Order Code 98-960 E
Updated May 20, 2003

The Federal Minimum Wage and Average Hourly Earnings of Manufacturing Production Workers

William G. Whittaker
Specialist in Labor Economics
Domestic Social Policy Division

Summary

The federal minimum wage, under the Fair Labor Standards Act (FLSA) of 1938, as amended, is fixed in statute and remains at the statutory level until the Congress, through new legislation, alters it. Each successive round of minimum wage increases (in 1949, 1955, 1961, 1966, 1974, 1977, 1989, and 1996) has been debated extensively and, very often, intensely.

In part because of divergent views about the minimum wage — concerning both the appropriateness of having a legislated wage floor and, secondarily, the level at which it ought to be set — long periods have sometimes elapsed between minimum wage enactments. As a result, the market value of the minimum wage has fluctuated widely and, with it, the protection afforded workers.

Questions are often asked: How does the minimum wage compare with the average hourly earnings of production workers in manufacturing industries (AHE-M)? Has there been a consistent relationship between the two through the years? Should that relationship be fixed by indexing or pegging the federal minimum wage to a percentage of the AHE-M?

See also CRS Report RS20040, *Inflation and the Real Minimum Wage: A Fact Sheet*; and CRS Report RL30927, *The Federal Minimum Wage: The Issue of Indexation*.

An Orderly Approach to the Minimum Wage?

Some have suggested that a more consistent (systematic) approach should be found for effecting increases in the minimum wage. One option, sometimes discussed, would be to index (or peg) the minimum wage to an independent economic variable. Such an arrangement could allow for regular changes in the wage floor in tandem with the general economy.

With respect to indexation (as with the minimum wage *per se*), opinion varies widely. Some argue that Congress shouldn't establish a minimum wage at all, regardless of the method: that a legislated minimum has adverse economic effects and that the *free market* ought to be relied upon. Others, though supportive of a minimum wage, hold that indexation is unwise: that it would result in wage rate increases at inappropriate times and could prove to be an uncontrolled engine of inflation. Still others suggest that the need to raise the minimum wage provides an occasion for review of the Act's non-wage provisions: overtime pay requirements, restrictions on child labor, control of industrial homework, etc. If change became automatic through indexation, they suggest, oversight of other aspects of wage/hour regulation might be neglected.

Proponents of indexation see a number of advantages to that arrangement. It would insure, they suggest, that the income of the minimum wage worker (normally neither represented by a trade union nor working under a collectively bargained agreement) would not be allowed to decline to what proponents view as "intolerable" levels due to legislative inaction. Further, they have argued that systematic updating of the wage floor would provide industry with a surer foundation upon which to rest individual wage structures. Firms would be able to plan ahead, knowing that at fixed intervals the base wage rate for covered workers would be changed in keeping with trends in the economy at large. Thus, long periods of wage erosion followed by legislated efforts to *catch up* could be avoided.

Among proponents of indexation, there appears to be some disagreement as to the choice of an independent economic variable to which changes in the wage floor should be anchored. Some have urged use of the Consumer Price Index (CPI). Others have pointed to the Employment Cost Index (ECI). Still others have urged that the minimum wage be pegged to a percentage of the average hourly earnings of production workers in manufacturing. The utility of each of these options would be stoutly argued, pro and con, were it actually to emerge in legislation.

Congress last actively considered indexation of the federal minimum wage in the context of the 1977 FLSA amendments.[1] While it did not endorse the concept, it created a federal Minimum Wage Study Commission and instructed that body to explore, among other wage/hour issues, the implications of indexation of the wage floor.

After 3 years of research and analysis, the Commission concluded that "the present system has not maintained the purchasing power of the minimum wage," that "indexation is not necessarily inflationary" if properly calculated, and that indexation "would have a small beneficial effect on the economy in the long run." Its immediate impact, the Commission suggested, though small, could be either beneficial or harmful "depending upon underlying economic conditions." The Commission recommended that the minimum wage "be indexed on the basis of average hourly earnings in the private economy." It further recommended that Congress confer with the Bureau of Labor Statistics (BLS) "to devise a suitable index that incorporates both average hourly earnings in the private nonfarm business sector and in the farm sector."[2]

---

[1] CRS Report 78-171, *The Fair Labor Standards Act Amendments of 1977 (P.L. 95-151): Discussion with Historical Background*, by Charles V. Ciccone and William G. Whittaker.

