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Inflation and the Real Minimum Wage: A Fact Sheet

Abstract

The Fair Labor Standards Act (FLSA) of 1938 established the hourly minimum wage rate at 25 cents for covered workers. Since then, it has been raised 22 separate times, in part to keep up with rising prices. Most recently, in July 2009, it was increased to \$7.25 an hour. Because there have been some extended periods between these adjustments while inflation generally has increased, the real value (purchasing power) of the minimum wage has decreased substantially over time.

Keywords

Fair Labor Standards Act, minimum wage, purchasing power, inflation

Comments

Suggested Citation

Elwell, C. K. & Levine, L. (2013). *Inflation and the real minimum wage: A fact sheet*. Washington, DC: Congressional Research Service.

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Inflation and the Real Minimum Wage: A Fact Sheet

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June 21, 2013

Congressional Research Service

7-5700

www.crs.gov

R42973

The Fair Labor Standards Act (FLSA) of 1938 established the hourly minimum wage rate at 25 cents for covered workers.¹ Since then, it has been raised 22 separate times, in part to keep up with rising prices. Most recently, in July 2009, it was increased to \$7.25 an hour. Because there have been some extended periods between these adjustments while inflation generally has increased, the real value (purchasing power) of the minimum wage has decreased substantially over time.

The Real Minimum Wage

The minimum wage is not indexed to the price level. It has been legislatively increased from time to time to make up for the loss in its real value caused by inflation. In nominal (current dollar) terms, the minimum wage has risen steadily from 25 cents to \$7.25 an hour, where it has remained since its effective date of July 2009. As the legislated adjustments to the minimum wage standard have occurred at irregular intervals—sometimes increasing annually, other times not for several years—while prices have generally risen each year, the purchasing power (real or constant dollar value) of the minimum wage has varied considerably since its enactment.

For each time the minimum wage was changed, **Table 1** presents its nominal and real value. The inflation adjustments to the minimum wage are made using the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). Real values of the minimum wage are expressed in terms of May 2013 dollars, the latest month for which the index is available at the time of the fact sheet's preparation. Data on average hourly earnings in nominal and constant (May 2013) dollars are displayed for comparison purposes. The last column of the table shows levels of the CPI-W since the inception of the federal minimum wage. The U.S. Bureau of Labor Statistics calculates the earnings series² and the CPI-W.³

The peak value of the minimum wage in real terms was reached in 1968. To equal the purchasing power of the minimum wage in 1968 (\$10.70), the current minimum wage's real value (\$7.90) would have to be \$2.80 (or 26%) higher. Although the nominal value of the minimum wage was increased by \$5.65 (from \$1.60 to \$7.25) between 1968 and 2009, these legislated adjustments did not enable the minimum wage to keep pace with the increase in consumer prices, so the real minimum wage fell.

In addition to comparing the rate of increase in the minimum wage with prices, the level of the minimum wage also has been compared with the average hourly earnings of most workers in the private nonfarm economy—which also peaked in 1968 at 54% (see footnote a in the table). In no other year did the minimum wage exceed half of average hourly earnings. The legislated adjustments that occurred after 1968 resulted in the minimum wage ranging from 34% to 47% of average hourly earnings.

¹ For the minimum wage's legislative history and other information on the labor standard, see CRS Report R42713, *The Fair Labor Standards Act (FLSA): An Overview*, by Gerald Mayer, Benjamin Collins, and David H. Bradley.

² The earnings series are available at <http://stats.bls.gov/ces/home.htm#tables>.

³ The CPI is available at <http://stats.bls.gov/cpi/data.htm>.

Table I. The Statutory Minimum Wage, Hourly Earnings, and Inflation
(real values expressed in May 2013 dollars)

Effective Date	Statutory Minimum Wage (Nominal \$)	Statutory Minimum Wage (Real \$)	Average Hourly Earnings in the Private Sector ^a (Nominal \$)	Average Hourly Earnings in the Private Sector ^a (Real \$)	Minimum Wage as a Percentage of Average Hourly Earnings	CPI-W (1982-1984=100)
Oct. 1938	\$0.25	\$4.07	n.a.	n.a.		14.1
Oct. 1939	0.30	4.88	n.a.	n.a.		14.1
Oct. 1945	0.40	5.04	n.a.	n.a.		18.2
Jan. 1950	0.75	7.26	n.a.	n.a.		23.7
Mar. 1956	1.00	8.50	n.a.	n.a.		27.0
Sept. 1961	1.15	8.74	n.a.	n.a.		30.2
Sept. 1963	1.25	9.28	n.a.	n.a.		30.9
Feb. 1967	1.40	9.70	2.81	19.47	50%	33.1
Feb. 1968	1.60	10.70	2.95	19.74	54	34.3
May 1974	2.00	9.40	4.39	20.63	46	48.8
Jan. 1975	2.10	9.20	4.61	20.19	46	52.4
Jan. 1976	2.30	9.42	4.91	20.11	47	56.0
Jan. 1978	2.65	9.68	5.68	20.74	47	62.8
Jan. 1979	2.90	9.68	6.16	20.57	47	68.7
Jan. 1980	3.10	9.08	6.61	19.37	47	78.3
Jan. 1981	3.35	8.78	7.22	18.92	46	87.5
Apr. 1990	3.80	6.85	10.15	18.29	37	127.3
Apr. 1991	4.25	7.31	10.47	18.00	41	133.3
Oct. 1996	4.75	7.00	12.18	17.95	39	155.5
Sept. 1997	5.15	7.46	12.64	18.32	41	158.3
July 2007	5.85	6.59	17.45	19.65	35	203.700
July 2008	6.55	6.95	18.02	19.11	36	216.304
July 2009	7.25	7.90	18.52	20.19	39	210.526
May 2013 ^b			20.08	20.08		229.399

Source: Minimum wage levels in nominal dollars from the U.S. Department of Labor. Nominal earnings and the CPI from the U.S. Bureau of Labor Statistics. Real minimum wage and earnings levels calculated by CRS.

Notes: n.a.=not available.

- a. The not seasonally adjusted earnings data cover production and nonsupervisory employees in the private sector of the nonfarm economy who in recent years have made up about 82% of all private nonfarm employees. Earnings data for all private sector employees in the nonfarm economy were not calculated until 2006.
- b. Latest earnings and price data available at the time of the fact sheet's preparation.

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Acknowledgments

Adapted from an earlier fact sheet prepared by Brian Cashell and Linda Levine.