

Rural Workers Would Benefit More Than Urban Workers from an Increase in the Federal Minimum Wage

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A potential increase in the minimum wage is primarily seen as an urban issue, but data presented here illustrates that an increase in the minimum wage is every bit as important to rural workers as it is to those who live and work in major metropolitan areas of the nation.

In 1997, Congress raised the federal minimum wage to \$5.15 an hour and that is where it has stayed for ten years. Because of inflation, the real value of the minimum wage has eroded by nearly 20 percent during the last ten years. But on January 10, 2007, the U.S. House of Representatives passed legislation that would increase the minimum wage to \$7.25 an hour over the next two years.¹ The U.S. Senate will address this issue soon and the President has indicated he is likely to support an increase in the minimum wage.²

This Carsey Institute Fact Sheet looks at how such an increase would impact rural³ workers relative to urban workers by examining workers who are likely to benefit directly from an increase in the minimum wage because they currently earn less than \$7.25 an hour. For ease of presentation, this group is called "low-wage workers." This analysis looks at 74 million hourly workers who represent about 60 percent of all workers.

It should be noted that workers earning less than \$7.25 an hour are not the only people who would benefit from an increase in the minimum wage. However, this analysis provides a reasonable reflection of the distributional aspects of the likely increase in the minimum wage. Other studies provide a more sophisticated analysis of the impact of the minimum wage, but they don't present the urban/rural differences.⁴

Table 1 indicates that of the ten million workers who earn less than \$7.25 an hour, about 1.9 million live in rural America. Rural low-wage workers make up 19 percent of all low-wage hourly workers in America. A slightly higher share of rural workers than urban workers are in low-wage jobs (15.4 percent of all rural hourly workers compared to

13.5 percent in urban areas). More than 5.5 million people in rural America live in households where someone earns less than \$7.25 an hour.

The relatively large impact among rural workers is not surprising given past research that shows a large portion of rural workers employed at low-wage jobs and past studies on an increase in minimum wage showing that low-income families in small towns and isolated counties would benefit disproportionately from an increase in the minimum wage.⁵

Some argue that the minimum wage goes further in rural areas because the cost of living is lower. Certainly there are some price advantages to living in rural America, but the two sectors where prices have increased most rapidly since 2000 (energy by 42 percent and medical care by 24 percent) hit rural consumers as hard if not harder than urban consumers.⁶

Looking at demographic characteristics first, Table 1 shows that for females, young workers (under age 24), and married workers, the likelihood of being affected by the hike in the minimum wage are slightly higher for rural workers than for urban workers. The regional and racial distributions of low-wage workers are also quite different for rural and urban populations. Rural low-wage workers are much more concentrated in the Midwest, while urban low-wage workers are over-represented in the West. While 86 percent of low-wage workers in rural America are non-Hispanic whites, only 55 percent of low-wage workers in urban areas are non-Hispanic whites.

Looking at employment and economic characteristics, part-time workers in rural areas are more likely to be affected by the hike in the minimum wage than their urban counterparts. In the two occupations where low-wage jobs are most concentrated (service and sales, and office jobs), workers in rural areas are less likely than their urban counterparts to be in low-wage jobs. On the other hand, rural workers are over-represented in low-wage jobs in those

occupations that do not typically offer low wages. Looking at the distribution of workers by industry, rural workers are over-represented in Educational and Health Services low-wage jobs and under-represented in Leisure and Hospitality industries relative to their urban counterparts.

Low-wage workers are less likely than other hourly workers to have any form of health insurance. Nationwide, 21 percent of all hourly paid workers lack health insurance, but the figure is 35 percent for all low-wage workers. However, a greater percentage of urban low-wage workers lack health insurance (37 percent), compared with rural low-wage workers (28 percent).

Not surprisingly low-income families would benefit the most from an increase in the minimum wage. In rural America, 52 percent of workers making less than \$7.25 an hour live in low-income families (less than \$30,000 a year) compared to 43 percent of urban low-wage workers

The data presented here make it clear that an increase in the minimum wage to \$7.25 an hour would have a bigger impact in rural America than in urban America.

