Briefing Paper

NO LONGER GETTING BY

An Increase in the Minimum Wage Is Long Overdue

by Amy Chasanov

> No business which depends for existence on paying less than living wages to its workers has any right to continue in this country. By living wages I mean more than a bare subsistence level—I mean the wages of a decent living.
>
> *— Franklin Roosevelt (urging passage of minimum wage legislation)*

Full-time workers who put in a full day's work should receive enough wages to purchase the goods and services necessary to meet their most basic needs. The federal minimum wage, originally passed as part of the Fair Labor Standards Act, was established to ensure that low-income workers earn sufficient wages. The purpose of the minimum wage then, as now, was to lift the earnings of low-wage workers by preventing market forces from driving down the wages of the least-educated and the least-skilled workers in the labor force. The minimum wage accomplishes this goal by establishing an hourly wage floor beneath which employers cannot legally pay their workers.

The current minimum wage is $5.15 per hour, and Congress has not increased this rate in seven years—the second-longest stretch of government inaction since the minimum wage was enacted in 1938. As a result, millions of hard-working Americans who earn at or near the minimum wage simply do not have the resources to provide for themselves and their families. A long-overdue minimum wage increase can not come soon enough for low-wage workers who are struggling in this weak labor market.

Raising the minimum wage would help lift some working families above the poverty line by addressing the primary problem with current minimum wage rate: it has failed to keep pace with inflation and the rising cost of living. In addition to providing a much-needed boost to low-wage families, increasing the minimum wage would also have the following positive economic effects:

- **A pay raise for those who need it most: women and minorities.** Routine increases in the minimum wage help alleviate discrimination against women and minorities and substitute for the market leverage these workers do not have.
- **"Ripple effect" wage hikes for workers earning just above the current minimum wage.** Evidence shows that when the minimum wage is increased employers often raise wages for those earning above the minimum wage.
- **Strengthened consumer purchasing power.** Raising the minimum wage would stimulate spending and put money back into local economies.

In the coming weeks, the House and Senate are likely to consider multiple proposals to raise the minimum wage. Senator Edward Kennedy and Representative George Miller introduced identical bills entitled the "Fair Minimum Wage Act of 2004" that would raise the minimum wage from $5.15 to $7.00 (see S. 2370 and H.R. 4256). An alternative bill will likely propose a smaller increase to $6.25.

Why the current minimum wage is not enough

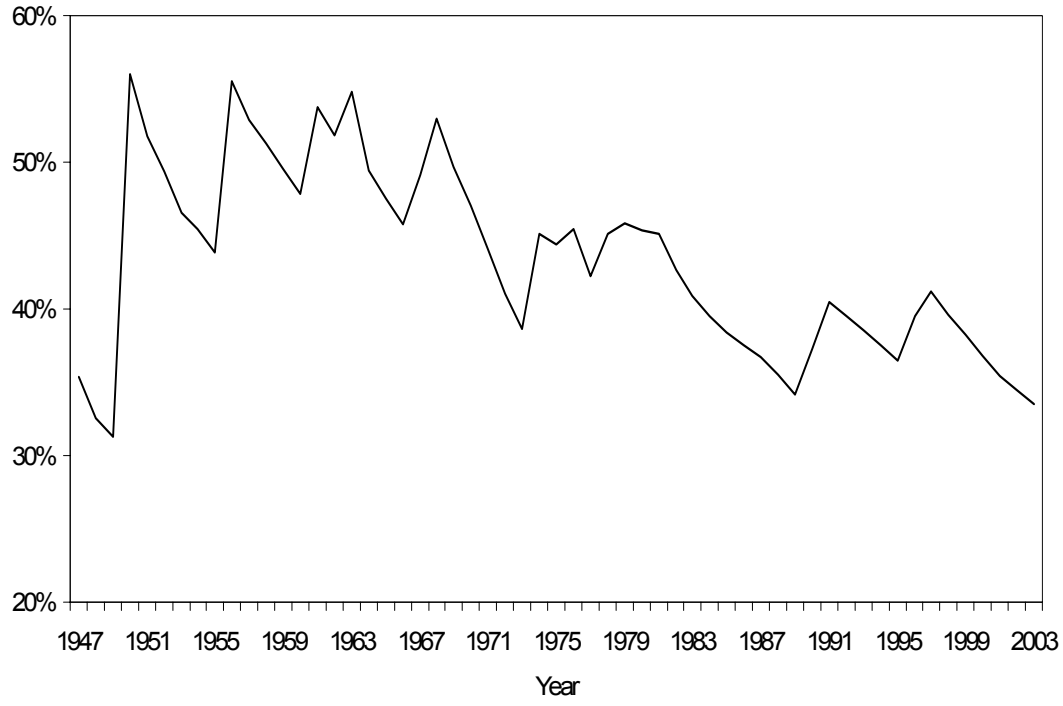
The value of minimum wage has not kept up with inflation. Because the minimum wage is not indexed to inflation, the value of the minimum wage erodes over time, making it difficult for low-wage workers to make ends meet. In the past 65 years, the minimum wage has been increased only 19 times, and those increases have not come at regular intervals. The combination of inflation and government inaction has caused the value of the minimum wage to lose ground relative to average hourly earnings, widening the gap between low-wage workers and the middle class.

