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Inflation and the Real Minimum Wage: Fact Sheet

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Inflation and the Real Minimum Wage: Fact Sheet

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Summary

The Fair Labor Standards Act of 1938 established the hourly minimum wage rate at 25 cents for covered workers. Since then it has been raised 19 separate times, in part to keep up with rising prices. Most recently, in September 1997, it was increased to \$5.15. Because there have been some extended periods between these adjustments, there has been substantial variation in the real value of the minimum wage. This report will be updated periodically. For more information on the minimum wage, see CRS Report RS21481.

The Real Minimum Wage

Because the minimum wage is not indexed to the price level, it has been legislatively increased from time to time to make up for the loss in its real value due to inflation. In nominal terms, the minimum wage has risen steadily since 1938 from 25 cents an hour to \$5.15 where it now stands. But the legislated adjustments to the minimum wage have occurred at irregular intervals. As a result, because of inflation, there has been significant variation in the purchasing power of the minimum wage.

Table 1 presents the effective dates and levels of the statutory minimum wage. The table shows, for each time the minimum wage was changed, its nominal value (\$), as well as the equivalent amount in terms of the purchasing power of the December 2004 dollar. Selected data for average hourly earnings are also shown. The inflation adjustment is made using the Consumer Price Index for Wage Earners and Clerical Workers (CPI-W). All real values are expressed in terms of December 2004 dollars.

The peak level of the minimum wage, in real terms as well as relative to average hourly wages, was reached in 1968. In December 2004, it would need to have been increased to \$8.68 to equal the purchasing power of the statutory minimum wage in February 1968. Since 1968, despite the legislated adjustments, the minimum wage has not risen as fast as have overall prices.

Table 1. The Statutory Minimum Wage, Hourly Earnings and Inflation

Effective Date	Statutory Minimum Wage		Average Hourly Earnings of Production Workers				CPI-W (1982-84=100)
			Total Private		Manufacturing		
	\$	December 2004\$	\$	December 2004\$	\$	December 2004\$	
Oct. 1938	0.25	3.30					14.1
Oct. 1939	0.30	3.96			0.50	6.60	14.1
Oct. 1945	0.40	4.09			0.85	8.69	18.2
Jan. 1950	0.75	5.89			1.27	9.97	23.7
Mar. 1956	1.00	6.89			1.81	12.47	27.0
Sept. 1961	1.15	7.08			2.20	13.55	30.2
Sept. 1963	1.25	7.52			2.35	14.15	30.9
Feb. 1967	1.40	7.87	2.81	15.79	2.67	15.00	33.1
Feb. 1968	1.60	8.68	2.95	16.00	2.82	15.29	34.3
May 1974	2.00	7.62	4.39	16.73	4.24	16.16	48.8
Jan. 1975	2.10	7.45	4.61	16.36	4.56	16.19	52.4
Jan. 1976	2.30	7.64	4.91	16.31	4.92	16.34	56.0
Jan. 1978	2.65	7.85	5.67	16.79	5.85	17.33	62.8
Jan. 1979	2.90	7.85	6.15	16.65	6.38	17.27	68.7
Jan. 1980	3.10	7.36	6.60	15.68	6.84	16.25	78.3
Jan. 1981	3.35	7.12	7.20	15.31	7.61	16.18	87.5
Apr. 1990	3.80	5.55	10.14	14.82	10.68	15.60	127.3
Apr. 1991	4.25	5.93	10.46	14.60	11.05	15.42	133.3
Oct. 1996	4.75	5.68	12.16	14.55	12.81	15.32	155.5
Sept. 1997	5.15	6.05	12.62	14.83	13.20	15.51	158.3
Dec. 2004	5.15	5.15	15.89	15.89	16.47	16.47	186.0

Source: Department of Labor.