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America's Well-Targeted Raise

Data Show Benefits of Minimum Wage Increase
Going to Workers Who Need It Most

by Jared Bernstein

After intense debate, legislation was passed in the summer of 1996 to increase the federal minimum wage by \$0.90, from \$4.25 to \$5.15. The increase was implemented in two phases: \$0.50 on October 1, 1996 and the remaining \$0.40 on September 1, 1997.

The debate over whether to raise the minimum wage focused almost exclusively on whether the increase would lead to layoffs by low-wage employers. The debate's narrow focus, however, often failed to take into account the important benefits of the increase for low-wage workers. Research earlier this year on the "disemployment effects" found that the first phase of the increase resulted in no significant job losses for these workers (Bernstein and Schmitt 1997). This analysis looks at national- and state-level data to determine which workers benefitted from the minimum wage increase.

An analysis of this data reveals that:

- Close to 10 million workers will benefit from the full \$0.90 increase;
- These workers are mostly female (58%) and adult (71%);
- Nearly half of the affected workers (46%) work full time, while another 33% work between 20 and 34 hours per week;
- The minimum wage primarily benefits low-income families; 57% of the gains from the increase will go to working families in the bottom 40% of the income scale;
- In 18 states, more than 10% of the workforce is affected by the increase;
- The increase will raise the earnings of workers in the affected range (\$4.25-\$5.14 an hour) by over \$0.40 per hour on average.

Workers by State

Table 1 shows the percentage and number of workers affected by the increase by region, division within region, and state. Nationally, close to 10 million workers, or 8.9% of the workforce, will receive a pay raise due to the \$0.90 increase in the minimum wage. Except in the Northeast, a number of states will see more than 10% of their workforce affected by the full increase.

In terms of share of the workforce affected, the increase has the largest impact in the South, where hourly wages tend to be lower than in other parts of the nation. In Mississippi, for example, 16.5% of the workforce is affected by the full increase. States in the Western region also have relatively high shares of workers in the affected range: Wyoming and New Mexico both have shares above 12%. While the minimum wage affects fewer workers in the Northeast (due to the higher wage rates in that part of the country), the increase will still boost the wages of close to 1.5 million of that region's workers.

National Characteristics of Minimum Wage Workers

Opponents of the increase in the minimum wage claimed that the policy was “poorly targeted,” arguing that gains would go mostly to teenagers in high-income families. In reality, most minimum wage workers are adults, and most of the wage gains from the increase are going to low-income working families.

Table 2 shows that over 70% of the workers in the affected range are adults. The table also reveals that females account for 58% of the minimum wage workforce. Almost half of minimum wage workers (46%) work full time, while another 33% work between 20 and 34 hours per week. Their average wage was \$4.73 an hour in the 12 months prior to the increase, suggesting that, with the boost to \$5.15, affected workers will on average reap a \$0.42 hourly wage gain. These gains will prove especially important to workers in retail trade, the industry with the largest share of minimum wage workers. While 17.3% of the overall workforce is in retail, 42.6% of minimum wage workers are in this industry.

Figure 1 reveals how the gains from the increase are distributed by family income. Families in the lowest fifth, who have only 5.1% of total income, will benefit the most from the increase, reaping 39.5% of the gains. Well over half of the gains (57.4%) go to families in the bottom 40%. Workers from the highest fifth benefit the least (12.6%), suggesting that the increase is well targeted to lower-income families.

Conclusion

The minimum wage has historically played an important role in raising the earnings of low-wage workers. Unfortunately, the policy debate over the issue has focused almost exclusively on the risk of job loss, despite the fact that recent literature demonstrates that such “disemployment effects” are either nonexistent or negligible. Given these findings, too little attention has been paid to the question of who benefits from the increase in the minimum. This analysis reveals that the benefits of the minimum wage increase go overwhelmingly to those who need it most—full- and part-time adult workers in lower-income families.

