



CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

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Director

MEMORANDUM

November 16, 1993

TO: Interested Parties

FROM: Ralph Smith ^{RS}
Bruce Vavrichek ^{BV}

SUBJECT: **The Minimum Wage and Family Incomes: An Update**

In response to recent requests, this memorandum updates two of the tables in the June 1986 CBO Staff Working Paper, "The Minimum Wage: Its Relationship to Incomes and Poverty." Comparison of the new tables with the original ones suggests that little has changed between 1985 (the period referenced in the original analysis) and 1992-1993, apart from fluctuations which are probably explained by sampling variability.

The new tables for 1993 and 1992 and the original ones for 1985 are attached. The new tables are based on the March 1993 Current Population Survey (CPS) and the March 1992 CPS, which reported wage rates paid in March of each year and family incomes in the preceding calendar year. The original tables, based on the March 1985 CPS, reflect wage rates paid in March 1985 and family incomes in 1984. The new tables focus on workers paid an hourly wage rate at or below \$4.25, which has been the federal minimum wage rate since April 1991. The tables in the original working paper focused on workers paid at or below \$3.35 per hour, which was the federal minimum wage rate at that time.

The limitations described in the working paper apply to these tables as well. In particular, the **information** is only provided for workers who reported that they were paid on an hourly basis — about half of the workforce. Because the wage rate questions are only asked of about a quarter of the CPS respondents, the estimates are subject to relatively large sampling errors. In addition, the information on poverty pertains to incomes during the preceding calendar year, while data on wage rates refer to hourly wages paid in March of the given year. Thus, the relation between hourly wage rates and poverty can only be approximated.

Another important limitation, which could be especially relevant to workers who report being paid an hourly wage rate below the minimum wage, is that the hourly wage rates reported do not include tips, premium pay for overtime, bonuses, or commissions. Thus, for some workers, their total hourly earnings could be much greater than their reported wage rate. For example, under certain conditions, employers can take a tip credit towards their minimum wage obligations for workers who regularly receive tips. The tip credit has been 50 percent of the minimum wage since April 1991. (When the minimum wage was \$3.35, the tip credit was 40 percent of the minimum wage.)

The estimates in the accompanying tables for 1993 and 1992 are similar to those for 1985, except for year-to-year fluctuations which are probably explained by the small sample sizes:

- o Workers paid at or below the federal minimum wage continued to constitute a small portion of hourly wage workers. In March 1993 and March 1992, about 5 percent of all workers who reported being paid on an hourly basis were paid the federal minimum wage rate and about 3 percent were paid below that rate. The corresponding percentages in March 1985 were 7 percent and 3 percent.
- o As before, most minimum wage workers were not poor. About 15 percent of the workers paid at or below the minimum wage in March 1993, and 22 percent of the workers paid at or below the minimum wage in March 1992, were in families with incomes in the preceding year that were below their poverty thresholds. The corresponding percentage in March 1985 was 19 percent.
- o The presence of other workers in the family remained an important part of the explanation for why so many minimum wage workers were not poor. About 66 percent of the workers paid at or below the minimum wage in March 1993, and 62 percent of the workers paid at or below the minimum wage in March 1992, were in families in which at least one other member had a job. The corresponding percentage in March 1985 was 70 percent.

