

Minimum Wage Increase Could Raise Many Rural Workers' Wages

A larger share of rural than urban workers will benefit from this increase. The minimum wage will increase to \$5.15 by 1997. In rural areas, White adults and single women comprise the largest segments of the beneficiaries, although Blacks, Hispanics, and teenagers are disproportionately represented in the group. The increase will affect rural retail trade and service industries more than other industries because of their greater dependence on low-wage workers.

IN August 1996, President Clinton signed an increase in the Federal minimum wage rate into law. [Ed. note—this issue went to press in Dec. 1996, 6 months after its June cover date.] The legislation raises the minimum wage from \$4.25 an hour to \$4.75 an hour on October 1, 1996, and to \$5.15 an hour on September 1, 1997. Since its introduction in 1938, the minimum wage has been raised 18 times to keep pace with inflation and the rising cost of living. The minimum wage was last increased to \$4.25 on April 1, 1991. 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, accounting for about 90 percent of the nonsupervisory workforce. (See "Coverage Under the Minimum Wage," p. 24, for more details.) As a result of the prevalence of low-wage jobs in rural areas, a larger share of rural than urban workers will be affected by the increase.

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 increase, the minimum wage remains too low to

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provide low-wage workers with an adequate standard of living. Other analysts suggest that the increase in the minimum wage will lead to higher inflation and result in reduced employment opportunities for lower skilled workers and new labor force entrants as employers cut back jobs in response to higher labor costs. 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. 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 increased minimum wage on rural workers and industries.

Who Benefits From an Increased Minimum Wage?

In 1993, about 3.3 million nonmetro workers or 16 percent of the nonmetro wage and salary workforce 16 years old and over earned \$4.25-\$5.14, the group most likely to be directly affected by an increase in the minimum wage (table 1). In comparison, less than 10 percent of workers in metro areas fell within this earnings category. However, hourly wages have risen since 1993 and the change in the nonmetro definition has resulted in a decrease in the size of the nonmetro population. While not strictly comparable with 1993 data because of the changing nonmetro definition and the effects of seasonality (see "About the Data," p. 30), preliminary data for the last 4 months of 1995 suggest that 12 percent of nonmetro workers earned \$4.25 to \$5.14, accounting for 2.1 million workers. The metro proportion during that period was 7

Coverage Under the Minimum Wage

The Fair Labor Standards Act (FLSA) was enacted in 1938 to establish minimum wage, overtime pay, record-keeping, and child labor standards for U.S. workers. The minimum wage has been increased 18 times since its inception, rising from \$0.25 an hour in 1938 to \$5.15 per hour in 1997.

Minimum wage rates, 1938-97

Effective date	Minimum wage
Oct. 1938	\$0.25
Oct. 1939	.30
Oct. 1945	.40
Jan. 1950	.75
Mar. 1956	1.00
Sept. 1961	1.15
Sept. 1963	1.25
Feb. 1967	1.40
Feb. 1968	1.60
May 1974	2.00
Jan. 1975	2.10
Jan. 1976	2.30
Jan. 1978	2.65
Jan. 1979	2.90
Jan. 1980	3.10
Jan. 1981	3.35
April 1990	3.80
April 1991	4.25
Oct. 1996	4.75
Sept. 1997	5.15

Source: U.S. Department of Labor, Employment Standards Administration

Who is covered?: The FLSA requires enterprises that have employees who are engaged in interstate commerce or in the production, handling, selling or working on goods or materials that have been moved in or produced for interstate commerce to pay the minimum wage to their workers. An annual dollar volume of business test applies to most other firms. Establishments whose annual gross volume of sales made or business done is less than \$500,000 are not required to pay the minimum wage to their employees.

Some businesses, such as hospitals; elementary and secondary schools and institutions of higher education; and Federal, State, and local government agencies are required to pay the minimum wage to employees regardless of their dollar volume of business. Domestic service workers are also covered if they receive at least \$1,000 per year in cash wages from their employers, or they work a total of more than 8 hours per week for one or more employers.

