

## Rural Workers Will Benefit More than Urban Workers From Increase in Minimum Wage

*The minimum wage increased to \$4.75 in October 1996 and will rise to \$5.15 in September 1997. A larger share of rural than urban workers will benefit from this increase. The greatest impact will be in the South, where poverty rates are high and industries are characterized by low wages.*

In August 1996, President Clinton signed into law the Small Business Job Protection Act, which increased the minimum wage for many low-wage workers. On October 1, 1996, the minimum wage for most workers increased from \$4.25 to \$4.75 an hour and will increase again to \$5.15 an hour on September 1, 1997. This legislation is an effort to improve the incomes of low- and lower middle-income workers whose wages have failed to keep pace with the cost of living. The prevalence of low-wage jobs in rural areas ensures that a larger share of rural than urban workers will be affected by this legislation.

Since its introduction in 1938, the minimum wage has been increased 18 times to keep pace with inflation. This recent increase marks the first rise in the minimum wage since April 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 under the Fair Labor Standards Act (FLSA), accounting for about 90 percent of the employed workforce. The minimum wage law excludes some groups from coverage, such as executive, administrative, and professional employees, employees of seasonal amusement and recreation establishments, and hired farmworkers employed on smaller farms. Also, establishments whose annual gross volume of sales is less than \$500,000 are not required to pay the minimum wage to their employees.

The legislation provides special provisions for workers who receive tips. Their employers are required to pay a minimum wage of \$2.13 an hour (one half of the previous \$4.25 an hour 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 hold the hourly rate at \$4.25 for teenagers during the first 90 days of the job. In addition, the law provides tax breaks worth \$5 billion over 10 years for small businesses to help ease the burden of paying the higher minimum wage.

### Who Benefits From an Increased Minimum Wage?

According to the most recent data from the Current Population Survey (CPS) earnings file, an average of 2 million nonmetro workers, or 10.8 percent of the nonmetro wage and salary workforce 16 years and older, earned \$4.25-\$5.14 per hour between the fourth quarter of 1995 and the third quarter of 1996. These workers form the group most likely to be affected by the increase in the minimum wage. In contrast, less than 7 percent of metro workers fell within this earnings category. These data may overstate the number of both metro and nonmetro workers who will actually receive the minimum wage increase. In 1995, for example, over 800,000 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. Also, as earnings levels continue to rise and the first increment of the minimum wage goes into effect, the number of workers benefiting from the minimum wage increase will likely fall until September 1997 when the last increase in the minimum wage becomes effective.

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. Our analysis suggests that the minimum wage increase in rural areas will primarily affect adults and single women. Most of the likely beneficiaries are women (64 percent), White (84 percent), over the age of 20 years (71 percent), and are widowed, divorced, separated, or never married (63 percent). However, Blacks, Hispanics, and teenagers are disproportionately represented among those likely to benefit. Also, a substantial portion of rural workers likely to be affected by the increase show strong attachment to the labor market. About half are full-time workers and an additional third work 20-35 hours per week. Poverty measures are not available from the CPS earn-