Attachment

TABLE 1. WORKERS PAID HOURLY RATES, BY FAMILY INCOME, MARCH 1993

Characteristic	Total	Wage Rate Paid in March 1993			
		Below \$4.25	Exactly \$4.25	\$4.26- \$5.25	Over \$5.25
Number of Workers (In thousands)					
Total	60,520	1,530	2,740	9,220	47,040
Family Income in 1992					
Below poverty	4,110	130	530	1,440	2,010
100-149 percent of poverty	5,060	260	340	1,200	3,250
150 percent or more	51,350	1,130	1,870	6,570	41,770
Percent Distribution Within Each Wage Group ^a					
Total	100.0	100.0	100.0	100.0	100.0
Family Income in 1992					
Below poverty	6.8	8.5	19.2	15.7	4.3
100-149 percent of poverty	8.4	17.2	12.3	13.0	6.9
150 percent or more	84.9	74.3	68.5	71.3	88.8
Percent Distribution Within Each Income Group ^a					
Total	100.0	2.5	4.5	15.2	77.7
Family Income in 1992					
Below poverty	100.0	3.2	12.8	35.1	48.9
100-149 percent of poverty	100.0	5.2	6.7	23.8	64.4
150 percent or more	100.0	2.2	3.6	12.8	81.3

SOURCE: Congressional Budget Office tabulations of data from the March 1993 Current Population Survey.

a. Percentages were calculated based on estimates prior to rounding.

TABLE 2. WORKERS PAID HOURLY RATES, BY FAMILY INCOME, MARCH 1992

Characteristic	Total	Wage Rate Paid in March 1992			
		Below \$4.25	Exactly \$4.25	\$4.26- \$5.25	Over \$5.25
Number of Workers (in thousands)					
Total	60,570	1,910	2,890	9,970	45,810
Family Income in 1991					
Below poverty	4,350	320	720	1,570	1,730
100-149 percent of poverty	5,070	280	410	1,590	2,790
150 percent or more	51,150	1,300	1,750	6,810	41,280
Percent Distribution Within Each Wage Group ^a					
Total	100.0	100.0	100.0	100.0	100.0
Family Income in 1991					
Below poverty	7.2	17.0	25.0	15.8	3.8
100-149 percent of poverty	8.4	14.6	14.2	15.9	6.1
150 percent or more	84.4	68.3	60.8	68.3	90.1
Percent Distribution Within Each Income Group ^a					
Total	100.0	3.1	4.8	16.5	75.6
Family Income in 1991					
Below poverty	100.0	7.5	16.6	36.1	39.8
100-149 percent of poverty	100.0	5.5	8.1	31.3	55.1
150 percent or more	100.0	2.5	3.4	13.3	80.7

SOURCE: Congressional Budget Office tabulations of data from the March 1992 Current Population Survey.

a. Percentages were calculated based on estimates prior to rounding.

TABLE 3. WORKERS PAID HOURLY RATES, BY FAMILY INCOME, MARCH 1985

Characteristic	Total	Wage Rate Paid in March 1985			
		Below \$3.35	Exactly \$3.35	\$3.36- \$4.35	Over \$4.35
		Number of Workers (in thousands)			
Total	52,110	1,510	3,690	9,610	37,300
Family Income in 1984					
Below poverty	3,890	310	680	1,340	1,560
100-149 percent of poverty	4,250	210	430	1,130	2,490
150 percent or more	43,970	990	2,580	7,150	33,250
		Percent Distribution Within Each Wage Group ^a			
Total	100.0	100.0	100.0	100.0	100.0
Family Income in 1984					
Below poverty	7.5	20.8	18.5	13.9	4.2
100-149 percent of poverty	8.2	13.7	11.6	11.7	6.7
150 percent or more	84.4	65.6	69.8	74.4	89.2
		Percent Distribution Within Each Income Group ^a			
Total	100.0	2.9	7.1	18.4	71.6
Family Income in 1984					
Below poverty	100.0	8.1	17.6	34.3	40.0
100-149 percent of poverty	100.0	4.9	10.1	26.5	58.6
150 percent or more	100.0	2.3	5.9	16.3	75.6

SOURCE: Congressional Budget Office tabulations of data from the March 1985 Current Population Survey.

a. Percentages were calculated based on estimates prior to rounding.

