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Increasing the Minimum Wage Implications for Rural Poverty and Employment

Recent proposals to increase the minimum wage from \$5.15 to \$6.15 an hour would probably affect a larger share of rural than urban workers. The greatest effect would be in the South and Southwest where poverty rates are high and industries typically offer low wages. An increase of this magnitude would by itself have little effect on reducing poverty in either rural or urban areas, but combined with the Earned Income Tax Credit, could hold promise for lifting many minimum wage workers and their families out of poverty.

The minimum wage was last increased in September 1997, rising from \$4.75 to \$5.15 an hour. Since that time, several proposals to further increase the minimum wage have been considered by both Houses of Congress. In January 1999, both the U.S. Senate and the U.S. House of Representatives introduced bills to raise the minimum wage under the proposed Fair Minimum Wage Act of 1999 (H.R. 325 and S. 192). These bills are currently being considered in this session of Congress. Supported by the administration, these bills are designed to improve the incomes of low- and lower-middle-income workers whose wages have failed to keep pace with the cost of living. If the Fair Minimum Wage Act of 1999 passes, it will increase the minimum wage from the current \$5.15 an hour to \$5.65 an hour on September 1, 1999, and to \$6.15 an hour on September 1, 2000.

The prevalence of low-wage jobs in rural areas suggests that a larger share of rural than urban workers would be affected by new legislation raising the minimum wage. The objectives of this study are twofold: (1) to determine what types of rural workers would benefit most from a minimum wage increase, and (2) to assess what such an increase would mean for workers, employment, industries, and poverty in rural areas.

A Minimum Wage Increase More Likely To Affect Rural Workers

An increase in the minimum wage would have a greater benefit for nonmetro than metro workers, according to analysis of data from the Current Population Survey (CPS) 1997 and 1998 microdata earnings files (see "Data Sources"). An average of 2.3 million nonmetro workers, or 11 percent of the nonmetro wage and salary workforce 16 years and older, earned \$5.15 to \$6.14 an hour between April 1997 and March 1998. These workers are most likely to be affected by the increase in the minimum wage to \$6.15 an hour. In contrast, about 8 percent of metro workers fell within this earnings category. The number of both metro and nonmetro workers who would actually receive the minimum wage increase may be overstated because some of these workers were in exempt jobs, while others were being paid less than the minimum wage in violation of the law.

The greatest impact of this minimum wage increase on rural workers would likely be felt in the South and Southwest. States with the highest proportion of nonmetro workers earning between \$5.15 and \$6.14 per hour include Louisiana (18 percent), Arkansas (17.1 percent), and Mississippi (16.7 percent) (fig. 1). These States generally have high concentrations of lower paying jobs and relatively high poverty rates. In contrast, States least likely to be affected are concentrated in the West and Northeast. Alaska (3.6 percent), Nevada (4.3 percent), California (4.5 percent), and New Hampshire (5.1 percent) have the lowest proportion of workers likely to benefit from the proposed legislation. Several of the States with a low percentage of affected workers have set State mini-

