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Distribution of Low-Wage Workers by Firm Size in the United States

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Purpose

This study set out to provide a more complete picture of the low-wage work force in the United States. Low-wage workers are not only found in small firms. Small firms employed about 54 percent of those workers earning at or near the minimum wage in 1997, while employing about 52 percent of the aggregate labor force — only a 2-percent difference. Conversely, large firms with more than 500 employees employed about 46 percent of minimum wage workers while employing about 48 percent of all workers. These similarities show that the small-firm sector is not the low-wage sector of the U.S economy as some have asserted, but provides minimum wage jobs in proportion to its total employment share. This study also shows how the distribution of low-wage workers varies by location, race, gender, and within different sizes of small firms.

Another purpose of the study was to gather specific knowledge about lower wage workers in order to intelligently discuss the effects of changes in mandated wage rates, such as proposed increases in the federal minimum wage and local “living wage” proposals. To do this, the study examined the effects of changes in the federal minimum wage rate from 1990 to 1997, when it increased from $3.35 to $5.15 per hour.

Scope and Methodology

The data used by the researchers were calculated from various March editions of the Current Population Survey (CPS), which is the main source of federal employment and unemployment data. For this study, the researchers restricted their analysis to private-sector workers 16 and older. They excluded agricultural workers and private household workers. An average hourly wage was calculated for each worker in the CPS sample based upon that worker's previous year's earnings, average weeks worked, and average hours per week. Two distinct time periods were examined: March 1994 to March 1995, when the minimum wage rate stayed the same; and March 1996 to March 1997, a period when the minimum wage rate rose from $4.25 to $4.75 per hour. In addition, the researchers used CPS data from 1990, 1991, 1992, 1996, 1997, and 1998 to analyze how the distribution of workers by wage and firm size changed with the subsequent changes in the minimum wage.

Highlights

Highlights of the report’s findings (for March 1997 unless otherwise noted) include:

• Increases in the federal minimum wage between 1996 and 1997 had adverse, but small, effects on both large and small firms.

• Among low-wage workers in large firms, the probability of not being employed more than doubled during the period when the minimum wage was increased. This means that in some cases low-wage individuals were less likely to obtain employment in large companies when minimum wage ceilings were raised.

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• In small firms, there was less wage growth among low-wage workers precisely when the new higher wage rates went into effect. This means that although small firms were somewhat more likely than larger firms to keep their lower paid employees, the growth in their wages was negatively affected. (However, additional research sponsored by the Small Business Administration's Office of Advocacy shows that workers earning the minimum wage usually do so for an average of two years or less.)

• In 1997, there were 16.6 million workers (about 15 percent of all workers) earning the minimum hourly wage of $5.15 or below. Another 7.1 million (7 percent) earned between $5.16 and $6.15 per hour, while 86.1 million (78 percent) earned $6.16 per hour or greater.

• More female workers than male workers earn the minimum wage. About 7.0 million male workers — or 12 percent of all male workers — earn the minimum wage or less, compared to about 9.6 million female workers (19 percent of all female workers).

• Minimum-wage workers tend to be concentrated in both younger and older age groups. About 39 percent of workers aged 16 to 24 (7.7 million workers) earned the minimum wage, compared to 10 percent of workers aged 25 to 44. Nineteen percent of older workers aged 65 years and over (616,000) earned the minimum wage or less.

• Disproportionate numbers of minority workers earned the minimum wage or less in 1997. Some 14 percent of White workers earned the minimum wage or less, compared with 20 percent of Black workers and 22 percent of Hispanic workers. More Hispanic workers, however, work in small firms; more Black minimum wage workers work in larger firms.

• About 80 percent of all minimum wage workers live in urban areas, while about one-fifth live in rural areas. This corresponds closely to the distribution of the population. However, minimum-wage jobs are more prevalent in rural areas (20 percent of total rural workers) than in urban areas (14 percent of all urban workers).

• About 44 percent of total minimum-wage workers work less than 35 hours per week, while the remaining 56 percent work full time (at least 35 hours per week). Of persons working 1 to 20 hours per week, 33 percent receive the minimum wage or less, compared to just 11 percent of full-time workers. Therefore, there is a high correlation between part-time employment and low-wage employment.

• About one-third of all workers with less than a high-school education earned the minimum wage or less, compared with just 12 percent of workers with a high-school or greater education.

• The tighter labor markets of the late 1990s have had an effect on wages. Between March 1997 and March 1998, the proportion of workers at or below the now higher minimum of $5.15 per hour had fallen from 18.8 to 16.7 percent in firms with fewer than 100 workers, and from 12.4 to 11.0 percent in firms with 100 or more workers. During this period, there were no other noteworthy tendencies by firm size or gender.

• The total number of workers aged 16 to 24 earning at least the minimum wage rose fairly significantly between 1996 and 1997, with no appreciable differences by firm size, implying that that the minimum wage increase did not shut off the growth of this part of the labor market. But employment might have increased faster without the increase.

• When the minimum wage was raised from $4.75 to $5.15 per hour in September 1997, the total number of minimum wage workers in firms with less than 100 employees stayed flat, at roughly 9 million. One conclusion is that smaller firms were already paying higher wages in order to retain their workers in a tight labor market.

• During the entire 1996 to 1998 period, over 80 percent of workers aged 25 to 44 in firms with fewer than 100 employees earned at least one dollar more than the minimum wage.

• Between 1996 and 1998, the number of Hispanic workers increased from 9.7 million to 11.2 million. The number who earned the minimum wage or less rose from 800,000 to 1.3 million in firms with less than 100 employees. There has been a clear tendency for Hispanic workers earning the minimum wage or below to be employed at small firms during the 1996 to 1998 period.

• Wage growth was high among minimum wage workers during the 1996 to 1998 period, but it was higher in larger firms than in smaller firms.

Conclusions

The federal minimum wage affects the economic behavior of both workers and firms. Previous changes in the federal minimum wage can be useful in predicting the effects of any proposed increases. During the 1990s, increases in minimum wage ceilings had small but non-negligible effects on both small and large firms. Generally, the likelihood was greater that a worker who received a wage increase due to a higher minimum wage was more likely to be working for a small firm one year later, than in the case of a larger firm. As labor shortages developed during the latter half of the 1990s, the weekly earnings of both minimum and non-minimum wage workers increased, most likely due to the attempts of small firms to retain their labor forces. Certain demographic groups — particularly teenagers aged 16 to 24 and Hispanic workers of all ages — were more likely to be working in firms with fewer than 100 employees.

Ordering Information

The full text of this report, along with summaries of other studies performed under contract to the U.S. Small Business Administration's Office of Advocacy, is available on the Internet at *www.sba.gov/advo/research*.

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