# Questions and Answers A

*minimum wage employee profile*

## Who earns the minimum wage?

A1

Because the minimum wage is traditionally paid to people just entering the work force, the overwhelming majority of minimum wage employees are young, single and childless.

According to U.S. Census Bureau data, young people living with their parents account for 37.6% of those who benefited from the 1996 minimum wage hike, making this group the largest segment of minimum wage employees. The same data show that 85.1% either live with their parents (37.6%), are single and live alone (17.1%), have a working spouse (21.5%), or are extended family members and non-relatives (8.9%).[1]

## How many minimum wage employees provide the sole support for their families?

A2

Only 5.5% of minimum wage earners are single parents and only 7.8% are in married, single-earner families (where the household may or may not include children).[5]

Advocates of higher minimum wages often contend that 40% of minimum wage employees are supporting families. This is a deceiving statistic. This number is correct only when proponents count single, childless individuals living by themselves as "families." By that reckoning, an individual working at a minimum wage position while attending college is the sole breadwinner in his "family."

## Do people often get stuck at the minimum wage?

A3

**No.** The average income of minimum wage employees increases 30%[6] within one year of employment. This traditional growth out of entry-level employment explains why only 2.8% of employees above the age of 30 are working at the minimum wage.[7]

## What role do minimum wage jobs play for those who subsequently move on?

A4

Most working Americans entered the work force via jobs paying at or near the minimum wage. Upon gaining marketable skills, these employees quickly move into higher paying jobs. Many — such as high school and college students, senior citizens and some with working spouses — work in minimum wage jobs as a way of supplementing a family income or earning extra spending money.

These individuals are either using their minimum wage job as a stepping stone to higher-paying work, or they choose to work where they do for a variety of economic and noneconomic reasons, including location, scheduling, convenience, camaraderie, or simply enjoyment.

### Who is earning the minimum wage?

There are more than **550,000 teens** working at the minimum wage who live in households where family income exceeds $30,000.[2]

**Only 44% of minimum wage employees work full time**.[3] The majority of minimum wage employees could increase their income simply by working more hours.

**Single parents with three or more children account for only 1%** of the minimum wage work force, and only 57% of these single parents work full time.[4]

# Questions and Answers

*minimum wage employee profile continued*

*When New Jersey raised its minimum to $5.05 in 1992, the average beneficiary resided in a family earning almost $40,000 annually.*[8]

## Who benefits from a minimum wage increase? A5

The beneficiaries of a minimum wage hike — those who do not lose their jobs, lose benefits, experience demands for increased productivity, or see their hours cut — are rarely from poor families. Moreover, beneficiaries rarely receive more than a token increase in family income. Those who are helped tend to be young, single and part of middle- and upper- income families.[9]

Research shows that when New Jersey raised its minimum wage from $4.25 to $5.05 in 1992, the annual family income of minimum wage employees increased by an average of just one percent. Moreover, a full 70% of the "beneficiaries" were in families making more than $20,000 a year. The average beneficiary of an increase lived in a family with an annual income of $38,873.[10]

## Those Who Stay at the Minimum Wage

### Who is "stuck" at the minimum wage? A6

The small percentage of employees who do not advance tend to be the least skilled, the least educated, and the least experienced members of the work force. For instance, more than 44% of working men and 64% of working women who dropped out of high school make less than $6.25 an hour.[11]

### What differentiates those who advance beyond the minimum wage from those who do not? A7

Like all employees, those earning the minimum wage would like to earn more money. And in most cases, they soon do. After all, more than 97% of all American employees move beyond the minimum wage by age 30.[12] What differentiates the 2.8% who fail to move on?

Almost always, it's a question of skills and motivation. This small percentage do not offer the skills — or even the willingness to learn them — to justify a higher wage. They are the last to get a raise and the first to lose their jobs following a minimum wage hike.

### Does the current minimum wage bring a full-time employee above the poverty level? A8

A single, childless person working full time at the new federal (September 1997) minimum wage of $5.15 an hour earns $10,712 a year, 34% above the 1996 poverty level of $7,992 for a single, childless adult.[13]

### How about those supporting others on the minimum wage? A9

For a few employees — those supporting another adult or supporting one or more children — income from a job paying the current minimum wage does not match the poverty level. These individuals represent, at most, 13.3%[14] of the minimum wage work force. But these families have access to special assistance that, unlike the minimum wage, is designed to target employees in their situation.

## Even if they are a small segment of the minimum wage population, how can people support families on just the minimum wage?

A10

**They don't.** The few minimum wage employees who are sole breadwinners do not depend solely on that income. Every one of them qualifies for financial assistance directly from the federal government in the form of an Earned Income Tax Credit (EITC), a "reverse income tax."

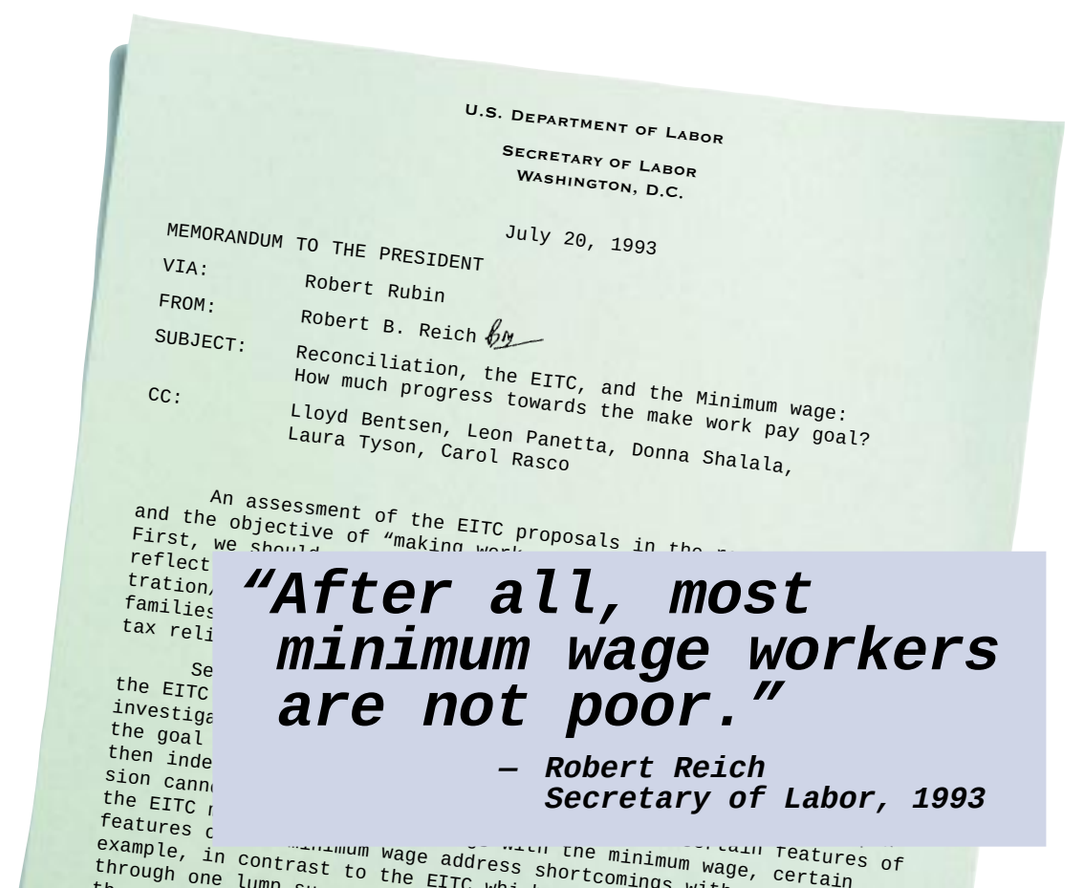
This program helps families until the breadwinners gain enough work experience to increase their pay to levels where they become self-sufficient. The benefit of the EITC program is that it targets those relatively few minimum wage employees who are trying to support a family and supplements their incomes as long as they continue to work.