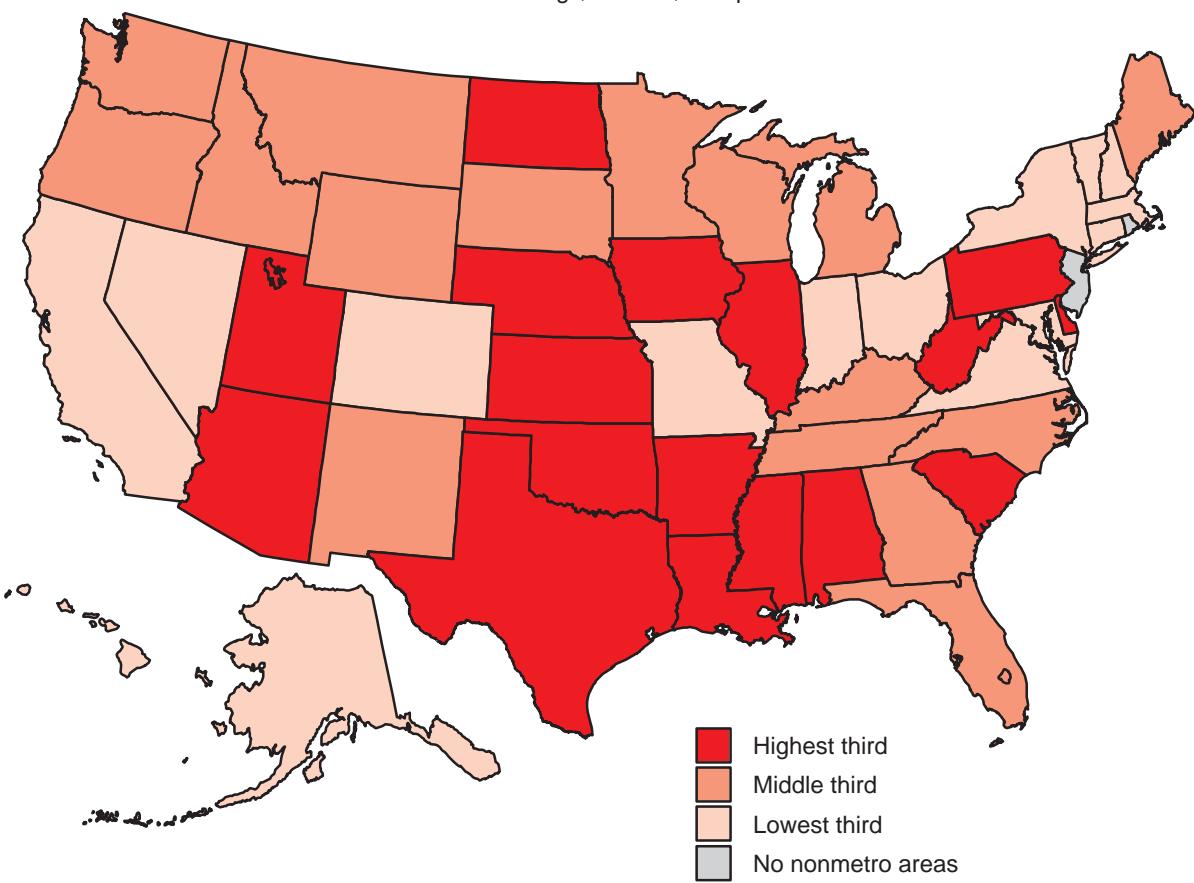
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Figure 1

Workers most likely to gain from an increase in the minimum wage, by State, 1997-98

Nonmetro workers in the South and Southwest are more likely to benefit

Share of nonmetro workers earning \$5.15 to \$6.14 per hour



Source: Calculated by ERS using 1997-98 Current Population Survey earnings data.

mum wages higher than the Federal minimum wage, and most have higher concentrations of better paying jobs.

The Issues

Debate over the effects of an increase in the minimum wage has focused on several issues. Some labor market analysts have argued that the increase will restore some of the purchasing power of minimum wage workers lost during the 1980's when the minimum wage did not keep pace with inflation. But they argue that even after this latest proposed increase, the minimum wage would remain too low to provide low-wage workers with an adequate standard of living (Bernstein). Other analysts suggest that the increase in the minimum wage will lead to reduced employment opportunities for lower skilled workers and new entrants into the labor force as employers cut back jobs in response to higher labor costs (MacPherson). Still others question whether the benefits of this increase will indeed go to the neediest, often citing part-time teenage workers who rely on their parents for most of their support as the prime beneficiaries (Cole). The prevalence of low-wage jobs and low incomes in rural areas suggests that

these issues have particular relevance for understanding the effect of the proposed increase in minimum wage on rural workers and industries.

We address four questions in this study:

- Will the increase in minimum wage restore rural workers' purchasing power?
- Will the proposed minimum wage increase help reduce poverty rates?
- Are the rural beneficiaries of the increase truly needy?
- Are rural job losses likely?