TABLE 1
Workers Affected by the Minimum Wage Increase, by State/Region

State/Region	Share	Number	State/Region	Share	Number
NORTHEAST	6.8%	1,451,104	SOUTH (cont.)		
<i>New England</i>	5.4%	314,970	<i>East-South Central</i>	11.8%	779,788
Maine	7.9%	40,631	Kentucky	10.4%	160,092
New Hampshire	5.1%	26,369	Tennessee	8.7%	196,412
Vermont	7.0%	17,854	Alabama	14.0%	246,162
Massachusetts	5.0%	133,840	Mississippi	16.5%	177,123
Rhode Island	7.3%	30,747	<i>West-South Central</i>	13.0%	1,547,643
Connecticut	4.6%	65,527	Arkansas	14.8%	155,325
<i>Mid-Atlantic</i>	7.3%	1,136,135	Louisiana	15.3%	250,269
New York	7.6%	542,091	Oklahoma	14.6%	189,111
New Jersey	4.6%	156,725	Texas	12.0%	952,938
Pennsylvania	8.9%	437,319	WEST	8.8%	2,072,682
MIDWEST	7.9%	2,171,201	<i>Mountain</i>	8.8%	594,236
<i>East-North Central</i>	7.7%	1,474,021	Montana	11.9%	38,865
Ohio	8.7%	419,729	Idaho	10.7%	51,078
Indiana	9.3%	247,721	Wyoming	12.5%	25,555
Illinois	6.8%	354,033	Colorado	6.1%	106,209
Michigan	7.2%	289,417	New Mexico	12.3%	76,434
Wisconsin	6.6%	163,120	Arizona	9.9%	180,343
<i>West-North Central</i>	8.5%	697,180	Utah	8.6%	71,857
Minnesota	6.0%	127,595	Nevada	6.2%	43,894
Iowa	9.0%	117,129	<i>Pacific</i>	8.8%	1,478,446
Missouri	8.1%	194,198	Washington	5.4%	126,229
North Dakota	13.6%	36,307	Oregon	7.3%	98,980
South Dakota	10.2%	31,095	California	10.0%	1,230,381
Nebraska	8.8%	63,554	Alaska	3.6%	8,590
Kansas	11.8%	127,303	Hawaii	3.0%	14,266
SOUTH	10.8%	4,191,171	TOTAL U.S.	8.9%	9,886,158
<i>South Atlantic</i>	9.2%	1,863,740			
Delaware	6.2%	20,189			
Maryland	5.7%	134,276			
District of Columbia	5.5%	12,601			
Virginia	8.4%	250,109			
West Virginia	14.8%	99,772			
North Carolina	9.2%	297,471			
South Carolina	11.3%	176,471			
Georgia	9.4%	294,580			
Florida	10.1%	578,272			

Note: Workers affected by the increase are those who earned between \$4.25 and \$5.14 in the year prior to the minimum wage increase.

Source: EPI analysis of CPS ORG data.