TABLE 4. SELECTED CHARACTERISTICS OF POOR AND NONPOOR WORKERS PAID HOURLY RATES, MARCH 1993

Characteristic	Number of Workers Paid Hourly Rates (In thousands)					Poverty Rate (In percents) ^a		
	Total	Paid at or Below \$4.25		Paid Over \$4.25		Total	Paid At or Below \$4.25	Paid Over \$4.25
		Poor	Total	Poor	Total			
Total	60,520	660	4,260	3,450	56,260	6.8	15.4	6.1
Age/Sex								
Teenager	4,480	100	1,240	240	3,250	7.8	8.5	7.5
Adult male	27,980	170	1,080	1,580	26,910	6.2	15.8	5.9
Adult female	28,060	380	1,950	1,630	26,110	7.2	19.6	6.3
Employment Status in March 1993								
Full-time	44,030	280	1,280	2,140	42,750	5.5	22.0	5.0
Part-time	16,490	370	2,980	1,320	13,510	10.2	12.5	9.7
Other Workers in Family in March 1993								
None	22,110	520	1,430	2,570	20,670	13.9	36.0	12.4
One or more	38,420	140	2,830	890	35,590	2.7	4.9	2.5

SOURCE: Congressional Budget Office tabulations of data from the March 1993 Current Population Survey.

a. Percentages were calculated based on estimates prior to rounding.

TABLE 5. SELECTED CHARACTERISTICS OF POOR AND NONPOOR WORKERS PAID HOURLY RATES, MARCH 1992

Characteristic	Number of Workers Paid Hourly Rates (In thousands)					Poverty Rate (In percents) ^a		
	Total	Paid at or Below \$4.25		Paid Over \$4.25		Total	Paid At or Below \$4.25	Paid Over \$4.25
		Poor	Total	Poor	Total			
Total	60,570	1,050	4,790	3,300	55,770	7.2	21.8	5.9
Age/Sex								
Teenager	4,390	140	1,280	320	3,110	10.6	11.2	10.3
Adult male	27,900	340	1,220	1,450	26,680	6.4	27.4	5.5
Adult female	28,280	570	2,290	1,530	25,980	7.4	24.7	5.9
Employment Status in March 1992								
Full-time	44,400	370	1,720	2,030	42,680	5.4	21.6	4.7
Part-time	16,170	670	3,070	1,280	13,090	12.1	22.0	9.8
Other Workers in Family in March 1992								
None	22,720	800	1,810	2,620	20,920	15.0	44.2	12.5
One or more	37,850	250	2,990	690	34,860	2.5	8.3	2.0

SOURCE: Congressional Budget Office tabulations of data from the March 1992 Current Population Survey.

a. Percentages were calculated based on estimates prior to rounding.

TABLE 6. SELECTED CHARACTERISTICS OF POOR AND NONPOOR WORKERS PAID HOURLY RATES, MARCH 1985

Characteristic	Number of Workers Paid Hourly Rates (In thousands)					Poverty Rate (In percents) ^a		
	Total	Paid at or Below \$3.35		Paid Over \$3.35		Total	Paid At or Below \$3.35	Paid Over \$3.35
		Poor	Total	Poor	Total			
Total	52,110	1,000	5,200	2,890	46,910	7.5	19.2	6.2
Age/Sex								
Teenager	4,970	210	1,670	310	3,300	10.4	12.5	9.3
Adult male	24,080	300	1,340	1,260	22,740	6.5	22.0	5.5
Adult female	23,060	490	2,190	1,320	20,860	7.9	22.5	6.3
Employment Status in March 1985^b								
Full-time	37,420	360	1,610	1,920	35,810	6.1	22.4	5.4
Part-time	14,610	630	3,590	940	11,020	10.8	17.7	8.6
Other Workers in Family in March 1985								
None	18,350	700	1,590	2,040	16,760	14.9	44.3	12.2
One or more	33,760	300	3,620	850	30,140	3.4	8.2	2.8

SOURCE: Congressional Budget Office tabulations of data from the March 1985 Current Population Survey.

a. Percentages were calculated based on estimates prior to rounding.

b. Information about the number of hours worked in March 1985 was not provided for about 70,000 workers.