

Has the minimum wage kept up with inflation?

By Paul Guppy, WPC Vice President for Research

February 2015

Key Findings

1. *Washington state's inflation-adjusted minimum wage is 125 percent higher today than when it started.*
2. *Based on when it started, the inflation-adjusted minimum wage in 2014 would be \$4.20 an hour.*
3. *Washington's minimum wage is tied to inflation and rises automatically every January 1st.*
4. *Washington's automatic minimum wage increases are tied to the highest measure of inflation in the state; the Consumer Price Index for Urban Wage Earners in Seattle.*
5. *The real minimum wage for many people is zero, because they can't get the skills or work experience to compete for jobs at the state-mandated level.*

One of the most common claims made for increasing the Washington state minimum wage is that its purchasing power has not kept up with inflation. Proponents say that if the national minimum wage had kept up with inflation it would be \$10.88 an hour, not \$7.25, as it is today. (Washington state's minimum wage is \$9.47, 30 percent higher than the federal minimum, and among the highest in the country).

The reason the inflation-adjusted minimum wage appears so much higher than the actual federal minimum is that proponents cherry-pick the base year for their calculation. They choose 1968, the year the Congressional Research Service identifies as, "the peak value of the

minimum wage in real terms" since its inception.¹

If 1950 is used as the base year, the inflation-adjusted value of the federal minimum wage is \$7.37, about where it is today.

The fairest measure, of course, is to calculate the inflation-adjusted value of the minimum wage based on when it started, in 1938, at 25 cents an hour. The true inflation-adjusted value of the federal minimum wage is \$4.20 in 2014 dollars. The actual federal minimum wage today is 73 percent higher. The Washington state minimum wage today is 125 percent higher.

¹ "Inflation and the Real Minimum Wage: A Fact Sheet," by Craig K. Elwell, Congressional Research Service, January 8, 2014, at <https://www.fas.org/sgp/crs/misc/R42973.pdf>.

To summarize:

- Proponents cherry-pick an outlier year, 1968, to exaggerate their inflation calculation.
- Choosing a different base year, 1950, results in an inflation-adjusted minimum wage only slightly higher than it is today.
- The true inflation-adjusted federal minimum wage is 73 percent higher today than it was when the minimum wage started.
- In Washington state, the inflation-adjusted minimum wage is 125 percent higher than when the minimum wage started.
- Since 1998, Washington state's minimum wage has increased automatically every year based on the highest inflation measure in the state, Seattle-CPI.

(All calculations based on U.S. Department of Labor, Bureau of Labor Statistics CPI Inflation Calculator using constant 2014 dollars.)

These economic facts do not explain the political reasons behind the push to increase the minimum wage. Here are some of the major political factors.

- Union influence. Many union contracts have clauses that tie all wages to the state minimum, so when lawmakers increase the minimum wage upper income workers automatically get a raise, without negotiations.
- No budget impact. The higher cost created by a high minimum wage does not appear as a line-item in

the state budget, so for lawmakers it feels like a free, no-cost vote.

- The voiceless unemployed. As the economy recovers, overall employment goes up in all job sectors, swamping the subset of young and low-skilled workers who have trouble finding work.
- The true minimum wage is zero. General unemployment may look low, so policymakers don't feel responsible for a 25 percent unemployment rate among youth and minorities, those most harmed by being priced out of a job.

A fair inflation calculation of the minimum wage shows that its value today is much higher than when it started. Still, the real minimum wage for many people is zero, because they can't get the skills or work experience to compete for jobs at the state-mandated level.

These workers may be willing to work at a different starting wage, and employers may be willing to hire them, but the law bans these beneficial, voluntary agreements. By setting a high state minimum wage, one that rises each January 1st, state policy has made these workers unemployable or forced them to work illegally.

A high minimum wage falls hardest on those who most need work. Washington has legalized marijuana. Lawmakers might also consider legalizing a person's choice to earn money at a lower starting wage.

*Paul Guppy is
Washington Policy Center's
Vice President for Research.*

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