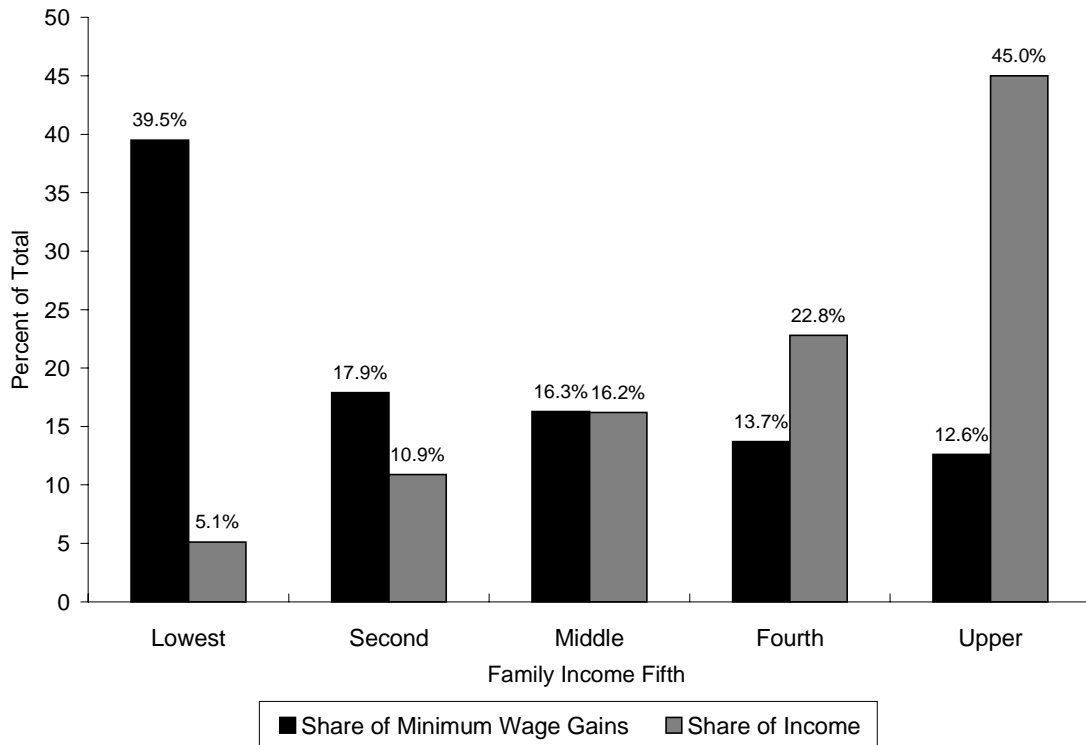
TABLE 2
Characteristics of Minimum Wage and Other Wage Earners,
Full Increase (\$4.25-\$5.15), October 1995-September 1996

Characteristic	Workers Directly Affected by New Minimum (\$4.25-\$5.14)	Other Low-Wage Workers (\$5.15-\$6.14)	Workers Above Minimum Wage (\$6.15+)	All Workers
Average Wage	\$4.73	\$5.72	\$14.62	\$12.73
Employment	9,886,158	9,610,926	89,065,561	110,931,743
Share of Total	8.9%	8.7%	80.3%	100.0%
Demographics				
Male	41.8%	41.9%	54.9%	52.3%
Female	58.2%	58.1%	45.1%	47.7%
White	62.8%	67.7%	77.9%	75.4%
Male	24.6%	26.2%	42.8%	39.4%
Female	38.2%	41.5%	35.1%	36.0%
Black	16.1%	13.8%	10.4%	11.3%
Male	6.4%	5.5%	5.1%	5.3%
Female	9.8%	8.3%	5.3%	6.0%
Hispanic	17.5%	14.8%	7.9%	9.5%
Male	9.3%	8.6%	4.9%	5.7%
Female	8.2%	6.2%	3.0%	3.8%
Teens (16-19)	28.6%	16.0%	1.7%	5.6%
Work Hours				
Full-Time (35+)	46.0%	62.7%	87.7%	81.1%
Part-Time				
20-34 hours	33.3%	25.4%	9.0%	13.0%
1-19 hours	20.7%	11.9%	3.3%	5.9%
Industry				
Manufacturing	8.8%	12.7%	19.7%	17.8%
Retail Trade	42.6%	35.8%	12.2%	17.3%

Source: EPI analysis of BLS data.

FIGURE 1

**Distribution of Minimum Wage Gains and Income Shares by Fifth, 1996
All Working Families**



Source: EPI analysis of 1996 March CPS data.

Further Readings

Bernstein, Jared and John Schmitt. 1997. *The Sky Hasn't Fallen: An Evaluation of the Minimum-Wage Increase*. Briefing Paper. Washington, D.C.: Economic Policy Institute.

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