[2] U.S. Minimum Wage Study Commission. *Report of the Minimum Wage Study Commission*. Washington, U.S. Govt. Print. Off., 1981. vol. I, p. 83-84. (Hereafter cited as MWSC, *Report*

(continued...)

A dissenting judgment by Commissioner S. Warne Robinson, Chairman of the Board of the G. C. Murphy Company, declared indexation to be "A Prescription for Disaster" and termed the Commission's indexation proposal its "most far-reaching and least supportable" recommendation. Robinson argued that indexation "is by nature inflationary." He was critical of the minimum wage *per se*, branding it "an extremely poor and even counter-productive device for redistributing income." He stated that indexation would have a "devastating impact ... on particular industries such as retail and service trades."[3]

When the Commission issued its report in 1981, an increase in the federal minimum wage was no longer an agenda item. Indeed, no further increases in the federal wage floor were legislated until 1989.[4]

One Instrument of Indexation — Among Many

Among those who favor indexation of the minimum wage, one device often proposed is the pegging of the wage floor to a percentage of the average hourly earnings of production workers in manufacturing industries (AHE-M).[5] Data on the AHE-M are available beginning from 1941 — about 2 years after enactment of the federal minimum wage law.[6]

Table 1 examines the relationship between the federal minimum wage and the average hourly earnings variable. The minimum wage as a percentage of AHE-M reached its lowest level in 1949 (29.9%). When the newly legislated increase took place in January 1950, the percentage jumped to 54% of the AHE-M. Through the next 3 decades,

---

[2] (...continued)
of the Minimum Wage Study Commission).

[3] Ibid., v. 1, p. 202-205.

[4] The *Report of the Minimum Wage Study Commission*, in seven volumes, is available from the general collection of the Library of Congress. Indexation is discussed in vol. I, pages 71-84 and 202-206, and in vol. VI, pages 145-169.

[5] In 1975 (the 94th Congress), Representative John Dent (D-Pa.) proposed indexing the minimum wage to the CPI. Hearings on the issue were conducted but no new legislation was adopted. In 1977, Mr. Dent introduced legislation to index the minimum wage to 55% — and, after 1 year, to 60% — of the AHE-M. Other similar proposals have followed, several during recent years, with variations in the proposed indexation formula. In the 104th Congress, Senator Paul Wellstone (D-Minn.) proposed indexation of the minimum wage at 45% of average hourly earnings of nonfarm, nonsupervisory private sector workers for the preceding 12 months (S. 1722). In the 105th Congress, indexation was proposed by Representatives Bernard Sanders (I-Vt., H.R. 2278) and David Bonior (D-Mich., H.R. 3100). In the 106th Congress, indexation legislation was introduced by Representatives Sanders (H.R. 627) and Jack Quinn (R-N.Y., H.R. 964). In the 107th Congress, Representative Sanders has introduced H.R. 2812, the "Minimum Wage Restoration Act," which would raise the minimum wage (to $8.15 per hour after January 1, 2003) and index it to changes in the cost of living.

[6] Through the years, there have been fluctuations in the percentage of workers engaged in manufacturing and, as well, changes in the nature of manufacturing work. Some might argue that a segment of the workforce, other than manufacturing, might be more appropriate for indexation purposes.

it never fell below 40%. In 1968, following an increase mandated by the 1966 FLSA amendments, it reached its highest level at 55.6%. From 1983 through 1996, the minimum wage remained at less than 40% of the AHE-M, reaching a new low for the period at 33.4% in 1989. The 1989 amendments restored the comparative ratio to the upper 30% level but, by 1995, it had dropped back to 36.2%. Congress again raised the minimum wage: to $4.75 per hour in 1996 (39.2% of the AHE-M), and to $5.15 per hour in 1997 (41.4% of the AHE-M). With no further legislated increases in the minimum wage, the ratio had dropped to 35.4% in 2002.

Increases in the minimum wage have taken effect at irregular times within calendar years. Here, the minimum wage has been counted at its highest level at any time during each year. For example, in October 1939, the federal minimum wage was raised from 25 cents per hour to 30 cents per hour. Thus, we used 25 cents per hour for 1938; 30 cents for 1939, with a similar practice for other years during which changes occurred. (**Table 2** shows the mandated step increases in the federal minimum wage.)

Some states adopted minimum wage statutes prior to enactment of the federal FLSA. In early 2003, some 11 states and the District of Columbia had standards higher than the federal requirement. Oregon and Washington State have indexed their state minimum wage rates. Where state and federal standards overlap, creating dual coverage, the higher standard normally prevails.