While most who benefit from minimum wage hikes have no children or reside in relatively high-income families, EITC recipients have demonstrated need for the extra resources. For instance, in 1998 a single parent of two children would earn $10,712 in wages working at the minimum wage, but would actually take home approximately $14,000 after taking advantage of the EITC.[15]

In his 1992 campaign, then-candidate Bill Clinton promised to increase the EITC, arguing that it was a better way to address the needs of the working poor than a hike in the minimum wage.[16] Former Secretary of Labor Robert Reich stated in a memo to President Clinton that "the EITC program poses no threat to employment opportunities and can be better targeted to families in need" than a minimum wage hike.[17]

**"the EITC program poses no threat to employment opportunities and can be better targeted to families in need"**

***Robert Reich, Secretary of Labor, 1993***



U.S. DEPARTMENT OF LABOR
SECRETARY OF LABOR
WASHINGTON, D.C.

July 20, 1993

MEMORANDUM TO THE PRESIDENT

VIA: Robert Rubin

FROM: Robert B. Reich

SUBJECT: Reconciliation, the EITC, and the Minimum wage:
How much progress towards the make work pay goal?

CC: Lloyd Bentsen, Leon Panetta, Donna Shalala,
Laura Tyson, Carol Rasco

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***"After all, most minimum wage workers are not poor."***

***— Robert Reich***
***Secretary of Labor, 1993***

# B Questions and Answers

## *the minimum wage and job loss*

*"[I]ncreases in minimum wages ... raise the probability that more-skilled teenagers leave school and displace lower-skilled workers from their jobs."*

*— Dr. David Neumark, Michigan State University*

## Do higher minimum wages lead to job loss, and if so, who are the first to lose their jobs?

B1

It is well known among economists and lawmakers that a higher minimum wage leads to job losses, and the economic evidence supporting this conclusion is outlined below. But it is also important to focus on exactly who suffers job loss following a minimum wage hike. Recent research[18] strongly suggests job loss is concentrated among low-skilled adults.

*"Increases in minimum wages may further disadvantage these women [on welfare] if employers are more likely to select teenagers possessing a high school diploma."*

*— Dr. Peter Brandon, University Of Wisconsin*

## If the unemployment rate remains steady, how can you argue that a minimum wage hike causes job loss?

B2

Although a hike can affect the job prospects of a large number of minimum wage workers, this effect is often subsumed in the official unemployment rate, which is based on the entire national work force. Secondly, the issue is not only how many minimum wage jobs "survive" the wage hike (or how many are not created), but who gets and keeps those jobs — and who doesn't. The composition of the minimum wage work force changes after a wage hike, and that change creates winners and losers.

Research from Boston University shows that low-skilled adults are often crowded out of the job market by teens and students following a mandated wage hike.[19] A study from Michigan State University suggests that even among teens, those who are perceived as having the lowest skills are marginalized, while more "attractive" teens get the available entry-level jobs following a minimum wage increase.[20] A report from the Institute for Research on Poverty at the University of Wisconsin shows that welfare mothers are more likely to secure employment before a minimum wage hike than after. Once the wage standard rises, welfare recipients have a much more difficult time competing for entry-level jobs.[21]

*"[M]inimum wage increases induced a shift towards teenagers and students and away from non-students and adults... . The competition from higher quality workers makes low-skilled workers worse off."*

*— Dr. Kevin Lang, Boston University*


Each of the studies quoted above to the left examines what can be called the "riptide effect." Even if the overall unemployment rate remains steady, certain groups of people experience an "under the surface" dynamic reducing job opportunities after a mandated wage hike.


## What evidence exists showing higher minimum wages cause job loss?

B3

The economic evidence proving that higher minimum wages result in lost jobs is overwhelming. Opinions among economists vary as to the severity of the impact, but since the minimum wage first went into effect, research has shown that it causes job loss among the least skilled. In the nearly 50 years since the U.S. instituted its first minimum wage, more than 80 studies — in addition to scores of articles and economic textbooks — have demonstrated a link between higher minimum wages and job loss. Every student of economics is taught that if you increase the price of something (low skilled labor), you decrease the demand. Despite claims to the contrary, the laws of economics haven't changed. The following represent but a few of the scores of studies, reports and expert analyses conducted over the years proving this point:

- An exhaustive 1993 study from an economist at Carnegie Mellon University examined data from 64 sectors of the retail industry in California following that state's 1988 minimum wage hike. This study showed that even though California's retail sales were growing at almost twice the national rate, the state's retail employment grew much more slowly than national retail employment. Moreover, the most significant negative employment effects were found in low-wage counties — where employers felt the most impact.[22]
- A 1995 report from economists at the University of Chicago and Texas A&M University revealed significant reductions in teenage employment nationwide after the federal minimum wage increase of 1990-91. Employment of teenage males fell 5% after the wage hike, while employment of teen women fell 7%.[23]
- In 1978, Congress created the Minimum Wage Study Commission to analyze the impact of the minimum wage on U.S. employment. The Commission determined every 10% increase in the minimum wage results in a 1% to 3% job loss for teenagers.[24]
- In 1983, the General Accounting Office found "virtually total agreement that employment is lower than it would have been if no minimum wage existed. This is the case even during periods of substantial economic growth."[25]
- A 1988 Congressional Budget Office (CBO) study found a proposal to increase the minimum wage 51% would result in the loss of as many as 500,000 jobs.[26]
- In 1988, the Council of Economic Advisers estimated job loss associated with a minimum wage of $4.65 (up from the 1988 wage of $3.35) would be concentrated among younger, less skilled, and minority workers.[27]
- A 1995 study showed that low-skilled adults in states which raise their minimum wage are often crowded out of the job market by teens and students.[28]
- A 1995 study discovered that mothers in states that raise their minimum wage remain on public assistance an average of 44% longer than their peers in states where the minimum wage remains unchanged.[29]
- A 1995 study showed that high-skilled teens, or those who are perceived as more "desirable" employees, often displace low-skilled teens in minimum wage jobs after a mandated wage hike. A higher minimum wage increases the number of "idle" teens (those who neither work nor attend school) by as much as 20%.[30]

**Every student of economics is taught that if you increase the price of something (low skilled labor), you decrease the demand (jobs). Despite claims to the contrary, the laws of economics haven't changed.**

# B Questions and Answers

*the minimum wage and job loss continued*

**A survey of members of the American Economic Association reveals that 77% of economists believe a minimum wage hike causes job loss.[31]**

## Do economists still believe that minimum wage hikes are associated with job loss?

B4

Minimum wage proponents occasionally cite a list of 101 economists who support a minimum wage hike. But this group represents a tiny minority in the economics profession. The results of a much more comprehensive survey of the American Economic Association indicates that 77% of economists — or nearly 17,000 economists — believe wage hikes cause job loss.[32]

## Does job loss take more than one form?

B5

Entry-level employees can experience lost work even when they keep their jobs. If an employer decreases total hours of employment per day following a wage hike, there is measurable decline in employment even if no employee actually "loses his job."

