
CAPITOL ANALYSTS NETWORK, INC.

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DOING THE BARE MINIMUM

This election year, the labor movement and its Congressional allies will try to force a boost in the minimum wage to \$6.65 per hour over three years to recover ground they believe low income workers have lost since 1981. Currently, 3 percent of the hourly paid workforce earns the minimum wage of \$5.15 per hour – or less, if they are unskilled, under 20, or disabled – under the Fair Labor Standards Act (FLSA). They argue this is far less than the 15 percent of hourly paid workers who earned the minimum wage in 1981 when it was worth \$6.35. There is a good likelihood the unions will make headway because the GOP supports a \$1 per hour increase. If you are an investor in retailers, hotels, or restaurants, sectors where minimum wage labor is most commonly used, you do not want to hear that your lawmakers are working on this initiative. If Washington cuts a deal on the minimum wage in the next three months, it's going to cost you.

Federal Minimum Wage Rates, 1938-2002

Public Law	Effective Date	Hourly Rate
P.L. 75-718 (Enacted June 25, 1938)	October 1938	\$0.25
P.L. 81-393 (Enacted October 26, 1949)	January 1950	\$0.75
P.L. 84-381 (Enacted August 12, 1955)	March 1956	\$1.00
P.L. 87-30 (Enacted May 5, 1961)	September 1961	\$1.15
P.L. 89-601 (Enacted September 23, 1966)	February 1967	\$1.40
P.L. 93-259 (Enacted April 8, 1974)	May 1974	\$2.00
P.L. 95-151 (Enacted November 1, 1977)	January 1978	\$2.65
P.L. 101-157 (Enacted November 17, 1989)	April 1990	\$3.35
P.L. 104-188 (Enacted August 20, 1996)	October 1996	\$4.75
	September 1997	\$5.15

Congress passed the FLSA in 1938, when it first set the minimum wage at 25 cents per hour. Over time, Congress has sent nine minimum wage bills to the President's desk, phasing in nineteen increases, with a new increase taking effect about every 3 years. Congressional Republicans and Bill Clinton passed the last hike five years ago, as the preceding table shows. Historically, a boost is "overdue."

Federal labor statistics state that 2.2 million people work for minimum wage, or less:

Number and Percent of Workers Paid Hourly at the Minimum Wage or Less

Year	Total paid the minimum wage or less	As a percentage of hourly paid workers
1981*	7,824,000	15.1%
1983	6,338,000	12.2%
1985	5,538,000	9.9%
1987	4,697,000	7.9%
1989	3,162,000	5.1%
1991*	5,283,000	8.4%
1993	4,332,000	6.7%
1995	3,655,000	5.3%
1997*	4,754,000	6.7%
1999	3,340,000	4.6%
2001	2,238,000	3.1%

Source: United States Bureau of Labor Statistics

(*) Years in which a legislated change in the federal minimum wage took effect

Actually, only about 635,000 workers earn \$5.15 per hour now – not all 2.2 million low-wage workers shown in the table. As a practical matter, the minimum wage hasn't stopped employers from profitably hiring workers with few skills; de facto, it's almost been repealed! The remaining 1.6 million earn *less* because they fall under one of five types of major exemptions, which current minimum wage increase bills keep in place. These are:

- Disabled workers whose employers receive certificates from the Department of Labor that allow a reduction in their hourly wage by an amount commensurate with productivity loss related to their disability
- Teenagers, who earn as little as \$4.25, but only for the first 90 days of employment with a given employer
- Full-time college students, who earn as little as 85 percent of the minimum wage
- Vocational education students, who earn as little as 75 percent of the minimum wage
- Workers of exempt employers – those with revenues under \$500,000 annually who don't engage in interstate commerce

According to the Congressional Budget Office, 7 million workers will feel the impact of a minimum wage increase from \$5.15 to \$6.65.

Who Gets Hurt

The Congressional Budget Office estimates that raising the minimum wage from \$5.15 to \$6.65 will cost employers \$7 billion a year by increasing the pay of the 7 million workers who earn in this range. This forecast does not take into account stimulated wage demands from jealous workers who now earn just above \$6.65, once they learn that workers with less seniority

or skill now receive almost the same pay they do. Consider that 10 million people now earn between \$6.65 and \$8.00 per hour when you make your own estimate of the ripple effect of boosting the minimum wage near their hourly wage rate.