Minimum Wage Increase Would Restore Only Part of Purchasing Power Lost to Inflation

After taking inflation into account, the purchasing power of the minimum wage has fallen considerably over time. Even with an increase to \$6.15 in 2000, the value of the minimum wage would remain well below its historic high and would make up only half of the value lost to inflation during the 1980's (see "The Minimum Wage"). To restore the average purchasing power of the 1970's

The Minimum Wage

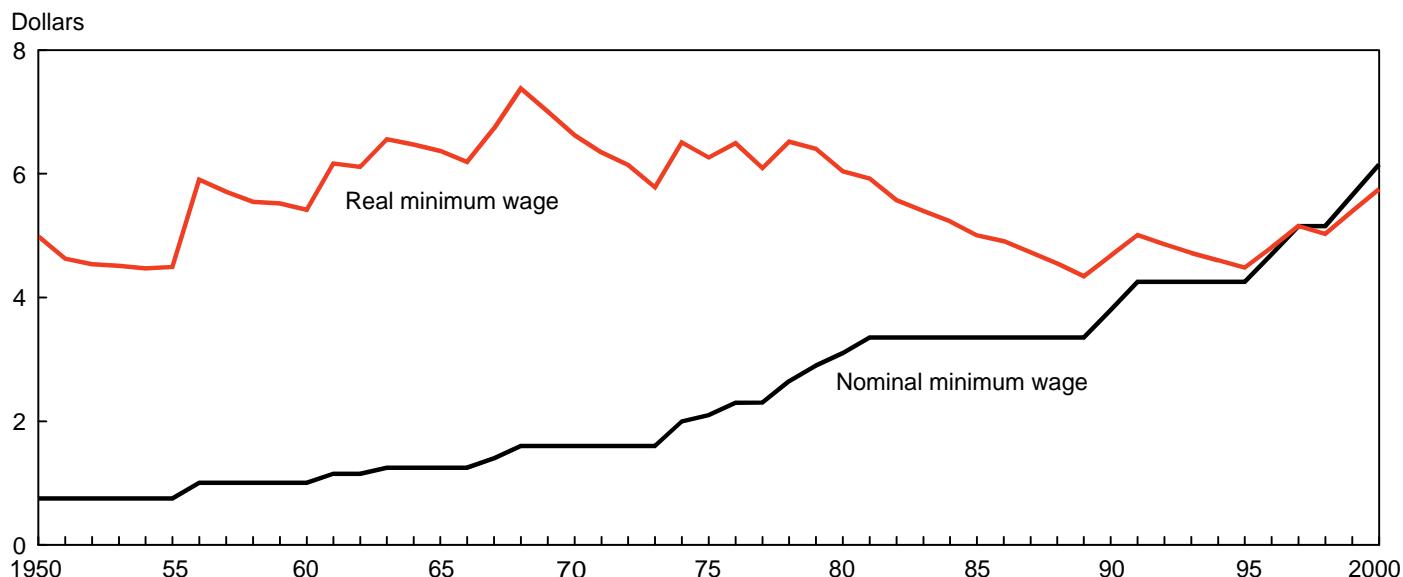
The Fair Labor Standards Act (FLSA) was enacted in 1938 to establish minimum wage, overtime pay, and child labor standards for U.S. workers. Since its introduction, the minimum wage has been increased 20 times in an effort to keep pace with inflation. The minimum wage last increased in September 1997 from \$4.75 to \$5.15 an hour. The U.S. Department of Labor estimates that over 80 million nonsupervisory employees in the private and government sectors are subject to minimum wage provisions under the FLSA, accounting for about 90 percent of the employed workforce.