Employers of tipped employees who customarily and regularly receive more than \$30 a month in tips may consider these tips as part of employees' wages. This tip credit claimed by employers may not, however, exceed 50 percent of the required minimum wage. Also, employers may pay employees on a piece-rate basis, as long as they receive at least the equivalent of the required minimum hourly wage rate.

Who is excluded?: The original minimum wage had many exclusions, the major ones being for farm and domestic household workers, so that the primary effect was largely on urban and manufacturing workers. While coverage has expanded over the years, some employees continue to be exempt from the act's minimum wage provisions under specific exemptions provided in the law. These include

- Executive, administrative, and professional employees
- Employees of seasonal amusement or recreational establishments
- Employees of certain small newspapers and switchboard operators of small telephone companies
- Seamen employed on foreign vessels
- Employees engaged in fishing operations
- Casual babysitters and persons employed as companions to the elderly or infirm.

In addition, FLSA has special exemptions relating to agricultural workers. Farmworkers employed on small farms—those that used less than 500 "man-days" of farm labor in any calendar quarter of the preceding calendar year—are exempted from coverage. Also exempt are employers' immediate family members, some hand-harvest workers paid on a piece-rate basis, and employees principally engaged in range production of livestock. FLSA originally established a lower minimum wage for covered agricultural workers than other workers, but farm-nonfarm differences in wage rates were eliminated in 1978.

Table 1

Characteristics of the nonmetro and metro workers earnings \$4.25-\$5.14 per hour, 1993

Nonmetro workers in the wage group most likely to be affected by the minimum wage increase are more likely than their metro counterparts to be female, White, and of prime working age

Characteristic	Nonmetro		Metro
Number of workers	3,284	Thousands	7,649
Share of total workers	15.8	Percent	9.7
Gender:			
Male	38.4		43.8
Female	61.6		56.2
Racial/ethnic group: ¹			
White	84.6		79.3
Black and other races	15.5		20.7
Hispanic	4.1		17.9
Age:			
16-19	25.8		26.6
20-24	19.6		23.1
25-64	50.8		47.3
65 and over	3.8		3.0
Education:			
No high school diploma	32.0		36.0
High school diploma	40.7		33.0
Some college	27.1		31.0
Family income:			
Less than \$10,000	21.1		19.5
\$10,000-\$14,999	15.8		13.0
\$15,000-\$24,999	20.8		17.4
\$25,000-\$29,999	8.3		6.6
\$30,000 and over	29.6		37.6
Don't know	4.4		5.9
Most often reported industries:			
Retail trade	41.2		45.5
Professional and related services	19.4		14.9
Manufacturing	12.9		8.9

¹Hispanics may be of any race; percentages by race and ethnicity do not sum to 100.

Source: Calculated by ERS using data from the 1993 Current Population Survey annual earnings file.

percent, accounting for 5.8 million workers. As earnings levels continue to rise and the first increment of the minimum wage increase goes into effect, these numbers are expected to fall even further by 1997 when the last increase in the minimum wage becomes effective.

Also, these data may overstate the numbers who will actually receive the minimum wage increase. In both 1993 and 1995, for example, over 800,000 nonmetro workers received less than the Federal minimum wage. Some of these workers were in exempt jobs, while others were being paid less than the minimum wage in violation of the law.

Despite these caveats, we use the characteristics of nonmetro workers earning between \$4.50 and \$5.14 per hour in 1993 as indicators of the types of workers who are likely to be beneficiaries of the minimum wage increase. While the number of likely beneficiaries in 1997 is overestimated by 1993 data, the characteristics of the low-wage workforce are unlikely to change much by 1997.

In nonmetro areas, the increase will primarily fall on adults and single women (table 1). Most of the likely beneficiaries are women (62 percent), White (85 percent), over the age of 20 years (74 percent), and are widowed, divorced, separated, or never married (61 percent) in

1993. However, Blacks, Hispanics, and teenagers are disproportionately represented among those most likely to benefit. The majority of the likely beneficiaries had completed high school; only 27 percent had completed some college. A substantial proportion of rural workers likely to be affected by the increase show strong attachment to the labor market. Nearly half are full-time workers; an additional third work 20-35 hours weekly.