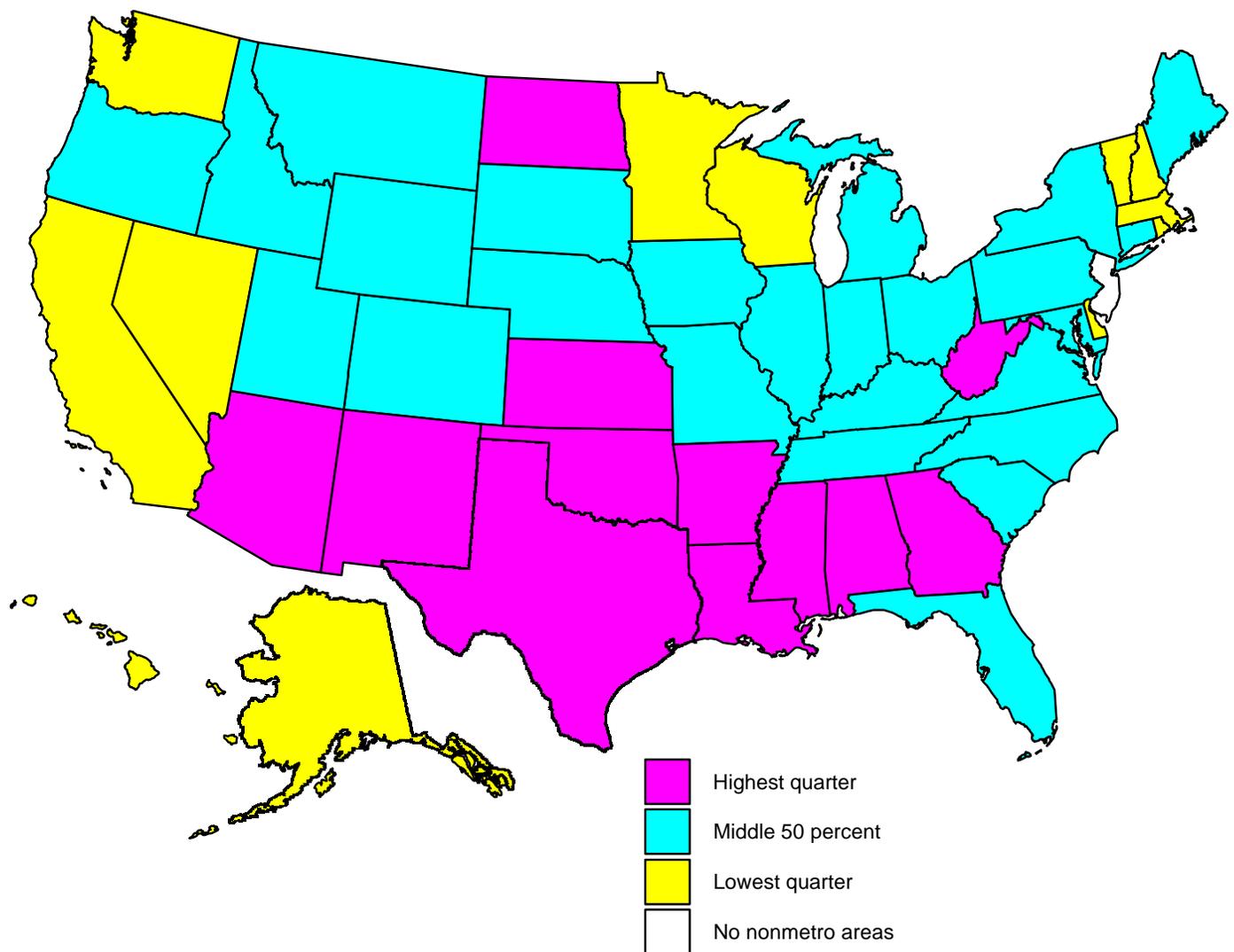
ings file, but family income and size data suggest that a large portion of those who will benefit from the minimum-wage increase have low incomes. About 35 percent of minimum-wage workers live in families with incomes below \$15,000.

The greatest impact of the minimum wage on rural workers will likely be felt in the South and Southwest (fig. 1). Louisiana (18 percent), New Mexico (17.4 percent), Arkansas (17.1 percent), and Mississippi (16.7 percent) had the highest proportion of nonmetro workers earning between \$4.25 and \$5.14 per hour. These States are generally characterized by 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), California (4.5 percent), Nevada (4.3 percent), and New Hampshire (5.1 percent) have the lowest percentage of workers likely to be affected by the new legislation. Several of the States with a low percentage of affected workers have State mini-

Figure 1

**States with rural workers most likely to be affected by increase in minimum wage**

*The South has the highest proportion of rural workers earning \$4.25-\$5.14*



Source: Calculated by ERS from CPS earnings file.

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

**Who Loses From the Increased Minimum Wage?**

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. However, rural 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 entertainment and recreational services (28 percent), retail trade (26 percent), personal services (23 percent), and agriculture, forestry, and fisheries (19 percent) earned between \$4.25 and \$5.14 an hour in 1995 (fig. 2). 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.

The new legislation allows tax breaks aimed at small businesses to help ease the burden of paying the higher minimum wage, but the effectiveness of these measures remains to be seen. Also, while much of the minimum wage debate is about jobs, the larger effect on workers may be through a cut in hours. While a reduction in hours would lessen the economic benefits from the legislation, affected workers might still be better off with higher wages and fewer hours. About half of those nonmetro workers most likely to be affected by the increase were employed part-time.

**Purchasing Power of the 1970's Will Not Be Restored**

Even with the recent increase, the purchasing power of the minimum wage has not kept pace with inflation and has fallen considerably over time (fig. 3). To restore the average purchasing power of the 1970's would require an increase to \$5.75 an hour; restoration to the highest (1968) level would require an increase to \$6.45 per 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

Figure 2  
**Industry share of workers earning \$4.25-\$5.14**  
*Some rural industries are more likely to be affected than others*



Source: Calculated by ERS from CPS earnings file.

50 percent of the average hourly earnings of production or nonsupervisory workers in private nonfarm industries. By 1995, the minimum wage had declined to about 37 percent of the hourly average wage. With this new increase, the minimum wage will rise to 42 percent of our projected average nonsupervisory hourly wage in 1997, still below the traditional 45-50 percent share.

