

Voices From The Heartland

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Minimum Wage—Working Hard but Falling Short

In June 2006, the Senate rejected a Democratic plan to increase the minimum wage for the first time in nearly a decade. The proposal by Sen. Edward M. Kennedy, would have raised the minimum wage from \$5.15 to \$7.25 per hour. The measure failed after Democrats objected that the wage increase had been linked to a plan to roll back the federal estate tax for many multimillion-dollar estates. Also rejected was an alternative Republican Plan that would have raised the minimum wage by \$1.10, at the same time offering tax breaks and other sweeteners for small businesses to offset higher employment costs.

The erosion of the federal minimum wage

The last time the federal minimum wage was raised was in September 1997. Because the minimum wage is set at a specific nominal value and is not indexed to inflation, its value erodes each year the government fails to increase it, making it more difficult for low-wage workers to afford a basic standard of living.

Since 1997, inflation has reduced the real value of the minimum wage by some 17 percent, returning the minimum wage to a historically low level in terms of purchasing power. The inflation-adjusted value of the minimum wage is 26 percent lower today than it was in 1979. In real dollars \$5.15 an hour minimum wage is worth just \$4.42. If the minimum wage had just kept pace with inflation since 1968 when it was \$1.60 an hour, minimum wage would be \$8.88 an hour in 2005.¹

The minimum wage has also lost significant ground compared to average hourly earning in private employment. In the first quarter of 2004, the \$5.15 minimum wage was only 33.2% of average hourly earnings (\$15.52)—the lowest it has been in more than 50 years.

Minimum wages and poverty

The current minimum wage is insufficient for low-wage families to meet their most basic needs. A worker earning the \$5.15 minimum wage brings home \$10,700 a year, which is \$5,900 below the government's poverty line for a single-parent, two-child family. At \$6.25 an hour, the same worker would earn only \$13,000, still \$2,400 below the poverty line. A two-parent, two-child family where both parents work full-time earning minimum wages has an annual household income of \$21,400, *slightly* more than the \$20,000 federal poverty level for a family of four.

When we consider that the federal poverty level is a very poor indicator of the income needed to sustain a family, we find that the current minimum wage keeps many more families in poverty. This outdated measurement of poverty grossly underestimates the amount of income families need to make ends meet. According to the Indiana Coalition on Housing and Homelessness Issues (ICHHI), a Lake County family with two working parents and two children requires an annual income of \$42,313 to achieve a modest standard of living. This is nearly twice the income brought home if both parents work at minimum wage jobs.

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¹ AFL-CIO Living & Minimum Wage. See www.aflcio.org/issues/jobseconomy/livingwages/.

Table 1—2005 Self-Sufficiency Standard, Lake County, IN

	One minimum wage earner w/ 2 kids ages 2, 3-5	Two minimum wage earners w/ 2 kids ages 2, 3-5
Food	\$393	\$595
Housing and utilities	\$692	\$692
Health care	\$235	\$283
Transportation	\$219	\$420
Child care	\$935	\$935
Other	\$247	\$292
Taxes	\$519	\$580
EITC	\$0	\$0
Child care tax credit	- \$120	- \$125
Child tax credit	- \$167	- \$167
Total monthly expenses	\$2,955	\$3,526
Total annual expenses	\$35,457	\$42,313
Hourly wage required	\$16.79	\$10.02
<i>Annual income w/ minimum wage</i>	<i>\$10,700</i>	<i>\$21,400</i>
<i>Shortfall</i>	<i>\$24,757</i>	<i>\$20,913</i>

Source: Indiana Coalition for Housing and Homelessness Issues

Who benefits from increased minimum wage

Increasing the federal minimum wage to \$7.25 per hour would raise the annual earnings of the average full-time, full-year, minimum-wage worker by \$4,400 per year. For an average part-time (20 hours per week), full-year, minimum-wage worker, the proposed increase would raise annual incomes by \$2,200.

According to the Economic Policy Institute, an estimated 6.6 million workers, or 5 percent of the workforce, currently earn less than \$7.25 an hour and would directly benefit by an increase. An additional 8.3 million workers, or 6 percent of the workforce, earning slightly above the minimum would also be likely to benefit from an increase due to “spillover effects”.²

The report also indicates that adults make up the largest share of workers who would benefit from a minimum wage increase. Eighty percent of workers whose wages would be raised by a minimum wage increase to \$7.25 by 2008, are adults age 20 or older.