Some nonmetro occupational groups and industries are more likely to be affected by the increase than others. Workers earning \$4.25 to \$5.14 are concentrated in service, sales, and administrative support occupations. Also, the largest proportion of likely beneficiaries work in the retail trade sector. Although the retail trade workforce comprised only 17 percent of all nonmetro wage and salary workers in 1993, this group accounted for 41 percent of those most likely to be affected by the minimum wage. Workers in service industries, particularly professional and related services, also comprised a substantial proportion of likely beneficiaries.

Low-wage workers in rural and urban areas share many of the same demographic and employment characteristics. However, nonmetro beneficiaries of the increased minimum wage are more likely to be female, White, and of prime working age (20-64 years old). While nonmetro workers in this earnings category are more likely than metro workers to have finished high school, they are less likely to have any college training. The nonmetro beneficiaries have lower family incomes than the metro beneficiaries; 58 percent of the nonmetro workers had family incomes of less than \$25,000 compared with 50 percent of the metro workers. Finally, the largest shares of both metro and nonmetro workers likely to benefit from the increase work in retail trade, professional and related services, or manufacturing. However, these nonmetro workers are more likely than their metro counterparts to be employed in professional services and manufacturing.

The preliminary data for the last 4 months of 1995 show the same patterns of social and economic characteristics as the 1993 data, providing support for our contention that the characteristics of likely beneficiaries are well reflected by the available data. Continuing debates over the effects of an increase in the minimum wage have centered on issues related to the purchasing power of the minimum wage, poverty, beneficiaries, employment, and inflation. These national issues also have implications for rural areas.

Purchasing Power of the 1970's Will Not be Restored

The purchasing power of the minimum wage after taking inflation into account has fallen considerably over time. Even with an increase to \$5.15 in 1997, the value of the minimum wage will remain well below its historic high

and would make up only half of the ground lost to inflation during the 1980's (fig. 1). To restore the average purchasing power of the 1970's would require an increase to \$5.75; restoration to the highest value in 1968 would require a jump to \$6.45 an hour.

Also, changes in the minimum wage have not kept pace with changes in the wages of other workers in the economy. During the 1960's and 1970's, the minimum wage averaged between 45 and 50 percent of the average hourly earnings of production or nonsupervisory workers in private nonfarm industries (fig. 2). By 1995, the minimum wage had declined to about 37 percent of the average hourly wage. With the new increase, we estimate that the minimum wage will jump to 42 percent of our projected average nonsupervisory hourly wage in 1997, still below the traditional 45-50 percent share.

Because hourly wages are considerably lower in rural than urban places, the minimum wage would comprise a larger share of average wages in nonmetro areas. Data comparable with the national hourly wages of production or nonsupervisory workers are not available for metro and nonmetro workers. However, CPS data show nonmetro wage and salary workers averaged \$9.60 in usual hourly wages in 1993 compared with \$12.23 for metro workers. Thus, the minimum wage represented a 45-percent share of nonmetro wages and a 35-percent share of metro wages. However, it is likely that the minimum wage has fallen as a share of wages for both metro and nonmetro workers as wages have increased in more recent years while the minimum wage has remained the same.

Minimum Wage Increase Likely To Have Little Effect on Reducing Rural Poverty

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. This goal is especially pertinent for nonmetro areas, which have higher proportions of working poor. 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 (fig. 3). Full-time, year-round earnings 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 increased only periodically. In 1995, full-time, full-year earnings at the minimum wage were more than \$4,000 per year short of the poverty line for a three-person family.

