

# **Making Work Pay**

## **The Case for Raising the Minimum Wage**

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## **The Case for Raising the Minimum Wage**

### **Fact Sheet**

Americans know a raise in the minimum wage is one way to help make work pay. For many working Americans an increase in the minimum wage will make the difference between living in poverty and not. Furthermore, a higher minimum wage -- a floor to ensure workers that they're getting a fair deal for their efforts -- provides a foothold into the middle class for many other families.

### **The Problem: The Minimum Wage is Worth Less Than It Used to Be**

The Federal minimum wage is currently \$4.25 per hour. Adjusted for inflation, the value of the minimum wage has fallen by nearly 50 cents since it was last increased in 1991, and is now 29% lower than it was in 1979. If left unchanged, its real value will be at a forty-year low by January 1997.

Raising the minimum wage is one way to make work pay. A recent study concluded that the decline in the real value of the minimum wage since 1979 accounts for 20% of the rise in wage inequality for men, and 30% for women (see DiNardo, Lemieux & Fortin). According to the Bureau of Labor Statistics, 3.66 million workers paid by the hour earn at or below the minimum wage. An increase in this living wage is a strong response to the stagnant incomes that many of these workers face.

### **Many Adults Rely on the Minimum Wage as a Living Wage**

Contrary to popular opinion, the average worker affected by an increase in the minimum wage is not just a teenager flipping hamburgers. Only one in fourteen is a teenage student from a family with above average earnings.

The fact is, almost two-thirds of minimum wage workers are adults, and four in ten are the sole bread winner of their family.

### **Increasing the Minimum Wage Lifts Families out of Poverty**

Twenty percent of those living on the minimum wage the last time it was raised in 1991 were in poverty, and an additional 13% were near poverty. In 1993, the President expanded the Earned Income Tax Credit (EITC), which raised income for 15 million families, helping many working families move above the poverty line. Yet to complete the goal of insuring that full-time working families are out of poverty, we need to raise the minimum wage. Recent analysis by the Economic Policy Institute and preliminary work by the Department of Health

and Human Services suggests that 300,000 people would be lifted out of poverty if the minimum wage was raised to \$5.15 per hour. This figure includes 100,000 children who are currently living in poverty.

The current poverty line for a family of 4 is \$15,600. A family of 4 with one worker earning \$4.25 an hour and working full-time year round (\$8,500) would receive a tax credit of \$3,400 under the 1996 provisions of the EITC, will collect food stamps worth \$3,516, and will pay \$650 in payroll taxes. This family would end up \$834 below the poverty line. On the other hand, for a family of 4 with one worker earning \$10,300 (a full-time year round worker at \$5.15 per hour), the EITC would provide the maximum tax credit (\$3,560), food stamps would provide \$2,876, and they would pay \$788 in payroll taxes. The increase in the minimum wage -- along with EITC and food stamps -- would lift this family out of poverty.

### **What a Moderate Increase in the Minimum Wage Would Mean for Workers**

The President's proposal to raise the minimum wage by \$.90 would generate \$1800 in potential income for minimum wage workers.

Based on expenditure patterns of an average family, \$1800 would buy:

- Seven months of groceries
- One year of health care costs, including insurance premiums, prescription drugs, and out-of-pocket costs
- Nine months' worth of utility bills
- More than a full-year's tuition at a 2-year college
- Basic housing costs for almost 4 months

### **Many Working Women Depend upon the Minimum Wage**

Fifty nine percent of workers earning from \$4.25 to \$5.14 per hour are women; of those, 72 percent are adults 20 years old or over. The President's proposal to increase the minimum wage would raise wages of more than 5.7 million working women. This includes more than 950,000 African-American women and 760,000 women of Hispanic origin. Single heads of households, who are often women, represent over one-fifth of all families who currently rely on the earnings of a worker making \$4.25 to \$5.14 per hour.