Businesses required to pay the minimum wage include enterprises engaged in interstate commerce; any firm with annual gross sales of \$500,000 or more; hospitals, schools, and institutions of higher learning; Federal, State, and local government; and employers of some domestic service workers. Some groups are excluded from coverage such as executive, administrative, and professional employees, employees of seasonal amusement and recreation establishments, employees engaged in fishing operations, casual babysitters and persons employed as companions to the elderly or infirm, and hired farmworkers employed on smaller farms. Also, establishments with annual gross sales of less than \$500,000 are not required to pay the minimum wage to their employees.

The current legislation contains special provisions for workers who receive tips. Their employers are required to pay a minimum wage equal to half of the hourly minimum wage and must provide more if the employees do not collect enough tips to earn the new minimum wage rate. Also, the law's "training wage" provisions allow the payment of a lower hourly rate for teenagers during the first 90 days of the job. In addition, the last minimum wage legislation enacted in 1996 provides tax breaks worth \$5 billion over 10 years for small businesses to help ease the burden of paying the higher minimum wage.

Minimum wage, 1950-2000, in current and 1997 dollars

The minimum wage has not kept pace with inflation



Note: Real wage rates in 1997 dollars adjusted with Consumer Price Index; 1999-2000 data are projected.

Source: U.S. Department of Labor.

would require an increase to \$6.50; an even higher increase—to \$7.30 an hour—would be needed to restore the highest value, in 1968.

Furthermore, changes in the minimum wage have not kept pace with changes in the wages of other workers in the economy. In 1968, the minimum wage peaked at 56.1 percent of the average hourly earnings of nonsupervisory or production workers in private nonagricultural industries. With the new wage increase, we estimate that the minimum wage will account for 45 percent of the projected average nonsupervisory hourly wage in 2000. Because hourly wages are considerably lower in rural than urban

places, the minimum wage in nonmetro areas would be a larger share of average wages.

Increases in the Minimum Wage Alone Will Not Reduce Poverty Rates

A primary goal of minimum wage legislation is to guarantee that individuals making a major commitment to paid employment are able to provide their families with an adequate standard of living. During the 1960's and 1970's, the earnings of a person working full-time at the minimum wage for the entire year typically were enough to lift a family of three out of poverty without considering other sources of income. Full-time, year-round earnings

Figure 2

Minimum wage workers and the poverty threshold

Earnings of a full-time, full-year minimum wage worker cannot lift a family of three out of poverty, but...

Thousand dollars



Note: Data for 2000 are projected.

Source: Calculated by ERS from Bureau of Labor Statistics data.

at the minimum wage have declined relative to poverty thresholds since then, however, because poverty thresholds are adjusted to account for changes in inflation, while the minimum wage is adjusted only periodically. In 1997, a person working 40 hours per week for 52 weeks at the current minimum wage (\$5.15) earned \$10,700, about \$2,000 a year less than the poverty line for a family of three. By the year 2000, a full-time, full-year minimum wage worker earning \$6.15 an hour would earn \$12,792, and continue to be about \$1,000 per year short of the estimated poverty line for a three-person family (fig. 2).

The minimum wage increase alone is likely to have little effect on reducing poverty. However, when combined with the Earned Income Tax Credit (EITC), the after-tax incomes of many minimum wage workers would rise above the poverty level. The EITC is a refundable tax credit available to low-income workers who satisfy certain income and eligibility criteria (Durst). For example, a full-time, full-year minimum wage worker with two children could receive as much as a \$3,900 tax refund through EITC, raising income for a family of three above the estimated poverty level for the year 2000 (fig. 3).

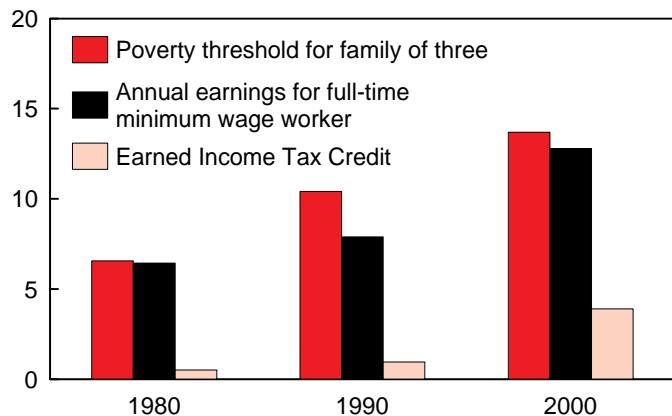
These comparisons have important implications for non-metro areas where almost two-thirds of the poor were in families of three or more in 1996. Almost half of these were families with single parents and children—family situations where no other family member is likely to work.