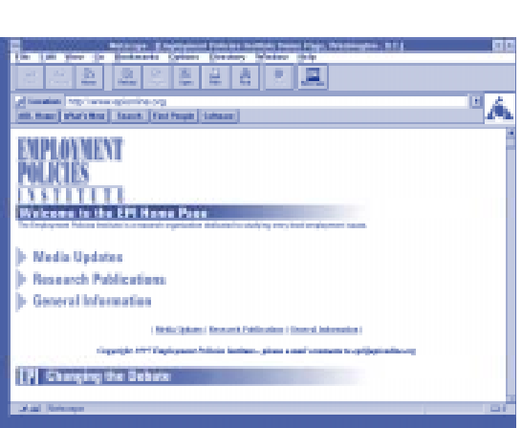
Another aspect of job loss which is very difficult to measure is the loss of opportunities in the long run. Faced with higher labor costs, some employers who had been planning to expand their operations decide to forgo this investment and attendant job creation. Others redesign their establishments so they can operate with fewer employees and more self-service. Still others purchase machinery that can do the work employees used to do.

These points are particularly important in the face of welfare reform, through which state and local governments nationwide are seeking to create more jobs. (For more information on the interaction of mandated wage hikes and welfare reform, see section D.)

## Did a recent study of New Jersey's 1992 minimum wage hike prove that employment did not decline?

B6

**No.** While the New Jersey fast food study[33] received attention from the media and lawmakers, the study turned out to be meaningless: the input data used in the analysis were grossly inaccurate. Not only were the employment numbers used in the New Jersey study proven wrong by payroll records, but the correct numbers suggest that employment declined following the mandated wage hike.




The Employment Policies Institute has prepared a complete analysis of the numerous problems in the New Jersey fast food study. To obtain a copy of this analysis, contact EPI or visit our home page at http://www.epionline.org.


## What specifically was wrong with the New Jersey fast food study?

B7

The New Jersey fast food study was conducted by two Princeton researchers and published in a reputable academic journal. The researchers claimed their study showed employment increased in New Jersey relative to neighboring Pennsylvania following a minimum wage hike.[34] But when they made their data public, independent analysts noticed unrealistic swings in the employment numbers for individual restaurants in the data set. (This data, obtained via telephone interviews, would later prove inconsistent with the restaurants' actual payroll records.)

For instance, according to the study, a Burger King outlet in New Jersey had six full-time workers in February 1992, but by November, it had added 23 more full-time workers — an implausible increase of more than 300%. Another Burger King in Pennsylvania reportedly went from 50 full-time workers in February to 15 in November, and from 35 part-time employees in February to just 18 in November — a truly radical shift. A Wendy's in Pennsylvania had 30 full-time people on staff in February, but by November all full-timers had apparently quit or been terminated without replacements — zero were reported in the study. A New Jersey Wendy's had zero full-time employees in February, but by November had hired 35 full-time workers without any change in the number of part-timers on staff.[35]

**Sample Anomalies in the New Jersey Study**

| Restaurant/Zip Code | Feb. '92 Emp. Full/Part Time | Nov. '92 Emp. Full/Part Time |
|---|---|---|
| Burger King in 076XX | 0/35 | 29/14 |
| Wendy's in 072XX | 0/30 | 35/30 |
| Kentucky Fried Chicken in 077XX | 13/12 | 1/10 |
| Burger King in 080XX | 6.5/20 | 30/25 |
| Kentucky Fried Chicken in 082XX | 0/11 | 22/4 |
| Burger King in 078XX | 3/60 | 0/15 |
| Wendy's in 185XX | 30/10 | 0/30 |
| Kentucky Fried Chicken in 075XX | 0/7 | 14/0 |
| Roy Rogers in 189XX | 27/12 | 0/30 |
| Burger King in 190XX | 50/35 | 15/18 |

Once these apparent flaws were identified, other researchers collected payroll records from the restaurants examined in the New Jersey study. The payroll records confirmed that the "observations" reported above were grossly inaccurate. In addition, when employment numbers from payroll records were used for the same calculations upon which the New Jersey study was based, they showed that employment declined in New Jersey following the mandated wage hike.[36]

*The Fair Labor Standards Act of 1938 cautioned the Administrator of the Wage and Hour Board to set minimum wages at a level "which will not substantially curtail employment."[39] Just one year later, the government attributed job loss to the new minimum wage. In 1939, the Labor Department reported that "workers who had been receiving less than [the new minimum wage] … had been laid off and replaced by more efficient workers."[40]*

## Why were the numbers in the New Jersey study so flawed?

B8

Rather than seek payroll records or authoritative estimates of employment from restaurant owners, the authors of the New Jersey fast food study chose to collect their data through cold-call telephone interviews with managers and assistant managers who did not have payroll records in front of them. In addition, the study authors used only one poorly-constructed question on employment levels that could not be clearly or consistently interpreted by those who participated in these cold-call interviews.

## Why do people still talk about the New Jersey study?

B9

The New Jersey study was one of the few economic reports ever to conclude that employment does not decline following mandated wage hikes. Thus, it was highly publicized — and defended — by those who support a wage hike. After the flaws in the New Jersey study were made public more than two years ago, many of those who support higher minimum wages continued to cite the study, ignoring the new facts and evidence and misleading the public by maintaining that the New Jersey study was simply being debated by "dueling economists."

## Are there other studies that have reached conclusions similar to those of the New Jersey fast food study?

B10

One of the economists who worked on the New Jersey study also conducted a similar exercise in Texas,[37] with similar conclusions. However, as with the New Jersey study, the Texas report was based on cold-call telephone interviews that could not have produced reliable data.

The other economist who worked on the New Jersey study did research in California[38] which was not based on the fast food industry. He concluded that California experienced no ill effects when that state's minimum wage rose above the federal standard in 1988.

This study has also been widely challenged. The study's author compared California job growth to four other states and reached his conclusions based on these comparisons. However, at the time of the study, California's economy was growing at least one-third faster than any of the other states in the study — a factor that was not accounted for in the study. Because the analysis was keyed off interstate comparisons, the negative impact of the minimum wage was masked by the growing California economy.

## Are there "more than a dozen studies" that show a higher minimum wage does not result in job loss?

B11

Former Secretary of Labor Robert Reich popularized a list of studies he claimed showed no job loss. However, even a cursory examination of the short list shows that among the "dozen" studies are the discredited New Jersey and Texas fast food studies, the heavily questioned California study (see material above), three studies from foreign countries, two studies from the 1970s, one "study" that is simply a compilation of other research, and one study that concludes low-skilled adults are displaced from their jobs when the minimum wage rises.

## Should the minimum wage be linked to inflation or average wages?

B12

Indexing the minimum wage to the national inflation rate assumes that all parts of the country share a similar experience in their inflation rates and economic strength. Variations in economic vitality in different parts of the country would concentrate the negative employment effects of a higher minimum wage in regions with the weakest labor markets.