### **A Moderate Increase in the Minimum Wage Does Not Cost Jobs**

The standard criticism of the minimum wage is that it raises employers' costs and reduces employment opportunities for teenagers and disadvantaged workers. However, several studies have found that the last two increases in the minimum wage had an insignificant effect on employment. Furthermore, an extension of the time-series studies that had previously been used to claim that raising the minimum wage decreases employment, no longer finds a significant impact.

In a recent review of the literature, Professor Richard Freeman of Harvard, a widely respected labor economist, wrote: “At the level of the minimum wage in the late 1980s, moderate legislated increases did not reduce employment and were, if anything, associated with higher employment in some locales. ”

In discussing the minimum wage, Robert M. Solow, a Nobel laureate in economics at the Massachusetts Institute of Technology, recently told the New York Times, “The main thing about (minimum wage) research is that the evidence of job loss is weak. And the fact that the evidence is weak suggests that the impact on jobs is small. ”

### **Americans Want an Increase in the Minimum Wage**

The American public supports increasing the minimum wage by a solid margin. Nearly every survey finds overwhelming support for raising the minimum wage. For example, a national poll conducted in January 1995 for the Los Angeles Times found that 72% of Americans backed an increase in the wage, confirming a December 1994 Wall Street Journal/NBC News survey that found raising the minimum wage is favored by 75%.

Despite expected criticism in some corners, the minimum wage has traditionally had bipartisan support. In 1989, the minimum wage increase passed the House by a vote of 382 to 37 (with 135 Republicans voting for the bill), and 89 to 8 in the Senate (with the support of 36 Republicans).

Currently, ten states and the District of Columbia have minimum wages that exceed the Federal minimum wage (Alaska, Connecticut, Hawaii, Iowa, Massachusetts, New Jersey, Oregon, Rhode Island, Vermont and Washington). Delaware is expected to pass legislation that will raise its minimum wage on April 15, 1996. Hawaii’s minimum wage is \$5.25 an hour and Massachusetts will match this in January 1997; New Jersey’s is \$5.05.

# The Minimum Wage

## Myth and Reality

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*The federal minimum wage now stands at \$4.25 per hour. A person who works full-time all year long at that wage earns only \$8500 in a year. The buying power of the minimum wage is already 29 percent lower than in 1979 -- and if left unchanged, will be at its lowest point in 40 years by January 1997. To restore that buying power and to make work pay, the President has challenged Congress to raise the minimum wage.*

*But the debate has been muddled by several myths that anti-minimum wage forces repeat at every opportunity.*

**Myth:** The only Americans working for the minimum wage are teenagers.

**Reality:** 63 percent of minimum-wage workers are adults age 20 or over. (Source: Bureau of Labor Statistics)

**Myth:** Minimum wage workers don't support families.

**Reality:** The last time the federal minimum wage was increased, the average minimum wage worker brought home 51 percent of his or her family's weekly earnings, (Source: Analysis of Census Bureau's Current Population Survey by Professors David Card and Alan Krueger)

**Myth:** Raising the minimum wage hurts the poor by causing job loss.

**Reality:** Nearly 10 million working Americans would get a pay raise if the minimum wage is increased to \$5.15 per hour. As Nobel Prize-winning economist Robert Solow said, "[T]he evidence of job loss is weak. And the fact that the evidence is weak suggests that the impact on jobs is small." (Source: *New York Times*, January 12, 1995)

**Myth:** The only study showing that raising the minimum wage does not cost jobs was a study funded by the U.S. Labor Department.

**Reality:** One major study -- conducted in 1992 and financed by Princeton University and the University of Wisconsin -- was published by two Princeton University economists. One of those economists later joined the Labor Department. (Source: *Washington Post*, January 11, 1995) Furthermore, a similar conclusion has been reached by at least ten other independent studies.