Over one-half (54 percent) of workers who would benefit from a minimum wage increase work

full time, and another third (30 percent) work between 20 and 34 hours per week. Women, minorities, and low-income households would benefit significantly if the minimum wage was increased to \$7.25 per hour.

According to policy analysts, in Indiana fewer than 1 percent, 6,000 Indiana workers, earn \$5.15 per hour. However, there are 488,000 workers that would benefit from a minimum wage increase to \$7.25.

Employment effects of minimum wage increase

Critics argue that raising the minimum wage would discourage employers from hiring and retaining workers, costing many low-wage workers their jobs. Critics also contend that the minimum wage is not targeted, with most benefits directed to teenagers and families with relatively high incomes. These arguments are, at best, unconvincing.

The last minimum wage increase in 1996-1997, directly improved the earnings of nearly 9.9 million workers, or 8.8% of the workforce. Research suggests that small to moderate increases in the minimum wage will have little to no adverse effects on unemployment, and may even lead to reduced unemployment.³ Following the most recent increase in the minimum wage in 1996-97, the low wage labor market performed better than it had in decades (lower unemployment rates, increased average hourly wages, increased family income, and decreased poverty rates).⁴

While employers may experience higher costs after a wage rate hike, evidence suggests that these increased costs will be offset by other benefits such as lower employee turnover, lower recruiting and training costs, higher employee productivity and decreased absenteeism.

Raising the minimum wage increases consumers’ purchasing power, thereby putting more money back into local communities, and fueling the economy as a whole.

To argue that the minimum wage is poorly targeted, and rather than benefiting working families that need it most, it benefits teenagers or families with high household incomes, is to argue the effect of an increased minimum wage on minimum-wage earners only, which is misleading and negligent.

² Economic Policy Institute. See <http://www.epinet.org/content.cfm/issueguides_minwage_minwagefacts>.

³ Fiscal Policy Institute. See <www.fiscalpolicy.org>.

⁴ Economic Policy Institute. See <www.epinet.org/content.cfm/issueguides_minwage_minwagefacts>.

The income gains from an increase in the minimum wage are not among just those individuals earning minimum wage, but those who earn an hourly wage at or near the proposed minimum wage.

Most minimum wage research has focused on teens and young adults, because these groups are most likely to work at minimum wage jobs. However, there is an identifiable subpopulation of workers (more often women and minorities, and those with less education) whose lifetime income and employment is likely to be associated with minimum wages. For these workers, a minimum wage increase raises their lifetime earnings potential.

Support for an increased federal minimum wage

Despite the lack of action at the federal level, 21 states plus the District of Columbia have their own minimum wages set slightly higher than the federal minimum. Two Northwest Indiana democrats, Sen. Frank Mrvan and Sen. Karen Tallian, support a plan to increase Indiana's minimum wage from \$5.15 per hour to \$7.25 by 2008. "We cannot have a successful economy unless business and the workers share in the success," Mrvan stated.⁵