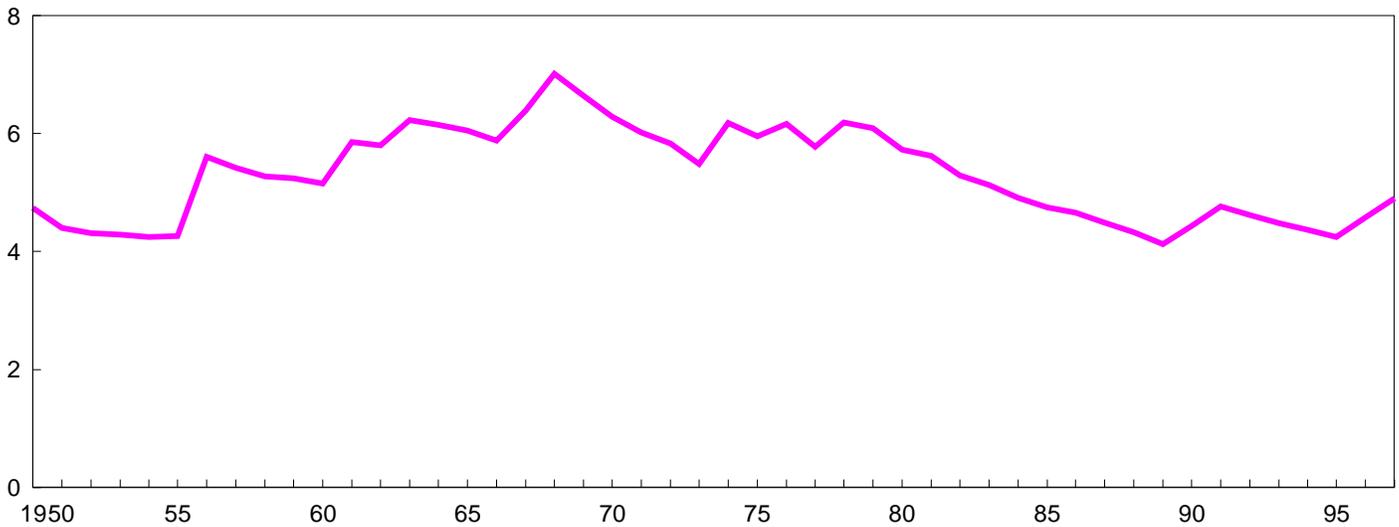
By 1997, a person working 40 hours per week for 52 weeks at the new minimum wage (\$5.15 an hour) would

Figure 1

Minimum wage in 1995 dollars

The purchasing power of the minimum wage peaked in 1968; the new increase is not expected to regain that level

1995 dollars



Note: Minimum wage adjusted to 1995 dollars using the Consumer Price Index (CPI); 1996 and 1997 values are calculated by adjusting the minimum wage in those years by the average annual change in the CPI during 1990-95.

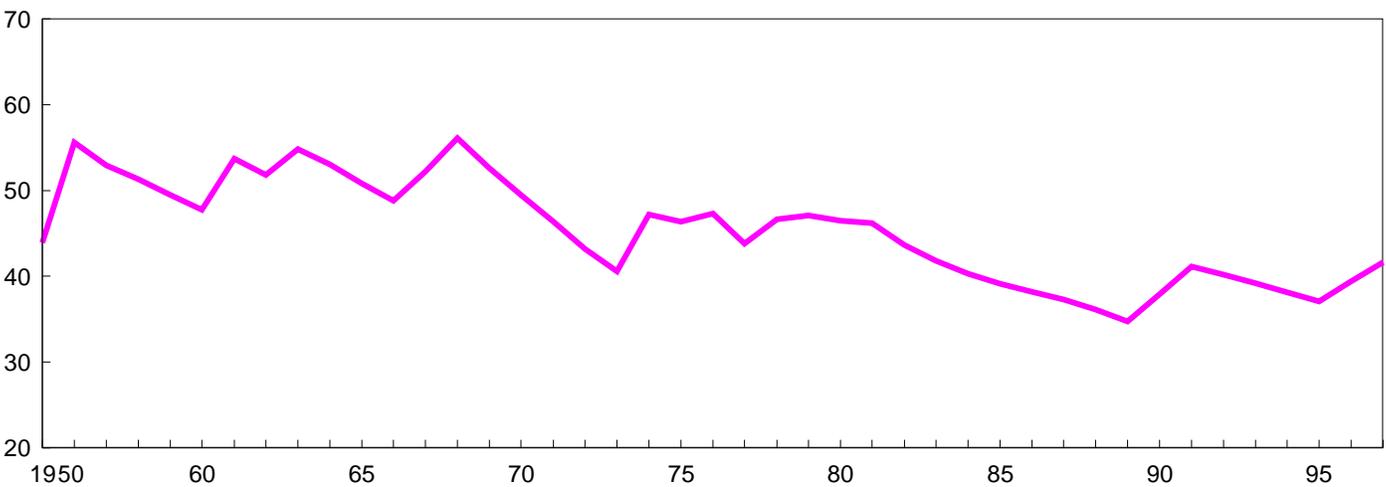
Source: Calculated by ERS using minimum wage data from the Employment Standards Administration and CPI from the Bureau of Labor Statistics.