Figure 3

Minimum wage workers and the Earned Income Tax Credit

...the proposed increase plus the Earned Income Tax Credit could raise a family of three above the poverty threshold

Thousand dollars



Note: Data for 2000 are projected.

Source: Calculated by ERS from Bureau of Labor Statistics data.

Increase Would Benefit Many of the Truly Needy

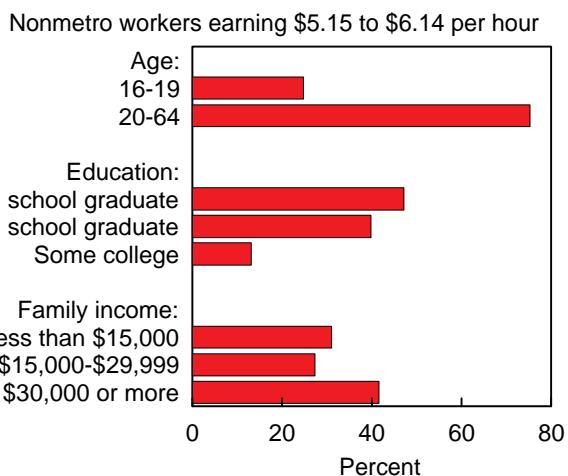
Some analysts have questioned the usefulness of increasing the minimum wage as an antipoverty mechanism, arguing that a large share of the workers who will receive the increase are part-time and teenage workers living in nonpoor families who have a weak attachment to the labor force (Cole). Our analysis suggests that the minimum wage increase in rural areas would primarily affect adults and unmarried women. Most of the likely beneficiaries are women (63 percent), White (85 percent), people 20 and older (77 percent), and people who are not married (66 percent) (fig. 4). However, Blacks, Hispanics, and teenagers are disproportionately represented among those likely to benefit. For example, almost 25 percent of nonmetro teenagers would likely benefit from this increase in the minimum wage although they represent only 7 percent of nonmetro wage and salary workers.

Also, a substantial number of rural workers who would be affected by the increase have a strong attachment to the labor market. About 60 percent are full-time workers, and an additional one-third work 20-35 hours per week. Poverty measures are not available from the CPS earnings file, but family income and size data suggest that a large proportion of those who would benefit from the minimum wage increase are likely to be poor. About 31 percent of minimum wage workers lived in families with incomes below \$15,000 and most lived in families with four or fewer family members in 1997. The poverty threshold for a family of four in 1997 was \$16,404, suggesting that many of the rural beneficiaries would fall below the poverty guidelines.

Figure 4

Characteristics of minimum wage beneficiaries

Prime-aged, less educated, and low-income workers are most likely to benefit



Source: Calculated by ERS using 1997-98 Current Population Survey earnings data.

