	$8,722	79.9%
1985		$3.35	$6,968	$8,573	81.3%
1986		$3.35	$6,968	$8,737	79.8%
1987		$3.35	$6,968	$9,056	76.9%
1988		$3.35	$6,968	$9,435	73.9%
1989		$3.35	$6,968	$9,885	70.5%
1990	$3.80/hr., effective Apr. 1990	$3.69	$7,670	$10,419	73.6%
1991	$4.25/hr., effective Apr. 1991	$4.14	$8,606	$10,860	79.2%
1992		$4.25	$8,840	$11,186	79.0%
1993		$4.25	$8,840	$11,522	76.7%
1994		$4.25	$8,840	$11,821	74.8%
1995		$4.25	$8,840	$12,158	72.7%
1996	$4.75/hr., effective Oct. 1996	$4.38	$9,100	$12,516	72.7%
1997	$5.15/hr., effective Sept. 1997	$4.88	$10,157	$12,802	79.3%
1998		$5.15	$10,712	$13,003	82.4%
1999		$5.15	$10,712	$13,290	80.6%
2000		$5.15	$10,712	$13,738	78.0%
2001		$5.15	$10,712	$14,128	75.8%
2002		$5.15	$10,712	$14,346	74.7%
2003		$5.15	$10,712	$14,680	73.0%
2004[d]		$5.15	$10,712	$15,071	71.1%
2005[e]		$5.15	$10,712	$15,536	68.9%

Source: Table prepared by the Congressional Research Service (CRS).

[a] See CRS Report RS20040, *Inflation and the Real Minimum Wage: Fact Sheet*, by Brian W. Cashell, Jan. 24, 2005.

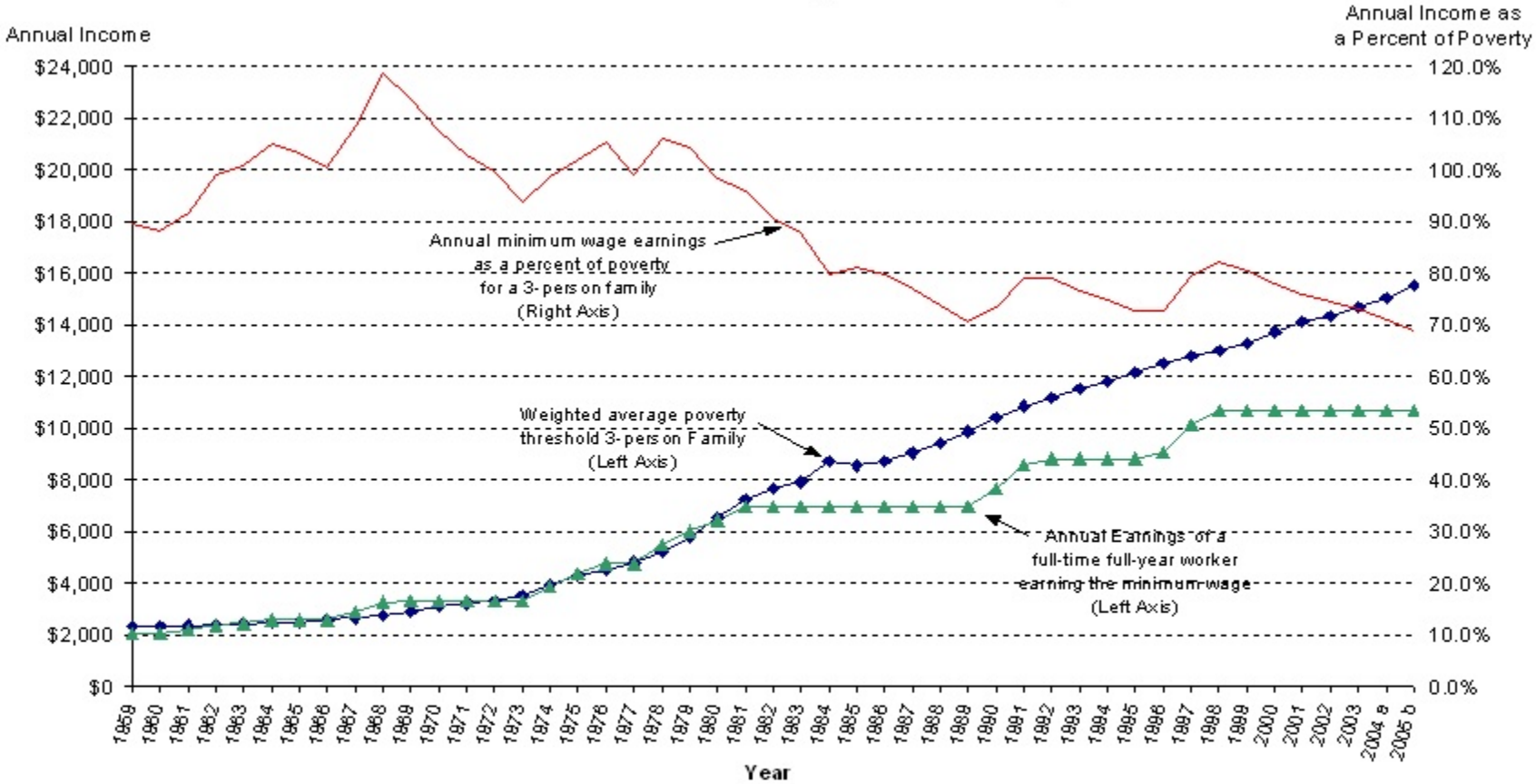
[b] Effective wage, prorated for the year. For example, in 1997, the minimum wage was $4.75 per hour for the first eight months of the year (January through August), and $5.15 per hour for the last four months of the year (September through December). The average effective minimum wage for the year is thus: (($4.75 x 8) + ($5.15 x 4))/12, or $4.8833 per hour.

[c] U.S. Census Bureau weighted average poverty thresholds for a family of three. Historical tables at: [http://www.census.gov/hhes/www/poverty/histpov/hstpov1.html].

[d] Weighted annual average poverty threshold for a family of three is a preliminary estimate from U.S. Census Bureau: [http://www.census.gov/hhes/www/poverty/threshld/04prelim.html] accessed on June 29, 2005. Final published weighted average poverty thresholds may differ by a few dollars, when published in the fall of 2005.

[e] Projected 2005 poverty threshold based on 2004 preliminary estimated poverty threshold inflated to 2005 by the average increase in the CPI-U from January to May 2005, compared to January to May 2004.

Figure 1. Relationship Between the Minimum Wage and Poverty for a Family of Three with One Full-Time Full-Year Worker Earning the Minimum Wage, 1959 to 2005



a Preliminary 2004 poverty threshold issued by the U.S. Census Bureau.

b Projected 2005 poverty threshold based on preliminary 2004 threshold projected to 2005 by the change in average CPI-U from January through May 2005, compared to January through May 2004.

Source: Figure prepared by the Congressional Research Service (CRS).