Additionally, policies which tie the minimum wage to inflation inherently assume that the productivity of minimum wage employees is increasing at a pace commensurate with the economy and the work force as a whole. This is rarely the case. Generally, highly-skilled employees have the ability and the opportunity to push up their productivity — and along with it, their compensation — at a much higher rate than their less-skilled counterparts.

Legally mandating that labor intensive, minimum wage positions be compensated for productivity gains in other sectors of the economy violates the fundamental "skills equal wages" equation. Policies which tie the minimum wage to inflation are not cost free. Rather, they carry the same negative consequences as any minimum wage increase.

Finally, in testimony before Congress in early 1995, Federal Reserve Chairman Alan Greenspan reported that the Consumer Price Index may overstate inflation by as much as 1.5%,[41] — almost half of 1996's inflation rate of 3.3%. Since then, several other highly respected studies have reached similar conclusions.

## What effects do minimum wage hikes have on poverty?

B13

Advocates of a higher minimum wage often maintain that an increase will reduce poverty. When economists at the University of South Carolina studied this claim, they found no measurable decrease in the poverty rates of the groups most likely to be affected — junior high school dropouts, young adults, etc.[42]

As former Secretary of Labor Reich has stated, "most minimum wage workers are not poor."[43] In fact, the average family income of an employee who benefitted from the 1996 minimum wage hike is $36,428.[44] Because the minimum wage is so poorly targeted, it is not an effective anti-poverty tool.

# C Questions and Answers

*wages, welfare reform and skills*

**Lacking the most basic skills demanded by employers, these individuals have trouble reading the dosage on an aspirin bottle, filling out a simple form, or completing a bank deposit slip.**

## Will welfare reform move individuals from welfare to work?

C1

**No**, on its own, welfare reform will only add to the number of applicants in the hiring pool. Employers will be left with the responsibility for moving individuals from dependence to independence. Welfare reform will give many people an incentive to apply for jobs, but their skills, experience and "trainability" will determine whether or not they are hired. Employers must deal with the very simple question, "Will this applicant be productive enough to justify the wage I must pay him to perform this job?"

## What are the skill levels of the welfare population?

C2

According to studies sponsored by the U.S. Department of Education, 34% to 44% of welfare recipients[45] and approximately one-third of those with no income source are functionally illiterate.[46] Lacking the most basic skills demanded by employers, these individuals have trouble reading the dosage on an aspirin bottle, filling out a simple form, or completing a bank deposit slip.

According to a study commissioned by the Education Testing Service, "levels of literacy and degrees of success in the labor market are closely linked. This is true in the general population and it is true among those on welfare."[47]

## What challenges do employers face in hiring welfare recipients?

C3

More than one-third of AFDC and food stamp recipients are functionally illiterate.[48] Most lack meaningful education, with approximately one quarter not having completed high school,[49] and few have substantial work experience. Employers who hire members of these groups take huge risks.

Training costs are substantial, since the lowest-skilled workers take the most time to train and generally have the highest "fall-out" rate. Customers get frustrated with new, untrained, often inefficient personnel. And unhappy customers lead to lost business.

Each time the minimum wage rises, employers have a renewed incentive to seek more energetic, more skilled, experienced employees. Welfare recipients who fail to establish such a profile get further shut out of job opportunities.


A full 34% to 44% of welfare recipients test as functionally illiterate — they cannot full out a simple job application.

## For what types of jobs are welfare recipients qualified after leaving public assistance?

C4

Two-thirds of those receiving benefits from the Aid to Families with Dependent Children (AFDC) program spent at least eight years on the welfare rolls.[50] In 1994, fewer than 7% of AFDC recipients engaged in work at all and fewer than 3% engaged in work full time.[51] (Data on AFDC's successor programs are not yet available.)

With such limited exposure to the workplace, most welfare recipients have not developed the experience or skills to justify high wages. Generally, entry-level jobs represent the only opportunities for which welfare recipients are qualified.

Since the employers creating entry-level positions are most often found in the retail and service sectors, it is no surprise a majority of jobs taken after a period of public assistance are found in either retail trade (28%) or services (46%).[52]

## What impact do mandated wage hikes have on welfare reform?

C5

Minimum wage hikes change the composition of the low-wage work force. According to research from Boston University,[53] young people and those who are perceived as having more skills are hired for entry-level jobs following a wage hike, while low-skilled adults are less likely to be hired following a mandated wage increase. "The competition from higher quality workers," the report says, "makes low-skilled workers worse off."

Another study, from the University of Wisconsin, found that welfare mothers in states that raise their minimum wage remain on public assistance 44% longer than their peers in states where the minimum wage remains unchanged. Why? Their skills do not allow them to compete effectively with other job applicants who are attracted to those jobs by the higher minimum wage.[54]

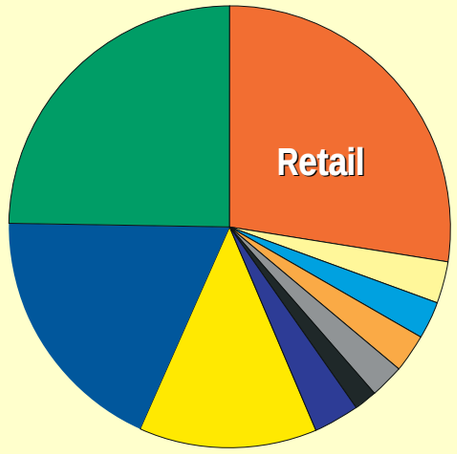
By changing the composition of the low-wage work force, mandated wage hikes seriously undermine the goals of welfare reform.

## Should entry-level wages replace welfare benefits?

C6

This question concerns whether employees should be paid based on need. Should a mother of two children coming off welfare be paid more than a teenager to do the same job? The realities of entry-level work are that the job may provide a greater benefit as a training opportunity. These jobs often give employees the skills to subsequently obtain higher paying jobs. Rather than raising the income of the least skilled individuals, mandated wage hikes lock them out of these training experiences, eliminating any possibility that they will be able to move on to higher paying positions.

### Where do people work after leaving welfare?




- Retail **28%**
- Professional Services **25%**
- Business/Personal Services **19%**
- Manufacturing **13%**
- Public Administration **3%**
- Construction **3%**
- Entertainment and Recreation **3%**
- Transportation/Communication/ Utilities **3%**
- Agriculture **2%**
- Wholesale Trade **2%**

Source: March 1995 Current Population Survey

Figures do not add to 100% due to rounding


## Can the value of a minimum wage job be quantified? C7

If only pay is considered, the value of entry-level employment is greatly underestimated. The true value of a first or second job lies in the skills and experience gained while working. In many ways, entry-level employment is equivalent to being paid to go to school.

According to U.S. Census Bureau data, minimum wage employees increase their earnings an average of 30% after 12 months (see question A3).

Research also indicates that students who work while in school show increased rates of labor force participation along with lower rates of unemployment over time. Of those with the heaviest work schedules while in school (as measured in weeks of employment per year), 87% were employed and only 4% unemployed 12 years later (the rest were not in the labor force). Those with moderate work hours had an 81% employment rate and 5% unemployment rate. In contrast, only 72% of those with no in-school work were employed and 7% were unemployed.[55]

There are also substantial differences in income. More than half of those with heavy work schedules while in school were earning $20,000 or more a dozen years later, while only about a third who did not work while in school earned at these income levels.[56]

## Do you need to know how to read to “flip burgers”? C8

Employers are relying more on technology to help them control labor costs in the face of stiff consumer resistance to higher prices. Consequently, the employment options today for illiterate individuals are severely limited. Even if an illiterate employee can get a janitorial restaurant job, he will have trouble moving up to the cash register if he can’t read the menu or make change. Moving up to shift manager will be impossible if he can’t read the training manual.