Table 1. The Relationship of the Federal Minimum Wage to Average Hourly Earnings of Production Workers in Manufacturing Industries, 1941–2000

Year	Minimum wage[a]	Avg. hourly mfg. earnings[b]	Min. wage as a % of avg. hourly mfg. earnings
1938	0.25	n/a	—
1939	0.30	n/a	—
1940	0.30	n/a	—
1941	0.30	0.69	43.5
1942	0.30	0.79	38.0
1943	0.30	0.88	34.1
1944	0.30	0.93	32.3
1945	0.40	0.95	42.1
1946	0.40	1.03	38.8
1947	0.40	1.18	33.9
1948	0.40	1.29	31.0
1949	0.40	1.34	29.9
1950	0.75	1.39	54.0
1951	0.75	1.51	49.7
1952	0.75	1.59	47.2
1953	0.75	1.68	44.6
1954	0.75	1.73	43.4
1955	0.75	1.79	41.9
1956	1.00	1.89	52.9
1957	1.00	1.98	50.5

Year	Minimum wage[a]	Avg. hourly mfg. earnings[b]	Min. wage as a % of avg. hourly mfg. earnings
1958	1.00	2.05	48.8
1959	1.00	2.12	47.2
1960	1.00	2.19	45.7
1961	1.15	2.25	51.1
1962	1.15	2.31	49.8
1963	1.25	2.37	52.7
1964	1.25	2.43	51.4
1965	1.25	2.50	50.0
1966	1.25	2.59	48.3
1967	1.40	2.71	51.7
1968	1.60	2.88	55.6
1969	1.60	3.05	52.5
1970	1.60	3.23	49.5
1971	1.60	3.45	46.4
1972	1.60	3.66	43.7
1973	1.60	3.91	40.9
1974	2.00	4.25	47.1
1975	2.10	4.67	45.0
1976	2.30	5.02	45.8
1977	2.30	5.44	42.3
1978	2.65	5.91	44.8
1979	2.90	6.43	45.1
1980	3.10	7.02	44.2
1981	3.35	7.72	43.4
1982	3.35	8.25	40.6
1983	3.35	8.52	39.3
1984	3.35	8.82	38.0
1985	3.35	9.16	36.6
1986	3.35	9.34	35.9
1987	3.35	9.48	35.3
1988	3.35	9.73	34.4
1989	3.35	10.02	33.4
1990	3.80	10.37	36.6
1991	4.25	10.71	39.7
1992	4.25	10.95	38.8
1993	4.25	11.18	38.0
1994	4.25	11.43	37.2
1995	4.25	11.74	36.2
1996	4.75	12.12	39.2
1997	5.15	12.45	41.4
1998	5.15	12.79	40.3
1999	5.15	13.17	39.1
2000	5.15	13.62	37.8
2001	5.15	14.15	36.4
2003	5.15	14.56	35.4

Source: Calculated by CRS based upon earnings data of the U.S. Bureau of Labor Statistics.

[a] The federal minimum wage under the Fair Labor Standards Act of 1938, as amended. It is counted at its highest level at any time during each calendar year.
[b] Average hourly earnings cover production workers in manufacturing industries. The series excludes overtime pay.

n/a = not available.

Table 2. Federal Legislation Setting Minimum Wage Rates, 1938–2001

Public law	Effective date	Rate
P.L. 75–718 (Enacted June 25, 1938)	October 1938 October 1939 October 1945	$0.25 0.30 0.40
P.L. 81–393 (Enacted October 26, 1949)	January 1950	0.75
P.L. 84–381 (Enacted August 12, 1955)	March 1956	1.00
P.L. 87–30 (Enacted May 5, 1961)	September 1961 September 1963	1.15 1.25
P.L. 89–601 (Enacted September 23, 1966)	February 1967 February 1968	1.40 1.60
P.L. 93–259 (Enacted April 8, 1974)	May 1974 January 1975 January 1976	2.00 2.10 2.30
P.L. 95–151 (Enacted November 1, 1977)	January 1978 January 1979 January 1980 January 1981	2.65 2.90 3.10 3.35
P.L. 101–157 (Enacted November 17, 1989)	April 1990 April 1991	3.80 4.25
P.L.104-188 (Enacted August 20, 1996)	October 1996 September 1997	4.75 5.15

Source: Created by CRS.