Figure 2

Minimum wage as a percentage of average hourly earnings

The minimum wage has not kept pace with wages of the average worker

Percent



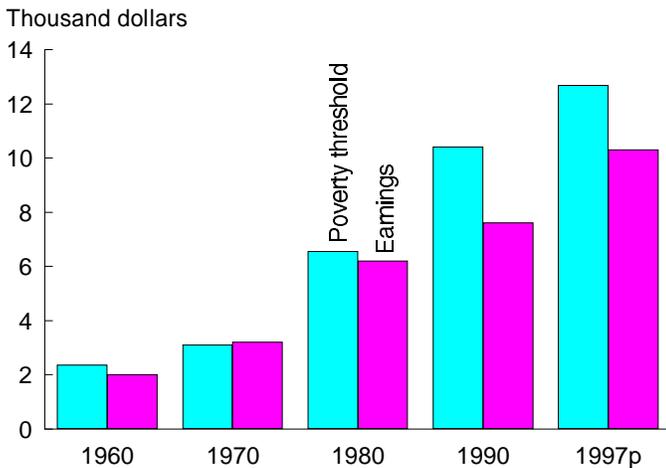
Note: Data for 1996 and 1997 are projected by inflating the 1995 average wage by the average annual change in the Consumer Price Index during 1990-95.

Source: Calculated by ERS using hourly earnings data from the Bureau of Labor Statistics and minimum wage data from the Employment Standards Administration.

Figure 3

Poverty threshold for a family of three and annual earnings at the minimum wage

The earnings of a full-time, full-year minimum wage worker cannot lift a family of three out of poverty



Note: Poverty threshold in 1997 projected by applying the average annual change in the Consumer Price Index during 1990-95 to the 1996 poverty threshold.

Source: Calculated by ERS using minimum wage rates from the Employment Standards Administration and poverty thresholds from the Bureau of the Census.

earn \$10,700. We estimate that this income level would be well above our projected poverty threshold in 1997 for individuals under 65 years living alone (\$8,431) and about equal to the thresholds for two-person families (\$10,852), but would be well below the thresholds for families of three or more people (\$12,677-35,892). Thus, the earnings of a full-time minimum wage worker employed for the entire year would not be sufficient to lift a family of three or more out of poverty now or in 1997 without considering other sources of earned or unearned income. These comparisons have important implications for nonmetro areas where almost two-thirds of the poor were in families of three or more in 1993. Almost half of these were families composed of single parents and children—family situations where no other family member is likely to work.

Prime Age Workers Are Major Beneficiaries of Increase

Some analysts question 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 non-poor families. Our analysis suggests, however, that prime-age workers between 20 and 64 years of age make up over 70 percent of the nonmetro workers who are likely beneficiaries of the minimum wage increase. Nearly half are full-time workers, and almost three-fourths are heads of household or spouses largely responsible for family sup-

port. Other studies of nonmetro workers also support the findings that minimum wage and other low-wage workers make substantial contributions to the economic well-being of their families. In 1993, 34 percent of nonmetro workers earning less than \$5.15 per hour contributed at least half of the total earnings received by their families (Swaim).

Poverty measures are not available from the CPS earnings file, but family income and size data suggest that a substantial proportion of those who will benefit from the minimum wage increase are likely to be poor. Over 35 percent of those workers receiving \$4.25 to \$5.14 per hour in 1993 were in families with incomes below \$15,000 and most lived in families with four or fewer family members. The poverty threshold for a family of four in 1993 was \$14,763, suggesting that a substantial proportion of the rural beneficiaries would fall below the poverty guidelines.

These data suggest that an increase in the minimum wage, while not a tightly targeted anti-poverty measure, could have considerable potential to improve the economic situation for many low-wage rural workers and their families. However, this conclusion is tempered by the possibility of employment losses that may affect lower-skilled workers and new entrants to the labor force.