Research from the University of Chicago demonstrates that a significant portion of the entry-level work force would be denied entry to the Armed Forces due to poor performance on basic skills tests. Remarkably, nearly 70% of men earning below $6.25 per hour score below average on the Armed Forces Qualifying Test.[57]

# Questions and Answers D

## *the "living wage" campaign*

*Since 1995, "living wage" campaigns have sprung up in nearly three dozen cities and states, from New York City to Los Angeles, from New Orleans to Montana. Financial disclosure forms and the media report the same labor unions and advocacy organizations are behind the efforts in each jurisdiction. The "living wage" effort is a nationally orchestrated campaign.*

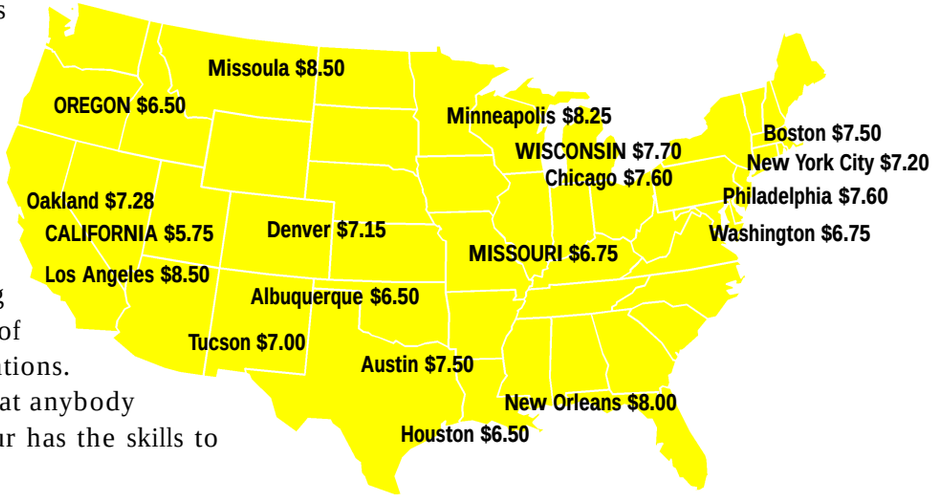
### What is the "living wage" campaign?

D1

In an effort to circumvent a fiscally conservative Congress, wage-hike advocates devised a strategy whereby they would mandate minimum wage increases via ballot initiatives or city council ordinances. Led by national labor unions and ACORN (the Association of Community Organizations for Reform Now), the "living wage" campaign seemed to spring up overnight in more than a dozen cities and states in 1996.

According to its proponents, a "living wage" is defined as approximately 50% of the average wages in the location it is being advocated — generally about $7.70 an hour. Some "living wage" proposals go as high as $8.00 and $9.00 an hour.

All such living wage movements are based on a philosophy of paying potential employees on the basis of need rather than skills or qualifications. "Living wage" campaigns assume that anybody who claims to need $10.00 an hour has the skills to justify that amount to an employer.




This map shows just a few of the wage levels that have been discussed in living wage campaigns during 1996 through early 1997.

# Ⓓ Questions and Answers

*the "living wage" campaign continued*

## How much would a "living wage" mandate cost city and state governments?

D2

From food to janitorial services, city and state governments contract with companies employing thousands of entry-level workers. These contracts can collectively add up to sizable budget impacts. For instance, the 1996 ballot initiative to raise Missouri's minimum wage to $6.50 per hour was defeated in part because its estimated cost to the state government was more than $100 million.[58]

Consider that a $1.50 hike in the minimum wage would cost a state government more than $300,000 per year for each 100 minimum wage workers under its direct or indirect employment. In budget-strapped localities all over the country, such added costs mean higher taxes or fewer services.

## How are "living wage" proposals pursued? D3

There are two basic types of living wage proposals: the ballot initiative proposal, which would increase the minimum wage for all entry-level workers of a given state or city; and the city ordinance proposal, which increases the minimum wage of people working for companies which do business with, or which have "benefited" from a relationship with, a city.

1. **Ballot Initiative Proposal**
2. **City Ordinance Proposal**

## How much would a "living wage" mandate cost an employer?

D4

A standard living wage proposal is $7.70 an hour. How does one measure the impact of such a proposal?

One way to "grasp" the impact of a living wage proposal is to ask how much it would cost an employer with 10 minimum wage employees currently being paid the federal minimum wage. The math is simple — $7.70 - $5.15 = $2.55 additional per hour x 10 employees x 40 hours x 52 weeks per year = $53,040 per year in increased labor costs. Most small business owners don't *have* an extra $53,000; in fact, most small business owners don't *earn* $53,000 themselves. This means they must use every available means to reduce labor costs — cutting employees, hiring only the most productive workers, reducing hours, automating, shifting to more self-service, etc.

## Do "living wage" advocates acknowledge the negative impacts of the policies they propose?

D5

At least one of the leading proponents of living wages — the Association of Community Organizations for Reform Now (ACORN) — readily admitted in a court case that higher minimum wages lead to job loss. In 1995, ACORN sued the state of California in an effort to secure an exemption from that state's minimum wage laws for its own employees. In the incredible legal brief supporting its case, ACORN clearly stated, "… the more that ACORN must pay each individual outreach worker — either because of minimum wage or overtime requirements — the fewer outreach workers it will be able to hire."[59] ACORN also stated that "California's minimum wage laws … affect the quality and quantity of staff" the organization can hire.

**In 1995, ACORN sued the state of California in an effort to secure an exemption from that state's minimum wage laws for its own employees.**

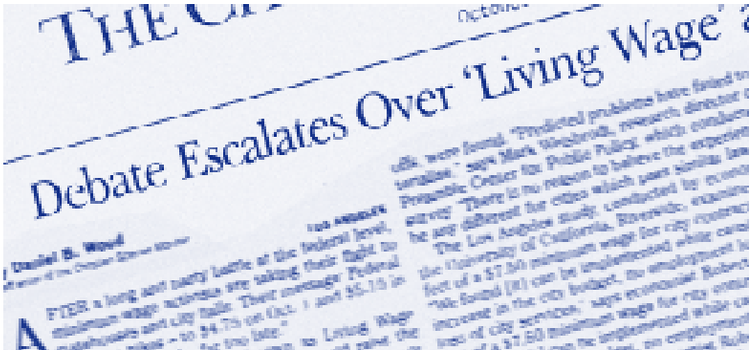
## Are there special problems with the "living wage" concept?

D6

Opponents of living wage laws raise a number of objections:

- Living wage laws place the cities or states affected at a competitive disadvantage with neighboring areas, where mandated wage rates are likely much lower.
- The job losses associated with living wage laws are significant. The wage hike is higher and so is the job loss resulting from its implementation.
- Costs to state and local governments (i.e., taxpayers) can run into the tens of millions of dollars due to higher costs of state/city contracts.