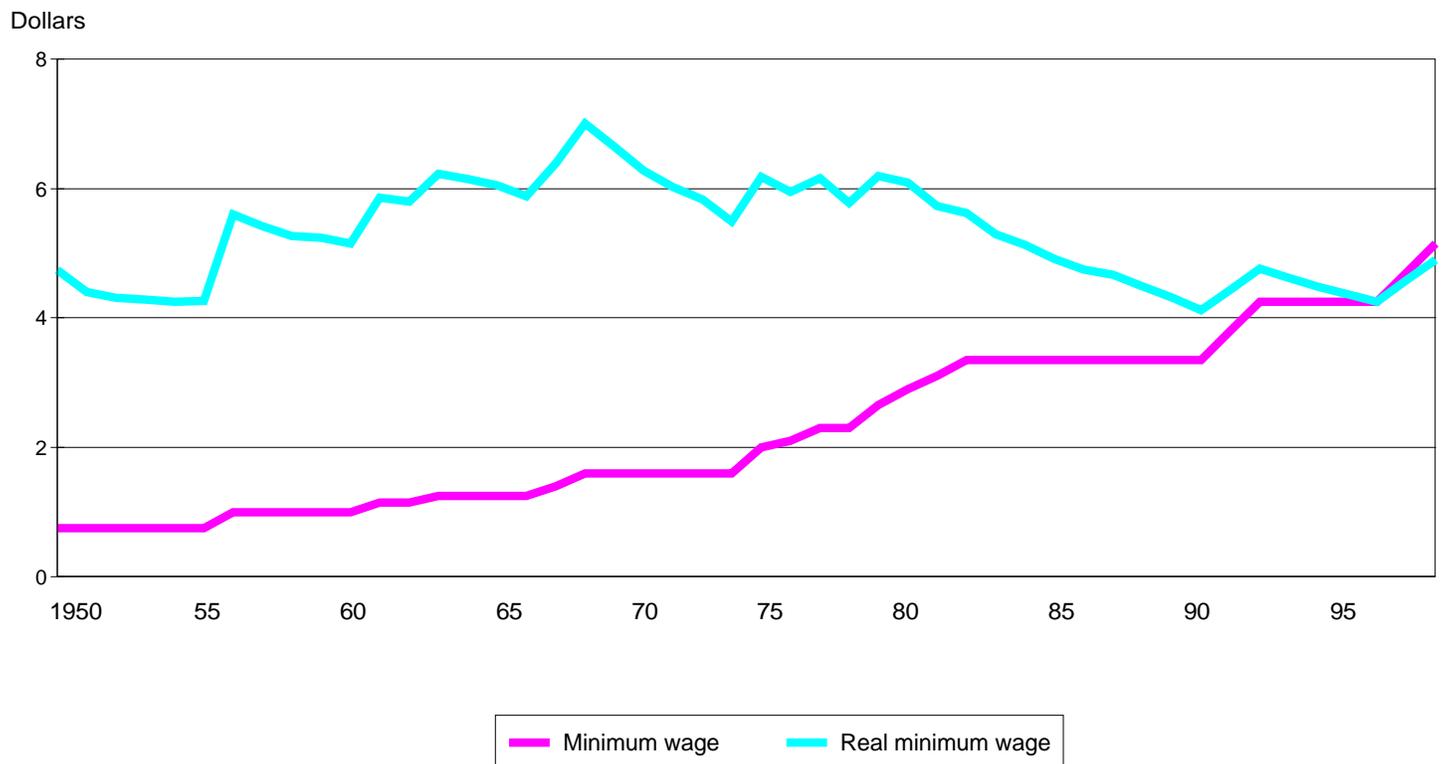
**Minimum Wage Increase and the Earned Income Tax Credit Together Can Help Reduce Rural Poverty**

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. 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. But, in 1997, a person working 40 hours per week for 52 weeks at the new minimum wage of \$5.25 would earn \$10,700 annually, about \$2,000 per year short of the estimated poverty line for a three-person family. 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 rise above the poverty level (fig. 4). For example, a full-time, full-year minimum wage worker with two children could receive as much as a \$3,600 tax refund through EITC, raising income for a family of three above the estimated poverty level for 1997 (for more information on EITC see the Tax Policy article in this issue).