Employment Effects: Who Loses?

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. Econometric studies of the disemployment effect of the minimum wage have produced conflicting estimates, but a number of recent studies using a variety of methodologies suggest 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. After reviewing these various studies, the Center on Budget and Policy Priorities offers the following assessment:

These studies do not suggest or prove that any increase in the minimum wage—no matter how large—would have only desirable effects. But the outcomes of the studies suggest that the labor market functions in a more complicated manner than has been assumed by those contending that virtually any rise in the minimum wage results in a significant decrease in employment levels. For example, a higher minimum wage can make it easier for employers to fill vacancies and may decrease employee turnover. Both examples suggest circumstances in which a boost in the minimum wage can boost employment. (Greenstein, p. 3)

Even if the resulting job losses are small, displacement could occur for specific groups of rural workers. The increase in the minimum wage would affect rural employers in some industries more than others. Large shares of nonmetro workers in retail trade (38 percent), entertainment and recreational services (37 percent), personal services (30 percent), and agriculture, forestry, and fisheries (25 percent) earned between \$4.25 and \$5.14 (fig. 4). Labor costs in these industries could be especially sensitive to increases in the minimum wage, and some job loss could occur. Also, while much of the minimum wage debate is about jobs, the larger effect on workers may be through a cut in hours. Over half of those nonmetro workers most likely to be affected by the increase were employed part-time.

Inflationary Effects Are Likely To Be Modest

Some labor market analysts have argued that increasing the minimum wage will lead to higher inflation. As with employment losses, precise estimates are not available, but the balance of evidence suggests a modest effect. To some extent, there is a trade-off between undesirable side-effects. If the Federal Reserve accommodates the inflationary impulse resulting from an increase in the minimum wage, the unemployment effect will be muted at the cost of more inflation. If the Federal Reserve resists the inflationary impulse by raising interest rates, employment losses could increase as the economy slows.

It is possible that workers making near the minimum wage could also get wage increases from employers seeking to maintain relative wage differentials among low-paid employees with different job descriptions. Mishel, Bernstein, and Rasell, for example, estimate the potential

indirect effect of the new increase in minimum wage on workers earning below the current minimum and a spillover effect that boosts the earnings of workers in some low-wage sectors who are currently earning more than the minimum. Historically, however, national wage trends have shown that overall wage inflation actually slowed rather than increased in the year following five of the last six minimum wage hikes since 1978 (Harris).

Summary and Conclusions

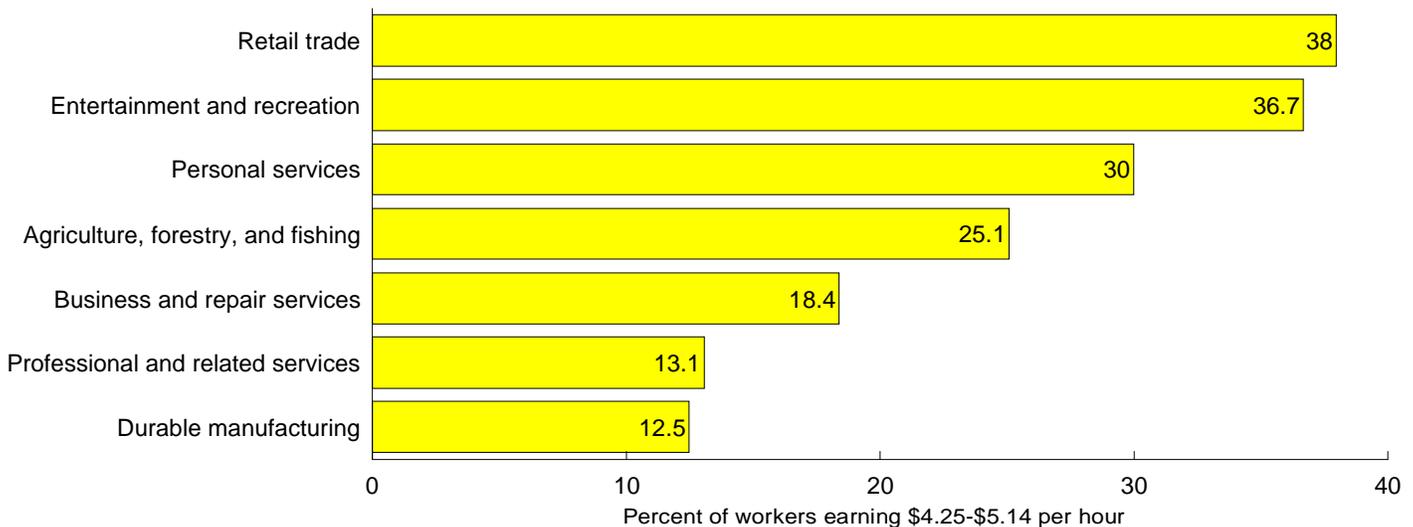
The recent increase in the minimum wage has stimulated considerable debate on several employment and economic issues. The answers are not always precise, and appropriate data for assessment, particularly in rural areas, are often not available. Our analysis suggests, for example, that many of the rural workers affected by the minimum wage increase exhibit a strong commitment to the labor force and are not predominantly teenagers and part-time workers living in nonpoor families. However, nonmetro teenagers and part-time workers may be disproportionately helped by the increase in minimum wage because many work in retail sales and service industries.