*For updated information on the living wage campaign, see the Employment Policies Institute's home page at http://www.epionline.org or call our office.*


Debate Escalates Over 'Living Wage'

# E Questions and Answers

*economic realities*

## Why do surveys show that a majority of Americans support an increase in the minimum wage?

E1

Surveys show strong support for a minimum wage hike — until the survey respondents learn about the impact a wage hike would have. In a 1996 survey conducted by the Opinion Research Corporation, 76% of those surveyed said they favored a hike in the minimum wage. Yet, in most cases these were uninformed opinions. A full 78% of the group did not know what the minimum wage was .[60]

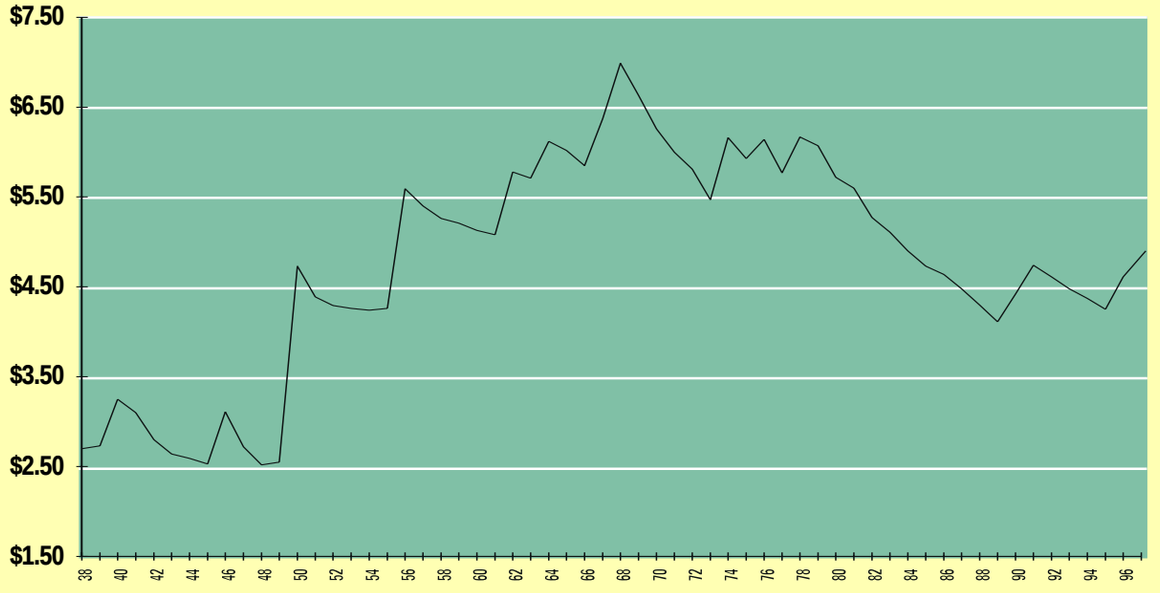
## Has inflation eroded the minimum wage?

E2

Today, the vast majority of workers affected by minimum wage rates are employed in the retail and service industries. When the wage standard was first implemented, unskilled retail and service workers were not covered by the minimum wage law. In 1938 and for many years thereafter, it was a minimum wage that covered mostly manufacturing, mining and transportation — it was a minimum *skilled* wage.

Up through the early 1960s, only 4% of retail workers and fewer than 1% of restaurant workers were covered by the minimum wage. Employees in movie theaters, laundries, small newspapers, domestic service and most dry cleaners were exempt altogether — their minimum wage was $0.00. As Congress expanded the reach of the minimum wage law, the wage standard became irrelevant to skilled workers (they were paid much more than the minimum rate). It became a minimum *unskilled* wage — and Congress allowed the value of the wage to fall in line with the types of employees it was now covering.

**The Minimum Wage Adjusted for Inflation 1938-1997**



## Does a higher minimum wage benefit local businesses by stimulating the economy?

**E3**

After a mandated wage hike, employers may be able to keep labor costs relatively even by reducing their work force, automating their operations, or cutting customer service.

If employers cannot reduce costs or raise prices, and they must absorb the new labor costs, the money likely comes out of investment and expansion. Employers who planned to add a second store on the other side of town may re-think their expansion — and their plans to hire the employees they would need in the new store.

The most powerful argument against the notion that raising the minimum wage "pumps more money into the economy" is drawn from common sense: if this notion were true, advocates of a higher minimum wage would push for an increase to $25 per hour, the economy would expand overnight, and every business in the country would benefit tremendously. It doesn't take a trained economist to know this doesn't make sense.

## In some areas, low-wage employers already pay $6.00 an hour. Why not mandate by law this prevailing wage rate?

**E4**

Even in places where many entry-level employees are making substantially more than the minimum wage (i.e., their skills equate to a wage rate higher than the minimum wage), a small number continue to make the minimum. These are the least skilled members of the work force — many of whom would not have gotten jobs at all had they lived in a less prosperous economy. In short, if their skills don't justify a wage higher than the existing minimum wage, they won't be hired.

## Businesses require a certain number of employees to operate. Even with a minimum wage hike, how can businesses suddenly reduce employment?

E5

The Wall Street Journal *summed up the real impact of a minimum wage hike in November 1996, a few weeks after the federal minimum wage rose 50 cents per hour.* The Journal *reported companies were tightening their labor-cost belts. The hike prompted employers to start "carefully scrutinizing who they hire," even doing "assessment profiles" to make sure they were not "wasting the extra 50 cents on unreliable help."*[61]

Employers facing higher mandated labor costs have a range of options for cutting costs — and none of these options are particularly attractive to low-skilled workers. In addition to cutting back on the number of people employed in a given community:

**Employers can hire more skilled employees rather than taking a chance on someone with a spotty work record or no work record at all.** Employers do "raise the bar" for job applicants after a wage hike. They may replace unproductive employees immediately, or they may hire better workers as current employees leave. In either case, the lowest-skilled workers are either out of a job or have more difficulty getting hired.

**Automation Examples**

- Automatic Teller Machines
- Self-Serve Gas Stations
- Self-Serve Soda Fountains
- Computerized Information Kiosks in Department Stores
- Automated Phone Operators
- Check-Out Price Scanners
- Self-Serve Car Washes

*All jobs once performed by entry-level workers.*

**Employers can cut the hours of their entry-level work force and ask managers to pick up the slack.** A manager may wind up working the cash register on a slow night, building displays in a retail establishment, or helping clean up the workplace before closing — all jobs that were once handled by minimum wage employees who saw their hours cut after the mandated wage hike.

**Employers can automate numerous functions in the workplace.** Higher mandated wages give employers a big incentive to purchase new equipment that requires less human labor to operate. Self-serve soda fountains and gas stations are now as common as automated tellers — three examples of jobs being replaced by automation.

**Employers can reduce customer service.** It is common today for guests in a fast food establishment to clean their own tables. In some supermarkets customers bag their own groceries. And nearly every American driver now pumps his/her own gas — all jobs that were once performed by entry-level employees.

**Employers can demand higher productivity from their current employees.** After a mandated wage hike, managers may tell cashiers that they must ring through five more customers per hour in order to "make the grade." Employees may be required to produce an extra ten "widgets" per hour. Employers may cut the number of allowable errors — increasing the pressure on employees to get every order right. Or companies may give stocking crews just four hours instead of five to restock every shelf in the store. Any increase in productivity demands spells bad news for the lowest-skilled employees — they have a tougher time keeping up, and if they don't "make the grade," they are replaced with faster or more productive workers.

