FACTS AT A GLANCE

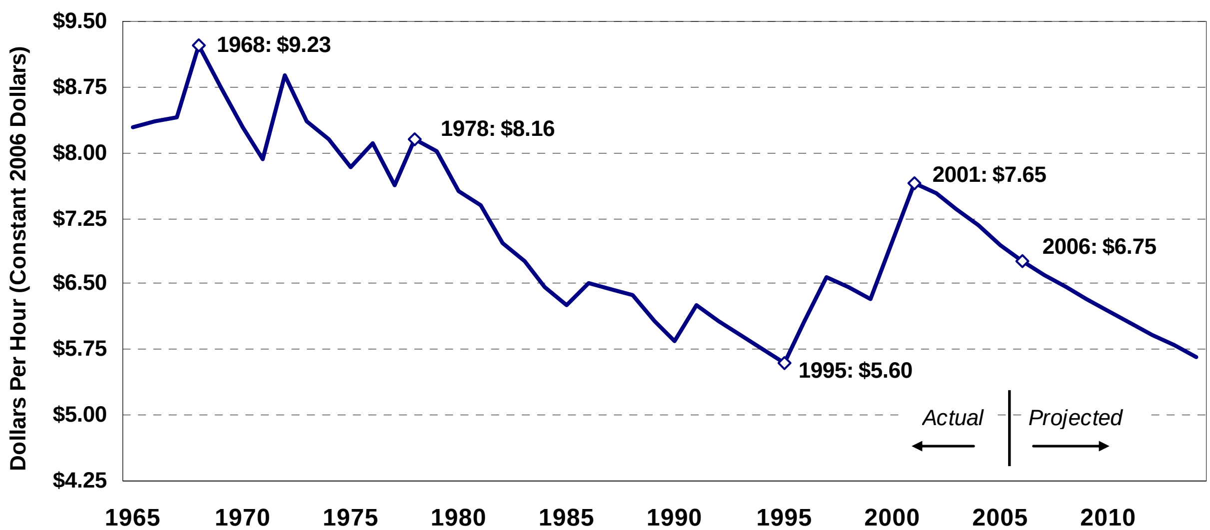
APRIL 2006

Inflation Indexing and the Massachusetts Minimum Wage

On paper, the Massachusetts minimum wage of $6.75 per hour is the same today as it was in 2001 – the last time it was increased. However, the real value of the minimum wage – namely, what it enables workers to buy each day – has dropped by roughly 12 percent over the last four years, from $7.65 per hour (in constant 2006 dollars) in 2001 to $6.75 today. This decline is the equivalent of about 90 cents of purchasing power per hour or nearly $1,900 per year for someone working full-time. Looking back over a longer stretch of time, the situation is even worse – full-time work at the minimum wage has lost $5,100 in purchasing power since 1968.

The deterioration of the real value of the Massachusetts minimum wage has occurred because it is vulnerable to the corrosive power of inflation. Washington, Oregon, and Florida have taken steps to protect their minimum wages against inflation and to ensure minimum wage workers are able to maintain their purchasing power over time. These three states "index" their minimum wages to inflation, automatically increasing them each year to compensate for the increase in consumer prices. Vermont will join them in 2007.

Massachusetts Minimum Wage, 1965-2005



Values for 1965-2005 adjusted by the CPI-U; values for 2006-2014 based on CBO projections of the CPI-U.

The effect of Massachusetts' failure to "index" its minimum wage, so that low-wage workers do not lose ground and suffer an inflation-induced pay cut each year, is illustrated in the graph above. A few features of this graph stand out:

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1. **Due to the lack of inflation indexing, today's minimum wage workers, in real terms, are well behind their counterparts from the 1960s.** In 1968, the Massachusetts minimum wage was $1.60 per hour – or $9.23 in today's dollars. In other words, if the minimum wage had been indexed to inflation following that year, it would now be $9.23 per hour, significantly higher than its current level of $6.75.

2. **Because of the lack of inflation indexing – and because minimum wage increases were so rare and so small for an extended period of time – the real value of the minimum wage dropped almost continuously from 1978 to 1995.** During this span, the real value of the minimum wage fell from $8.16 in 1978 (in inflation-adjusted dollars) to $5.60 in 1995, a decline of more than 30 percent.

3. **The real value of the minimum wage did grow significantly between 1995 and 2001.** Since the mid-1990s, the Commonwealth has increased its minimum wage on several occasions, bringing it from $4.25 to $5.25 between 1995 and 1997 and then from $5.25 to $6.75 between 1999 and 2001. As those increases outpaced inflation over that period, the real value of the minimum wage climbed substantially – in constant 2005 dollars, the minimum wage rose from $5.60 in 1995 to $7.65 in 2001, a change of 37 percent. Nevertheless, this brief period stands in sharp contrast with the seventeen year span that immediately preceded it. ***In fact, because of the lack of inflation indexing and those nearly two decades of neglect, the real value of the minimum wage remains 27 percent below its 1968 peak.*** What's more, because the minimum wage is not indexed to inflation, its real value has started to fall once again, as the graph makes clear.

Some claim that this recent upturn in the real value of the minimum wage is evidence that low-wage workers would be better off ***without*** the automatic inflation protection that indexing would provide and, instead, would gain more from irregular statutory increases in the base minimum wage amount. Yet, to restore the purchasing power the minimum wage has lost over the past several decades – and to preserve that purchasing power in the future – it would have to be both increased and indexed. Consider:

- **Minimum wage increases without inflation indexing** – Without indexing, minimum wage workers lose ground to inflation each year the Legislature fails to raise the minimum wage. For limited periods of time, statutory increases in the minimum wage may be frequent and sizable enough to compensate for inflation in the aggregate, but, even under such circumstances, irregular increases do nothing to counteract the nearly constant effect of inflation in the years between increases.

- **Inflation indexing without additional increases in the minimum wage** – Merely indexing the minimum wage to inflation, without complementary increases in the base minimum wage amount, would only serve to lock in the current real value of the wage standard, which, again, is still 27 percent below its peak value of more than three and half decades ago. In the end, inflation indexing – on its own – does not restore the minimum wage to its appropriate level; it simply prevents the real value of the minimum wage from falling each year.