**Myth:** Raising the minimum wage will have a negligible impact on people's lives.

**Reality:** A 90-cent per hour increase in the minimum wage means an additional \$1,800 for a minimum wage earner who works full-time, year round -- as much as the average family spends on groceries in more than 7 months. (Source: Bureau of Labor Statistics)

**Myth:** Increasing the minimum wage has always been a bitter, partisan issue that only Democrats have supported.

**Reality:** In 1989, the last time the minimum wage was increased, the House of Representatives vote in favor of the proposal was 382 to 37, and the Senate vote was 89 to 8. Indeed, Senator Dole said at the time, “ [T]his is not an issue where we ought to be standing and holding up anybody’s getting a 30 to 40 cents an hour pay increase, at the same time that we’re talking about capital gains. I never thought the Republican Party should stand for squeezing every last nickel from the minimum wage. ” (Source: *Congressional Quarterly Almanac 1989*)

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## **Questions and Answers on Raising the Minimum Wage**

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**With unemployment at its lowest level in years, should we be tinkering with the minimum wage? Won't an increase in the minimum wage hinder the creation of new jobs?**

The minimum wage is currently valued at 29 % lower in real terms than it was in 1979.

A number of recent studies have found that a moderate rise in the minimum wage has little, if any, affect on job creation starting at such a low level. In fact, "The impact of a minimum wage rise on jobs is small, " the New York Times quoted Nobel Laureate Robert Solow as saying. The Times also reported that economists agree that a minimum wage rise will lift the incomes of low wage workers.

**Isn't the minimum wage poorly targeted to people in poverty? The Democratic Leadership Council reports that a number of minimum wage workers are in households with earnings higher than the median worker. Wouldn't a rise in the minimum wage just help middle class teenagers?**

Although some people who earn the minimum wage are teenagers, almost two-thirds are adults age 20 and older. The average minimum wage worker brings home about half of his or her family's earnings. Increasing the minimum wage will help these workers to make up for lost ground due to inflation -- it will help make work pay.

The minimum wage provides a foothold into the middle class. A family with two full-time year round workers would earn \$20,600 a year with a \$5.15 minimum wage.

**Wouldn't a rise in the minimum wage hurt minorities and the disadvantaged due to job loss?**

As the New York Times reported, most economists agree that raising the minimum wage increases the incomes of low wage workers, which more than offsets any effect on jobs. Further, studies of minimum wage increases fail to show disproportionate impacts for minority youth.

Additionally, public support for a minimum wage increase is strong. A January 1995 Los Angeles Times poll found that 72% of Americans back an increase, confirming a December 1994 Wall Street Journal/NBC News poll that found that 75% of adults favored a rise in the minimum wage.

**How many workers are affected by a rise in the minimum wage?**

An estimated 10 million hourly paid workers earn between \$4.25 and \$5.14, and would directly benefit from the President's proposal to increase the minimum wage.

**How can you contemplate a rise in the minimum wage with a new Congress intent on getting government off the backs of business?**

The minimum wage has historically enjoyed bipartisan support. Sens. Dole and Kassenbaum, Speaker Gingrich and Rep. Goodling voted for the last minimum wage increase to \$4.25 an hour in 1989.

**Governors across the country are fighting against unfunded mandates. Isn't the minimum wage an unfunded mandate on businesses and states?**

The minimum wage is not a new unfunded mandate. In fact, given the erosion of the value of the minimum wage over the last 15 years it is now much less of a mandate on businesses and the public sector than it used to be.

**What do you say to all the businesses that say they will lose profit and possibly go bankrupt if the minimum wage is raised? Aren't you just antagonizing the business community by proposing a minimum wage increase?**

Inflation has eroded the minimum wage so much that it is currently at its second lowest level since the 1950s. The economy has been very strong, but wages have not grown as much as they need to for the middle class to keep up.

The Clinton Administration has pursued economic policies to put our fiscal house in order, laying the foundation for the current economic expansion. But the problem is that low-wage and middle class workers have not shared fully in this recovery.