## Can employers recover the cost of minimum wage hikes by increasing prices?

E6

In an extremely competitive retail environment, successful businesses are the ones that are stabilizing and even cutting prices. Consumers are extremely resistant to higher prices in a non-inflationary economy. Even in the wealthiest neighborhoods, people buy self-serve gasoline to avoid paying a few extra cents for full service. Television commercials constantly advertise falling prices and "value meals." Sunday newspapers are filled with coupons for as little as "10 cents off." Telephone companies engage in expensive advertising battles over long distance rates that often vary by one or two pennies a minute. If these marketing strategies didn't appeal to consumers, businesses wouldn't use them.

Simple logic dictates that if businesses *could* raise prices, they would. Yet policymakers who lack this basic understanding of the marketplace sometimes view the costs of minimum wage hikes in a vacuum. They don't see why consumers would care about paying a nickel more for each gallon of gas, or 50 cents more for each meal in a restaurant.

In short, when the government demands that employers pay employees higher wages, one rarely hears mention of the other important player in this equation — the consumer. With their purchasing decisions, consumers determine how much a business can charge for its products or services and, accordingly, how much that business can afford to pay its employees.

### "a lousy 90 cents"

In supporting a 21% hike in the minimum wage, former White House Chief of Staff Leon Panetta described the mandated jump as "a lousy 90 cents." What he failed to grasp is that "a lousy 90 cents" will cost an employer with 10 minimum wage employees almost **$20,000** a year in additional labor costs. How will this small business come up with the extra **$20,000**?

# Endnotes

**"Legislators are right to search for ways to help the working poor, but wrong to think that raising the minimum wage is one of them."**

***The New York Times***


1 Compiled from 1995 ORG Current Population Survey. Sample weights used for analysis. Sample consists of wage and salary workers age 16 and over.

2 Compiled from 1995 Current Population Survey. Based on workers making $4.25 an hour or less in 1995.

3 ibid.

4 ibid.

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35 "The Crippling Flaws in the New Jersey Fast Food Study, 2nd Edition (Washington, D.C.: The Employment Policies Institute, April 1996)

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**"A higher minimum will further reduce the employment opportunities of workers with few skills."**

***Gary Becker***
***1992 Nobel Laureate, Economics***

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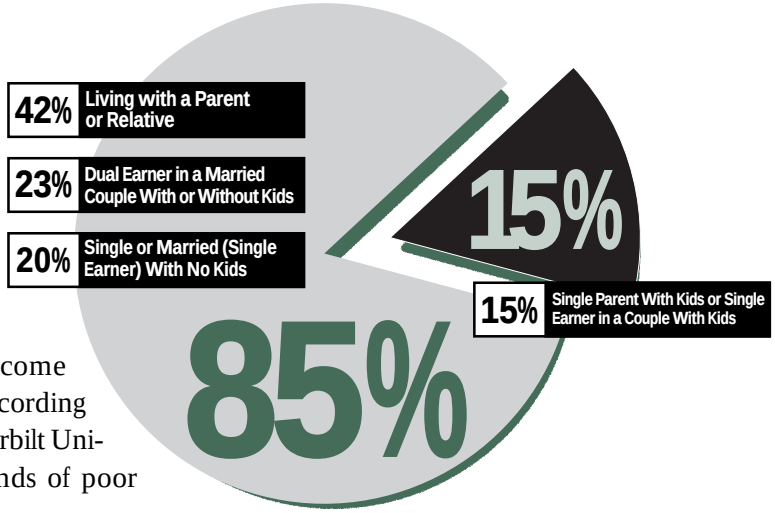
The Employment Policies Institute is a non-profit research organization dedicated to studying public policy issues surrounding employment growth. In particular, EPI research focuses on issues that affect entry-level employment. Among other issues, EPI research has quantified the impact of new labor costs on job creation, explored the connection between entry-level employment and welfare reform, and analyzed the demographic distribution of mandated benefits. EPI sponsors nonpartisan research which is conducted by independent economists at major universities around the country.

# Minimum Wage Questions and Answers

1999 Addendum

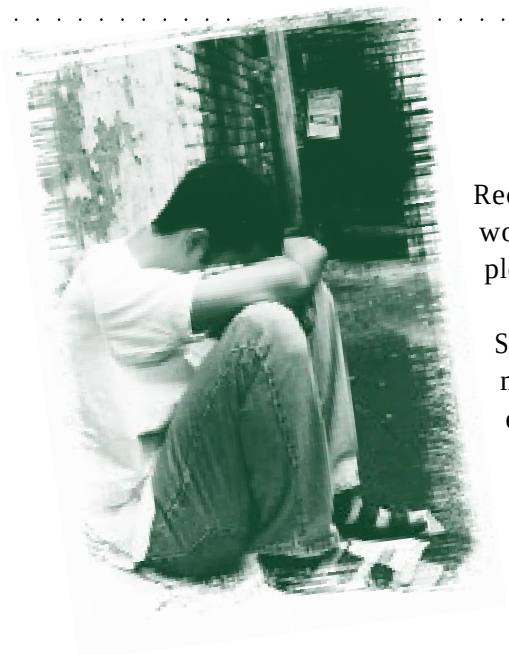
## Who Would Get it?

The national average family income of employees who would "benefit" from President Clinton's proposed minimum wage hike to $6.15 is **$37,782**. According to U.S. Census Bureau data, 85% of the potential beneficiaries of a $6.15 minimum wage live with their parents or another relative, live alone, or have a working spouse. Over 40% live with their parents or another relative. **Less than 15% are the sole earners in families with children**, and each of these sole earners has access to supplemental income through the Earned Income Tax Credit—which, according to researchers both at Syracuse University and Vanderbilt University, puts ten times as many dollars into the hands of poor families as do minimum wage hikes.




EPI has compiled identical minimum wage "beneficiary" profiles for all 50 states in the pages that follow. Even in the poorest states (such as Alabama and Mississippi), more than 75% of those earning the minimum wage are **not** raising a family on that income alone. In other states, more than 90% of beneficiaries are kids living with their parents or another relative, individuals living alone, or secondary-earners who have a working spouse.

In every state, the average family income of those who would benefit from a $6.15 minimum wage exceeds the official poverty level for a family of three by **at least 200%**. In 19 states, the family income of these "beneficiaries" is over 300% of the federal poverty line for a family of three, and in two states (Connecticut and Maryland) it is over 400%.



## Who's Paying For It?

Recent research has shown that the 1996-1997 minimum wage hike would increase the number of teens who are out of school and unemployed by approximately 20%.

According to research conducted by David Neumark of Michigan State University, "A higher minimum wage increases the relative demand for enrolled—higher quality and more skilled—teenagers. As employers substitute toward these higher-skilled teenagers, lower-skilled teenagers are… more likely to end up neither enrolled in school nor employed."

The problem is even worse for minority youths. The probability that black and Hispanic teens will be out of school and unemployed increases at a rate two and a half times that of white teens.

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# Minimum Wage Questions and Answers

1999 Addendum

## Who Wins?

According to data from the U.S. Commerce Department, increasing the minimum wage from $5.15 to $6.15 would result in an average pay increase of just $14.54 per week—about 1.8% percent of family income per year.