How the data is gathered. In the basic Monthly Current Population Survey conducted by the Census Bureau for the Bureau of Labor statistics, a subset of the respondents are asked if they are paid by the hour and what their hourly rate of pay is. In this study, we identified those who reported that they were making less than \$7.25 an hour in the March 2006 survey as the ones most likely to be directly affected by an increase in the minimum wage. A small number of workers (less than one-half of one percent) were not included in the study because the Census Bureau did not release their metropolitan status on the public use file in order to protect confidentiality. It is unlikely that the omission of this small number of people from the analysis would have any impact on the outcomes of the study.

Endnotes

¹ Weisman, Jonathan, 2007, "House Passes Increase in the Minimum Wage to \$7.25," *The Washington Post*, page A6, January 11, 2007.

² Fletcher, Michael A. and Jonathan Weisman, 2006, "Bush Supports Democrat' Minimum Wage Hike Plan," *The Washington Post*, page A14, December 21, 2006.

³ Here, "rural" refers to nonmetropolitan counties as classified by the U.S. Office of Management and Budget. Metropolitan counties consist essentially of one or more urbanized areas (e.g., cities) with a population of 50,000 or more, plus surrounding counties tied economically to the central city via community patterns. "Urban" here means "metropolitan."

⁴ Economic Policy Institute, *The Minimum Wage*, Washington DC., available at http://www.epi.org/content.cfm/issueguides_minwage; and Sherck, James, 2006, *Minimizing the Harm of the Minimum Wage*, The Heritage Foundation, Washington, DC. http://www.heritage.org/Research/GovernmentReform/upload/sr_11_4.pdf

⁵ Glasmeier, Amy and Priscilla Salant, 2006, *Low-Skill Workers in Rural America Face Permanent Job Loss*, The Carsey Institute at the University of New Hampshire, Policy Brief, No. 2, Spring; and <http://www.ers.usda.gov/publications/rdp/rdpmay99/rdpmay99b.pdf>

⁶ U.S. Statistical Abstract, Table 706. <http://www.census.gov/compendia/statab/tables/07s0706.xls>

TABLE 1. WORKERS LIKELY TO BE AFFECTED BY A CHANGE IN MINIMUM WAGE

	Workers Making Less Than \$7.25 an Hour			
	Nonmetro		Metro	
	Number (in 1000s)	Percent	Number (in 1000s)	Percent
All persons	1,909	100	8,231	100
DEMOGRAPHICS				
Northeast	255	13	1,224	15
Midwest	737	39	1,756	21
South	753	39	3,334	41
West	165	9	1,917	23
Male	674	35	3,319	40
Female	1,235	65	4,912	60
Under age 24	966	51	4,029	49
Ages 24–29	181	9	1,148	14
Ages 30–64	671	35	2,735	33
Ages 65+	91	5	319	4
Non-Hispanic White	1,634	86	4,500	55
Non-Hispanic Black	105	6	1,181	14
Hispanic	95	5	2,018	25
All Others	75	4	532	6
Married	573	30	2,069	25
Divorced/Separated	194	10	835	10
Widowed	48	3	240	3
Never Married	1,095	57	5,087	62
EMPLOYMENT AND INCOME				
Full time (35 or more hours/week)	877	46	4,043	49
Part time	1,033	54	4,189	51
Occupation				
Service	761	40	3,835	47
Sales	357	19	1,859	23
Office and administrative support	245	13	699	8
All Other Occupations	546	29	1,838	22
Industry				
Leisure and hospitality	592	31	3,216	39
Wholesale and retail trade	468	25	2,019	25
Educational and health services	339	18	848	10
All other Industries	511	27	2,149	26
No health Insurance	540	28	3,016	37
Family income				
Total with income reported	1,607	100	6,905	100
Under \$30,000	829	52	2,950	43
\$30,000–\$49,999	320	20	1,489	22
\$50,000 or more	459	29	2,466	36

March 2006 Current Population Survey conducted by the U.S. Census Bureau.