Rural Job Losses Are Not Likely

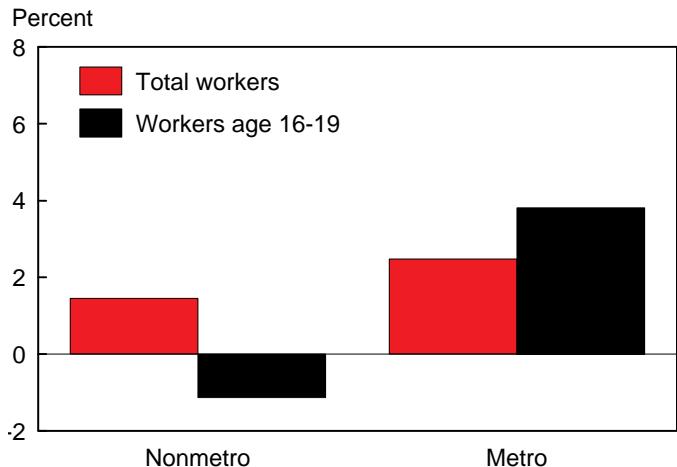
Economic theory suggests that a higher minimum wage will reduce employment opportunities for lower skilled workers and new labor force entrants as employers cut back jobs in response to higher labor costs. A number of recent studies have suggested that when the minimum wage is at especially low levels, as it is today, the employment effects of a moderate increase are likely to be minimal (Bernstein; Card and Krueger; Schmitt). Analysts contend that a higher minimum wage can make it easier for employers to fill vacancies and may decrease employee turnover—situations that could increase employment (Greenstein). Also, during the last several years, the economy has been particularly robust, with low unemployment rates, minimal inflation, and general job growth—conditions likely to reduce disemployment effects (Gibbs; Nord).

Several recent studies assessing the employment effects of the last minimum wage increase, which occurred in September 1997, have suggested that substantial numbers of teenaged workers were displaced by the increase (Cole; MacPherson). An examination of changes in metro and nonmetro employment between third-quarter 1996 (before the first increase) and third-quarter 1997 (including the first increase) at first suggests that nonmetro teenagers were hurt most (fig. 5). However, a nonmetro employment decline of only 17,000 workers age 16-19 (less than 1 percent) indicates a lack of job growth for nonmetro teenagers, but not a loss of jobs. In contrast, employment increased for total nonmetro workers, total metro workers, and metro teenagers. While much of the minimum wage debate has been about jobs, some analysts contend that the larger effect on workers may be through a cut in hours and an increase in part-time employment. Examination of changes

Figure 5

Employment change, third quarter, 1996-97

There is no evidence of job loss for nonmetro workers after the 1996 minimum wage increase; decreases in teenage employment were not statistically significant



Source: Calculated by ERS from 1996 and 1997 Current Population Survey data.

in part-time employment and labor force participation between third-quarter 1996 and 1997 from the CPS earnings file does not support this hypothesis in either metro or nonmetro areas for adults or teenagers.

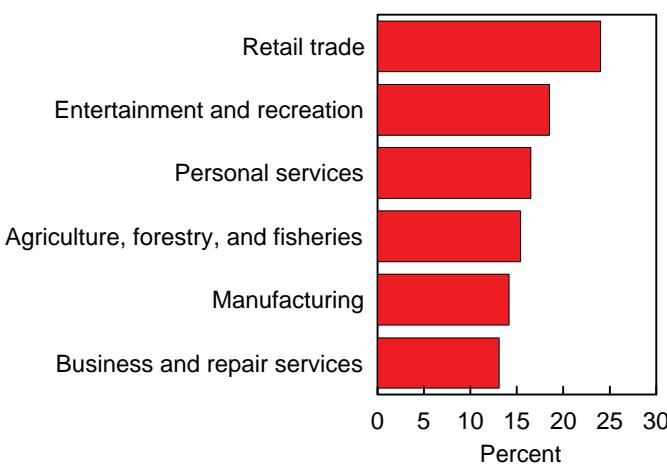
Although job losses would probably be minimal, nonmetro areas may experience more employment displacement than urban areas since the increased minimum wage affects a larger share of rural than of urban workers and typically would raise their wages by a larger amount. The increase in the minimum wage would affect rural employers in some industries more than others. Large shares of nonmetro workers in retail trade (24 percent); entertainment and recreational services (18.5 percent); personal services (16.5 percent); and agriculture, forestry, and fisheries (15.4 percent) earned between \$5.15 and \$6.14 in 1997-98 (fig. 6). Labor costs in rural industries facing stiff global competition could be especially sensitive to increases in the minimum wage, and some job loss could occur with another increase in the minimum wage. Also, the 1996 legislation authorized tax breaks aimed at small businesses to help ease the burden of paying the higher minimum wage, but even now the effectiveness of these measures has not been measured.