Issues surrounding the magnitude of employment displacement resulting from an increase in the minimum wage are not easily resolved. When the last increase to \$5.15 becomes effective in 1997, smaller numbers of nonmetro workers will be affected as wages in general continue to rise. However, rural areas may still 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. Some nonmetro industries,

Figure 4

Nonmetro industries with the largest shares of workers earning \$4.24-\$5.14 per hour

These nonmetro industries may be affected more than others by the increase in the minimum wage



Source: Calculated by ERS using data from the 1993 Current Population Survey earnings file.

particularly retail trade and professional services, are more likely to be affected than others because of their greater dependence on low-wage workers. However, the new minimum wage legislation includes provisions allowing tax breaks aimed at small businesses to help ease the burden of paying the higher minimum wage. The effects of an increased minimum wage on inflation will depend on future actions of the Federal Reserve, but historical data point to little direct association between increases in the minimum wage and increases in wage levels in general.

It is clear, however, that the minimum wage has not kept pace with inflation and the new increase will not completely restore the purchasing power of the minimum wage realized in the 1970's. At the same time, this increase is unlikely to have much of an effect on reducing poverty in either metro or nonmetro areas. Recent changes in welfare programs, including across-the-board cuts in food stamp benefit levels, are likely to increase the economic disadvantages of minimum wage workers even further. However, while it is not a tightly targeted anti-poverty measure, the increased minimum wage is likely to benefit many low-income rural workers.

For Further Reading

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About the Data

The majority of data used in this analysis are from the 1993 Current Population Survey (CPS) earnings file. 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 items such as usual hours worked last week, usual earnings per week, and hourly rate of pay. The CPS earnings file is one-fourth the size of the total CPS file for the year. In 1993, 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 to compute annual averages.

The metro-nonmetro definition used in the 1993 CPS earnings file is based on the 1980 Census of Population. In this sample, 21.3 percent of employed workers live in nonmetro areas, 78.7 percent in metro areas. Beginning in April of 1994, the Bureau of the Census began rotating respondents into the CPS sample using a new definition of metro and nonmetro areas, based on population and commuting patterns from the 1990 Census of Population. The new metro-nonmetro definition was completely incorporated into the CPS beginning August 1995, but data are just beginning to be released at this time. We use 1993 CPS data as the last year with an internally consistent nonmetro definition and use September through December 1995 monthly CPS data to verify our findings with data for a more recent year. Although we did not adjust the 1995 data for seasonal variation, the profile of those most likely to be affected by the increased minimum wage is very similar to the 1993 profile.

Hourly earnings can be estimated several different ways using the CPS data. 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 years of age 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 that do not have an hourly wage rate reported. Many of these nonhourly workers have low earnings because of low salaries, or very high weekly hours, or both. However, this measure of compensation presents other problems. 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 for some workers may be lower than their actual earnings.