Will Annual Income of Minimum Wage Workers Support a Family above the Poverty Level Income Threshold?

The federal minimum wage was established in 1938 as part of the Fair Labor Standards Act (FLSA) (Legal Information Institute, n.d.). The FLSA was designed to ensure the fair treatment of employees in terms of remuneration and safety of working environment by setting minimum wage, overtime pay, and child labor regulations among others. The main reason for the establishment of the minimum wage regulation was to protect workers in the post-depression economy by defining the minimum standard of living beneath which the health and well-being of employees would suffer. The minimum wage legislation also assisted employees who lacked bargaining power in a period of job competition to secure payment at the minimum subsistence wage (Legal Information Institute, n.d.)

The poverty threshold income is a measure of income inadequacy, which was originally developed by the Social Security Administration (Fisher, 1997). The measure is based on the cheapest nutritionally adequate diets as determined by the Department of Agriculture. The value of the basket of the most affordable nutritionally diet required to feed a household of a specified number of persons is multiplied by a factor to arrive at the poverty threshold income (Fisher, 1997). Originally, a factor of 3 was used for a 2-person household as the data collected by the SSA indicated that on average, a third of the income of 2-person households was spent on food (Fisher, 1997).

The trend in purchasing power and inflation for selected years between 1968 and 2013 is presented in Figure one below. Between 1969 and 1979 the trend in inflation and purchasing power were roughly in the same direction. However, purchasing power did not keep up with inflation as the magnitude of the percentage change in inflation was higher than the change in purchasing power. Between 1979 and 1992, the trend in inflation and purchasing power were in opposite directions, with an increase (decrease) in inflation corresponding to a decrease (increase) in purchasing power. In this period, the CPI’s rate of growth outpaced the nominal minimum wage (NMW) growth resulting a decrease in purchasing power while inflation increased.

The period between 1992 and 1997 was favorable to consumers as purchasing power (PP) increased while inflation decreased and PP increased by a higher magnitude than inflation. Between 1998 and 2006, the growth in PP and inflation remained more or less constant with a small spread between the two growth rates. In the 3-year period between 2007 and 2009, the CPI fell while the nominal wage resulting in a sizeable increase in purchasing power that outpaced the growth in inflation. The increase in prices following the recovery from the 2008 global recession that was unmatched by the growth in nominal wages resulted in an rise in inflation and a smaller increase in purchasing power between 2010 and 2012.

Figure :Trend in purchasing power and inflation for selected years

The real income earned by a household of 2 (INC1PCTRH2) and 4 (INC1PCTRH4) with a single worker earning minimum wage income earner as a fraction of the poverty level threshold income is presented in Figure 2 below. The percentage of poverty level income threshold for a household of 4 was consistently below 1, indicating subsistence below the poverty level. INC1PCTRH4 was highest in 1968, when the real minimum wage (RMW) household earnings were equivalent to 81% of the poverty level threshold income, and lowest in 2007 when RMW household earnings were equivalent to less than half of the poverty level threshold income. On the other hand, INC1PCTRH2 was greater than 1 between 1969 and 1987, fell to 0.88 in 1988 and stayed below 1 for every subsequent year other than 2010, where it increased briefly to 1.02. Prior to 1988, an individual working a minimum wage job was able to support his/her 2-person household above the poverty threshold. This ceased to be true from 1988 with 2-person households with one minimum wage earner subsisting below the poverty level.

When the number of workers in the 4-person household increased to two, the workers were able to support the family above the poverty threshold for all years other than 2007 where the INC2PCTRH4 was slightly lower than 1 (0.99). The annual minimum wage income for two workers in a 2-person household was consistently higher than one indicating subsistence above the poverty level for every year in the period of analysis. INC2PCTRH2 was lowest in 2007, where the household income was 1.5 times the poverty threshold income.

Overall, the analysis indicates that the minimum wage legislation has been ineffective with respect to the objective of securing workers’ subsistence above the minimum standards of living. Despite its indexation to the CPI, the real minimum wage grew at a slower rate than inflation for most of the years in the period of analysis. Further, one person earning real minimum wage would not be able to support a two-person household above the poverty threshold in the most recent years.

References

Fisher, G. (1997). *History of poverty thresholds*. Retrieved from: <https://aspe.hhs.gov/history->

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