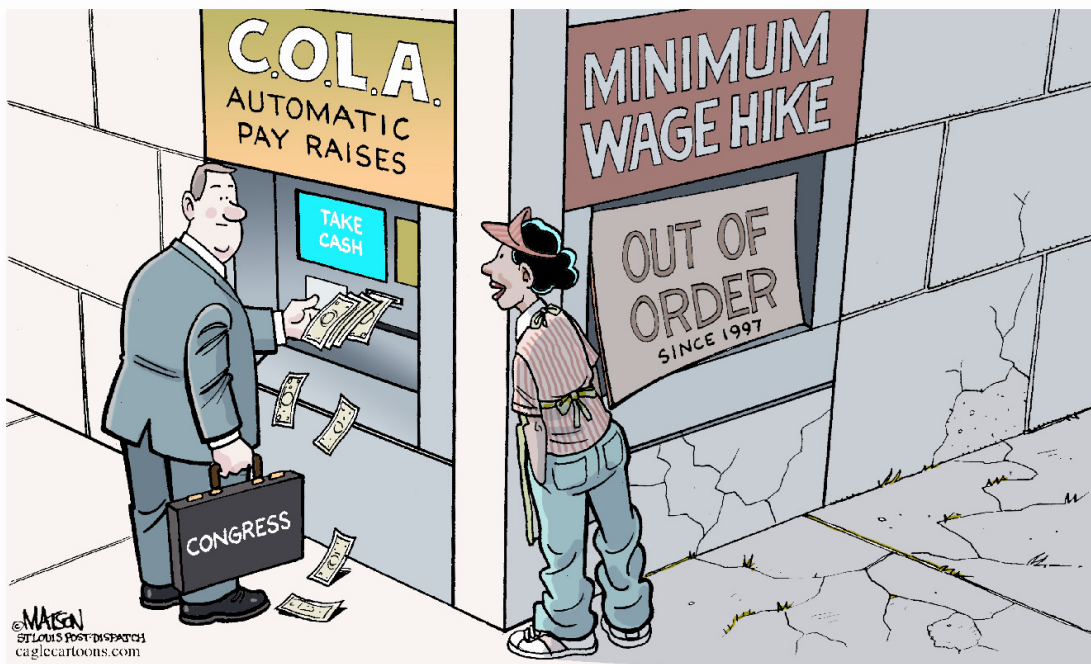
Some government entities, such as counties and cities, observe minimum wages that are higher

than the state as a whole. Many cities have passed living wage ordinances mandating that certain businesses (typically businesses that have contracts with a city or county government, or those that receive economic development subsidies from the locality) pay their workers a wage to support a family financially, in some cases achieving modest reductions in urban poverty.

Conclusions and recommendations

The federal minimum wage was established to protect vulnerable low wage workers from exploitation by lifting their earnings, and ensuring sufficient purchasing power to enable a worker to have a basic standard of living. At some point in time, the federal government lost sight of this goal.

Full-time workers should earn wages sufficient to purchase the goods and services necessary to meet their most basic needs. With the rising costs of housing, healthcare, oil, food, and other basic necessities, minimum wage and low-wage earners in general are finding it nearly impossible to make ends meet. An increase in the minimum wage from \$5.15 to \$7.25 an hour would make a substantial difference in helping low-income families cover basic needs.



" MORE PAY WOULD BE NICE, BUT I'D SETTLE FOR FREE LUNCHES, SUPERBOWL TICKETS, AND AN ALL-EXPENSES-PAID, FACT-FINDING JUNKET TO PARIS ONCE OR TWICE A YEAR "

⁵ Guinane, Patrick. "Dems Call for State Minimum Wage Hike." *Northwest Indiana Times* 8 Sept. 2006:A1.

Minimum wage, continued

Low-wage earners are no less deserving of annual adjustments to their salaries to account for inflation and cost of living than members of Congress who, despite record low approval ratings, accepted a \$3,300 pay raise in June that will increase their salaries to \$168,500 beginning in January 2007. The 2 percent cost-of-living raise would be the seventh straight for members of the House and Senate.

An increase in the federal minimum wage is long overdue. If no action is taken, the value of the minimum wage will continue to erode by inflation and more families will find themselves in poverty. The federal government must address the passage of a minimum wage in line with a living wage to lift

families out of poverty. In addition, Congress should also approve legislation that would index the minimum wage so that wages of poor working families automatically keep up with the rising cost of living and are not subject to long periods of inaction which allows for more families to slip into poverty. Federal inaction should inspire state and local governments to establish minimum wages higher than the rate established by the federal government in order to protect their citizens.

Consideration for an increased minimum wage must be made *separate from tax cuts for businesses and the wealthy*. No one should have to choose who is more deserving of a safeguard from their government.

❖ Cheryl A. Ward

Voices From the Heartland is published by

Heartland Center

6819 Indianapolis Blvd, Hammond IN 46324-1709

Voice 219.844.7515 Fax 219.844.7566 Email mail@heartlandctr.org

Thomas M. Gannon, S.J. Director

James M. Dixon, S.J. Associate

Francine M. Hintz, Assistant Director

John Stankovic, Community Action Coordinator

Cheryl A. Ward, Research Analyst