Figure 3

**The minimum wage, 1950-97**

*The minimum wage has not kept pace with inflation*



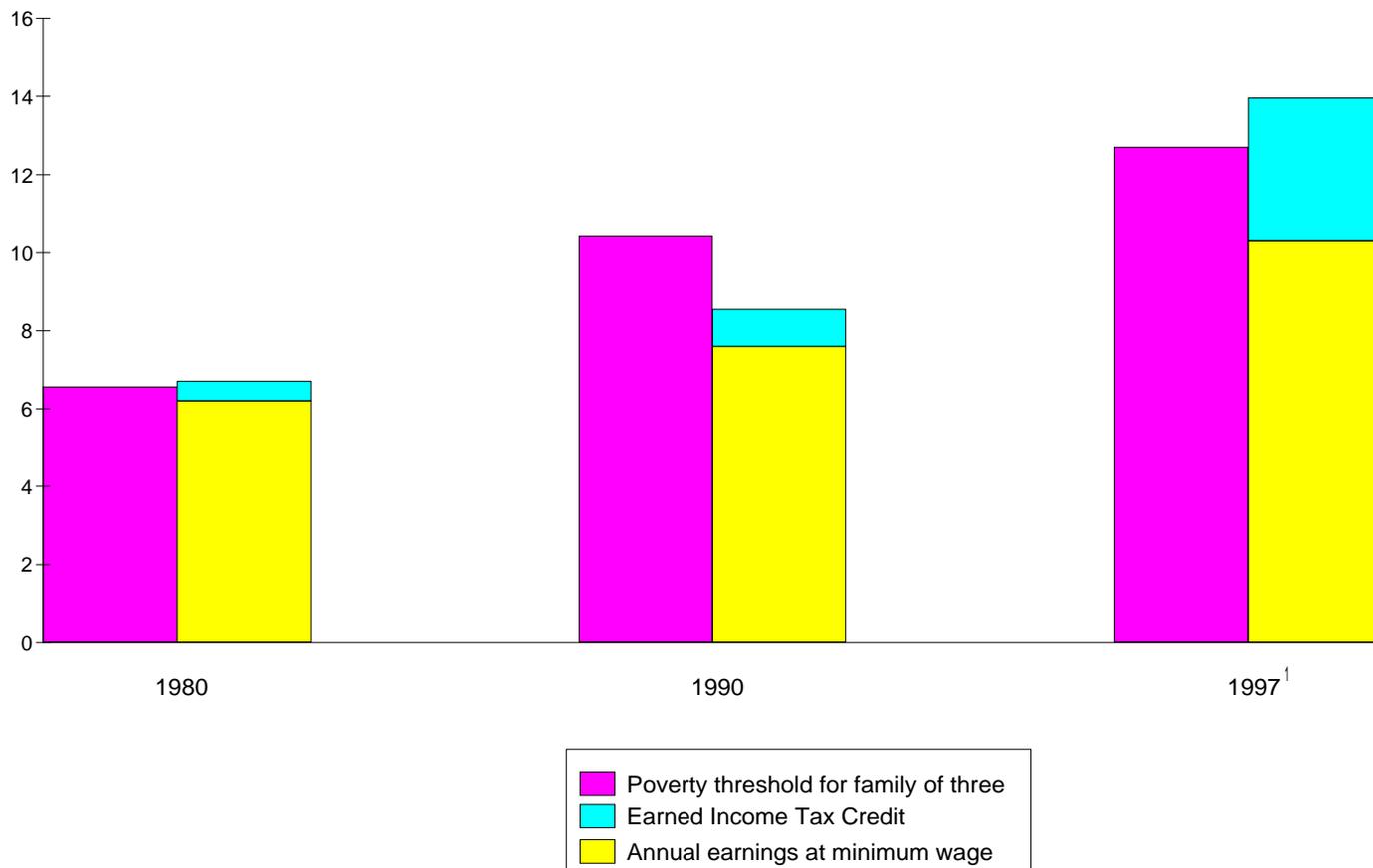
Note: Real wage rates in 1995 dollars adjusted with Consumer Price Index(U); 1996 and 1997 data projected.  
 Source: Calculated by ERS using CPS earnings file.

Figure 4

### Earned Income Tax Credit (EITC) and the minimum wage

*EITC in combination with earnings of a full-time minimum wage worker can lift a family of three out of poverty*

Thousands of dollars



<sup>1</sup>Data for 1997 are projected.

Source: Calculated by ERS from Bureau of Labor Statistics and Internal Revenue Service data.

It is clear 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. Although the minimum wage alone will have little effect on reducing poverty in either metro or nonmetro areas, when combined with the EITC, it holds promise for lifting many minimum-wage workers and their families out of poverty. The minimum wage is not a tightly targeted anti-poverty measure, but the recent increase in wage rate is likely to benefit many low-income rural workers. [Timothy S. Parker, 202-219-0541, [tparker@econ.ag.gov](mailto:tparker@econ.ag.gov), and Leslie A. Whitener, 202-219-0935, [whitener@econ.ag.gov](mailto:whitener@econ.ag.gov)]