Entry Level Wages for Part-Time Workers in 2000, by Occupation

Retail Sales	\$/hr.	Miscellaneous	\$/hr.
counter clerks	5.15	amusement park attendants	5.04
stock handlers, baggers	5.28	truck drivers	5.15
cashiers	5.34	parking lot attendants	5.15
shoes	5.75	miscellaneous hand working	5.15
sales support	5.75	janitors and cleaners	5.28
apparel	5.75	guards	5.92
furniture and home furnishings	5.95	office mail clerks	5.94
radio, tv, hi-fi and appliances	6.20	electronic equipment assemblers	6.13
Health Care		receptionists	6.18
nursing	6.35	file clerks	6.25
Food Service		dispatchers	6.25
waiters, waitresses, bartenders*	2.63	Hospitality	
kitchen workers	5.22	baggage porters and bellhops	5.15
cooks	5.51	maids and housemen	5.75
		hotel clerks	6.42

Source: National Compensation Survey, 2000; Bureau of Labor Statistics, Department of Labor

* Firms can pay “tipped” workers \$2.13/hr, if customer gratuities raise total earned to \$5.15/hr.

The table above suggests that retailers, restaurants, and hotels will absorb more than their fair share of pain if the minimum wage goes up to \$6.65/ hour.

The Feds Supplement the Bare Minimum

According to the BLS, 81percent of minimum wage workers are white, and 60 percent are female. Whether male or female, 62 percent have never been married, 46 percent didn’t graduate from high school, 41 percent are 25 years old or older, and 56 percent work less than 25 hours a week. Thus, the “average” minimum wage worker is a never married, 22 year old white woman who barely graduated from high school. She works 22 hours a week in a Food Lion grocery store, a Rite Aid pharmacy, or maybe is a waitress at Bob Evans Farms. She makes \$5,700 a year and perhaps lives on the outskirts of Montgomery, Alabama. Because she works, she also qualifies for a refundable federal “earned income tax credit” (EITC) worth \$364, an 8 percent supplement equal to 33 cents per hour. Consequently, her “real wage” is \$5.48 per hour.

Her 30 year old brother differs somewhat from the average. Although he earns a minimum wage, he works forty hours or more per week, as do 18 percent of minimum wage workers, and he lives with his wife and two sons in western Kansas. And like 20 percent of minimum wage workers, he has taken classes at a community college. He is a non-unionized truck driver for an animal feed distributor and earns \$10,700 a year. As a worker earning between \$10,200 and \$13,090 with two children and a spouse who works at home, he qualifies for a \$4,008 EITC. This 40 percent subsidy raises his effective wage rate from \$5.15 to \$7.36 per hour, bringing his income up to \$14,708, and keeps his family just out of poverty.

Analysts Should Consider Geographical Differences, too

State laws also affect the analysis. Eleven states, plus Washington, D.C., have set their own minimum wages at higher levels than the current federal minimum of \$5.15 per hour. Employers in New England and the West coast already pay at least \$6.15. A \$1 boost in the federal minimum wage that the GOP seeks won't cut their profitability because it won't raise their payroll costs.

Jurisdictions with Minimum Wage Rates Above the Federal Rate of \$5.15 per Hour

Alaska:	\$5.65	District of Columbia:	\$6.15	Oregon:	\$6.50
California:	\$6.75	Hawaii, as of 1/1/03:	\$6.25	Rhode Island:	\$6.15
Connecticut:	\$6.70	Maine, as of 1/1/03:	\$6.25	Vermont:	\$6.25
Delaware:	\$6.15	Massachusetts:	\$6.75	Washington:	\$6.90

Any federal minimum wage boost, however, will damage businesses in the South and the western Mountain states the most. The cost of living in the south and the “great empty” is lower than elsewhere, and wages reflect this. Here’s a metric that proves how much average wages differ by region. Last September, the Bureau of Labor Statistics reported that the mean hourly wage in the East South Central region was \$12.08 per hour, \$13.81 in the Mountain states, and only \$14.08 in the West South Central, but it was \$16.82 in New England, \$17.15 in the Pacific, and \$17.40 in the Middle Atlantic.

Clearly, a minimum wage hike hurts employers in the Bush “red states” the most, not those in the Gore “blue states.” Other things equal, investors should shift away from retailers, hoteliers, and restaurants in “Bush country” until the minimum wage riptide courses through the political economy.

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