Further research to account for regional differences, changes in the economy, other labor force behavior, and other indicators of labor market stress is needed to fully assess the impact of the last minimum wage increase on rural and urban workers, but the CPS data analyzed here appear to lend little support to the idea that increases in the minimum wage lead to job displacement.

Figure 6

Nonmetro industry share of workers earning \$5.15 to \$6.14, 1997-98

Higher nonmetro labor costs would likely displace few workers, but some industries could be affected more than others



Source: Calculated by ERS from 1997-98 Current Population Survey earnings file.

Conclusions

The last increase in the minimum wage stimulated considerable debate on several employment and economic issues. Some recent studies have suggested that those most likely to benefit from increases in the minimum wage are teenagers working part-time who rely on their parents for most of their support. Our analysis of CPS data suggests that many of the rural workers likely to be affected by the proposed increase in the minimum wage are strongly committed to the labor force and are not predominantly teenagers and part-time workers living in nonpoor families. However, nonmetro teenagers, part-time workers, and those with low education levels may be disproportionately helped by the increase in minimum wage because many work in retail sales and service industries—industries most likely to be affected by an increase in the minimum wage. Other recent studies suggest alternatively that teenagers are most likely to be displaced from their jobs as industries cut employment to reduce the cost of the increase. Our findings do not show a job loss for metro or nonmetro teenagers following the last minimum wage increase, although employment for nonmetro teenagers did not grow as it did for other groups of workers. Data are just now becoming available to assess the effects of the last minimum wage increase. More refined analyses will provide a better understanding of the economic and employment effects of the proposed increase in the minimum wage.

It is clear, however, that the minimum wage has not kept pace with inflation, and even the combination of the 1996-97 increase, along with the proposed increase by 2000, will not completely restore the purchasing power of the minimum wage seen during the 1970's. Although the mini-

mum wage increase alone will have little effect on reducing poverty in either metro or nonmetro areas, its combination with the EITC holds promise for lifting many minimum wage workers and their families out of poverty. The minimum wage is not a tightly targeted antipoverty measure, but the proposed increase considered here is likely to benefit many low-income rural workers and their families.

For Further Reading . . .

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Data Sources

We used the Current Population Survey (CPS) microdata earnings files for April 1997 through March 1998 to explore issues related to the proposed minimum wage increase. The earnings file is an extract of basic labor force items asked in each monthly CPS survey. In addition to the basic labor force questions, respondents in their fourth and eighth months of the sample rotation are surveyed about various aspects of their job earnings. These include such items as usual hours worked the previous week, usual earnings per week, and hourly pay rate. In 1997, the CPS earnings file had an unweighted sample size of about 175,000 adults. The CPS monthly files are pooled to create a file from which annual averages are computed. This file allows us to use very current quarterly data and still adjust for seasonality of employment. Our analysis focuses on those workers who earned between \$5.15 and \$6.14—the group most likely to be affected by the proposed increase in the minimum wage.

Hourly earnings can be estimated several different ways using the CPS data. The question on earnings per hour is asked directly if the respondent is an hourly worker. However, the question is not asked if the respondent is a salaried worker. The result is that about 40 percent of total workers are not asked this question. Alternatively, total hourly earnings can be computed by dividing usual weekly earnings by usual weekly hours for wage and salary workers 16 and older. By using total hourly compensation, we can take into account remunerations—such as tips, overtime, and commissions—that are not otherwise included in a straight hourly wage. Also, it gives us estimates for salaried and other nonhourly workers who would not otherwise have an hourly wage rate. Many of these nonhourly workers have low earnings because of low salaries, or very high weekly hours, or both. However, in some cases, this measure of hourly compensation is more imprecise. According to research from the Bureau of Labor Statistics, respondents are more likely to underreport total weekly earnings than hours, so the computed hourly earnings from some workers may be lower than their actual earnings.