While such an increase does little to boost family incomes, it is a tremendous burden to the employers who *pay* the wage. An employer with as few as 10 full-time minimum wage employees will pay more than $20,000 in additional labor costs due to a minimum wage hike to $6.15—the level recently proposed by President Clinton.

According to Boston University economist Kevin Lang, this type of increase in labor costs will "induce a shift towards teenagers and students," leaving "low-skill workers worse off."


## Who Loses?

**215,000**

**LOST JOBS**

Despite a booming economy, the first half of the 1996 minimum wage increase resulted in 215,000 fewer teenage jobs, according to U.S. Department of Labor data. To the extent that teenaged workers are representative of all minimum wage workers, these findings imply that as many as 645,000 entry-level jobs were destroyed by the 50-cent minimum wage increase that took effect October 1, 1996. Especially vulnerable were black males aged 16-19, as well as teen males in general.

These are the faces of the "losers" from the 1996 50-cent minimum wage increase. With another minimum wage increase being proposed—this time to $6.15—the job outlook for thousands more teenagers and low-skilled workers is precarious.

For a copy of the full report, *Job Loss in a Booming Economy*, call 202-463-7650, or visit our Web page at www.epionline.org.

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# Minimum Wage and Tax Penalties Faced by Families Moving from Welfare to Work

The earnings gains of families leaving welfare for work are often reduced or even outstripped by reductions in public assistance.

According to research from New York University, America's working poor are subject to punishing marginal tax rate effects that can eliminate most — and, in some cases *all* — of the higher earnings accompanying any wage increases.

Many low-wage parents keep some of their welfare benefits as they begin earning income on the job. These benefits are phased out as income rises. But the phase-outs cause problems. In some cases, they actually give parents a stronger incentive to **not** work.

Professor Shaviro focuses on single parents. In some states, he finds that a single mother with two children could increase her earned income from $10,000 per year to $25,000 per year and actually find herself with 2,540 *fewer dollars* once she accounts for lost tax credits and benefits. **Though her earned income more than doubles, she is worse off financially.**

Using this framework, analysts can estimate the effects of mandated wage proposals. For instance, Congress is considering a one-dollar-per-hour hike in the federal minimum wage (to $6.15 per hour). Legislators who fail to account for effective marginal tax rates will wrongly conclude that this wage hike would create more than $2000 per year in added gross income for a full-time worker. **But if that worker is a single-parent with two children and is receiving public assistance, she would face astonishing effective tax rates on her additional earnings — *rates as high as 90% in some states*.** If the mandated wage hike is just a few cents higher (*e.g.*, $6.45 per hour), marginal tax rate effects would claim between 78% and 109% of her income.

Assuming the federal wage floor rises by a dollar (to $6.15 per hour), a single working teen or childless adult under the age of 25 would take home approximately $1,544 of the raise, after taxes. By contrast, a single mother of two, working full time in a state that offers generous public assistance benefits, would retain just $52.42 of the extra earnings—only 3 percent of the amount kept by the childless young adult. Arguably, **those who need additional income the most would receive the smallest "raise," while those who need less would get much more.** These huge marginal tax rate effects (as high as 78%) persist even up to wage levels of $12.50 or higher for full-time workers.

## Pay Increase or Pay Cut? Changes in Total Yearly Income after a Minimum Wage Increase: Single Mother Receiving Public Assistance with Two Kids

| Mandated Wage Hike Above $5.15/Hour | **High** Benefit State w/Housing Subsidy | **High** Benefit State **no** Housing Subsidy | **Low** Benefit State w/Housing Subsidy | **Low** Benefit State **no** Housing Subsidy |
|---|---|---|---|---|
| to $6.15 | $147.29 | $747.97 | $819.02 | $1,419.71 |
| to $7.25 | **-$3,672.06** | **-$2,410.62** | **-$854.30** | $407.14 |

** Includes employer share of payroll taxes equal to 7.65%. Assumes a 2,000-hour work year. Take-home pay is obtained by subtracting federal and state income taxes, excise taxes, and reduced benefits (from Food Stamps, Medicaid, Temporary Assistance to Needy Families, the Earned Income Tax Credit and housing subsidies when they apply) from overall income.*

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## Who Would Benefit from the Proposed Minimum Wage Increase to $6.15?

### A State-by-State Profile

| States | Single Parent or Single Earner with Kids | Living alone, with parents or as part of a dual income household | Average Family Income |
|---|---|---|---|
| **All States** | **15%** | **85%** | **$37,782** |
| Alabama | 22% | 78% | $33,157 |
| Alaska | 11% | 89% | $46,602 |
| Arizona | 19% | 81% | $31,545 |
| Arkansas | 18% | 82% | $27,624 |
| California | 18% | 82% | $33,976 |
| Colorado | 10% | 90% | $50,171 |
| Connecticut | 12% | 88% | $59,894 |
| Delaware | 13% | 87% | $43,238 |
| Florida | 16% | 84% | $31,811 |
| Georgia | 18% | 82% | $36,485 |
| Hawaii | 12% | 88% | $37,164 |
| Idaho | 12% | 88% | $37,381 |
| Illinois | 14% | 86% | $44,338 |
| Indiana | 7% | 93% | $42,992 |
| Iowa | 7% | 93% | $37,218 |
| Kansas | 15% | 85% | $40,376 |
| Kentucky | 19% | 81% | $35,697 |
| Louisiana | 20% | 80% | $32,563 |
| Maine | 14% | 86% | $40,893 |
| Maryland | 9% | 91% | $58,058 |
| Massachusetts | 11% | 89% | $49,705 |
| Michigan | 14% | 86% | $46,749 |
| Minnesota | 10% | 90% | $44,016 |
| Mississippi | 24% | 76% | $29,755 |
| Missouri | 14% | 86% | $41,775 |
| Montana | 11% | 89% | $30,707 |
| Nebraska | 9% | 91% | $40,446 |
| Nevada | 10% | 90% | $37,429 |
| New Hampshire | 13% | 87% | $49,455 |
| New Jersey | 14% | 86% | $50,151 |
| New Mexico | 18% | 82% | $28,829 |
| New York | 17% | 83% | $42,231 |
| North Carolina | 16% | 84% | $32,384 |
| North Dakota | 7% | 93% | $34,057 |
| Ohio | 12% | 88% | $42,650 |
| Oklahoma | 16% | 84% | $31,127 |
| *Oregon | 16% | 84% | $32,057 |
| Pennsylvania | 12% | 88% | $42,100 |
| Rhode Island | 6% | 94% | $37,331 |
| South Carolina | 17% | 83% | $38,138 |
| South Dakota | 5% | 95% | $33,261 |
| Tennessee | 16% | 84% | $32,962 |
| Texas | 20% | 80% | $29,834 |
| Utah | 9% | 91% | $46,884 |
| Vermont | 11% | 89% | $36,297 |
| Virginia | 14% | 86% | $41,250 |
| *Washington | 13% | 87% | $35,682 |
| West Virginia | 15% | 85% | $29,565 |
| Wisconsin | 8% | 92% | $48,709 |
| Wyoming | 10% | 90% | $35,930 |

***** *Figures provided for Oregon and Washington reflect state minimum wage rates that are higher than the proposed federal level of $6.15 per hour.*

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