As shown in **Figure 1**, in the 1950s and 1960s the minimum wage averaged 50% of average hourly earnings. That number decreased to 44% in the 1970s and hovered around 39% in the 1980s and 1990s. Today, the minimum wage is only 33% of the average hourly earnings, its lowest level in more than 50 years.

A minimum wage that fails to keep up with inflation depresses the living standards of low-income workers and contributes to the overall stagnant wage growth characterizing the current recovery. It is therefore critical that policy makers move quickly to restore the lost purchasing power of the minimum wage. Since the last increase to $5.15 (passed in 1995), the value of that increase has been completely eaten away, returning the minimum wage to a historically low level in terms of purchasing power. In 2004 dollars, the 1995 minimum wage was worth $5.19, compared to current $5.15 minimum wage. A full-time worker earning the minimum wage back in 1968, when Congress raised the minimum wage more

FIGURE 1

Minimum wage as percent of average hourly wage, 1947-2003



Source: EPI analysis using average hourly earnings of production workers from BLS establishment payroll survey.

regularly to keep pace with inflation, would have made the equivalent of $15,431 today—44% more than today's full-time minimum wage worker. This decline in the real value of the minimum wage over the last seven years translates into lower real wages for millions workers and contributes to the income gap between poor working families and the middle class (Lee 1999, p. 1016).

The current minimum wage rate keeps many workers in poverty. Today's minimum wage rate of $5.15 an hour is insufficient to allow working families to meet their most basic needs—in 2002, about 2.6 million full-time, year-round workers lived in poverty (U.S. Census Bureau 2003, p. 7). However, this outdated measurement of the poverty line underestimates the amount of income families need to make ends meet. The original poverty thresholds were set in the early 1960s. Since then, there have been a number of changes in family expenditure patterns that the poverty threshold fails to capture. For example, families are demanding and paying for more health care and child care because of changes in health insurance coverage, rising health care costs, and women's increased labor force participation. As overall consumption levels have increased over time, living standards in the United States have also risen.

Many scholars agree that the current poverty threshold is set too low. An EPI study found that families with incomes up to twice the poverty line (200%) still had difficulty satisfying basic needs such as food, housing, health care, and child care (Boushey et al. 2001, pp. 29-31), and other research has confirmed that finding (Sklar et al. 2001, pp. 46-47). In fact, recognizing that the current poverty line does

not accurately assess a family's needs, numerous federal government programs have set eligibility requirements at levels above the poverty line (e.g., coverage under the State Children's Health Insurance Program is set at or around 200% poverty; child nutrition programs for free and reduced price meals are set at 130% and 185% poverty, respectively; and food stamp programs are targeted to households with incomes below 130% poverty).

Even using the flawed poverty threshold, the current minimum wage is insufficient to provide the support working families need. A full-time, year-round worker being paid the minimum wage earns about $10,712 a year. This is $1,778 below the 2004 poverty line for a family of two, $4,958 below the 2004 poverty line for a family of three, and $8,138 below the poverty line for a family of four. In order for a family of four with one full-time wage earner to meet the poverty threshold, the minimum wage would have to be raised 76% to $9.06 an hour.[1]

Who benefits from a higher minimum wage?

Raising the minimum wage to $7.00 would put more than $3,800 a year in the pockets of full-time, year-round workers, increasing their income by 36%. This increase would lift some working families out of poverty, allowing them to purchase basic necessities. Workers who represent a disproportionate share of minimum wage workers—namely, women and minorities—would receive a much-needed boost from the minimum wage increase. In addition, a minimum wage increase would affect not just those workers who are currently earning a minimum wage paycheck but also those earning above the minimum wage and the overall economy.

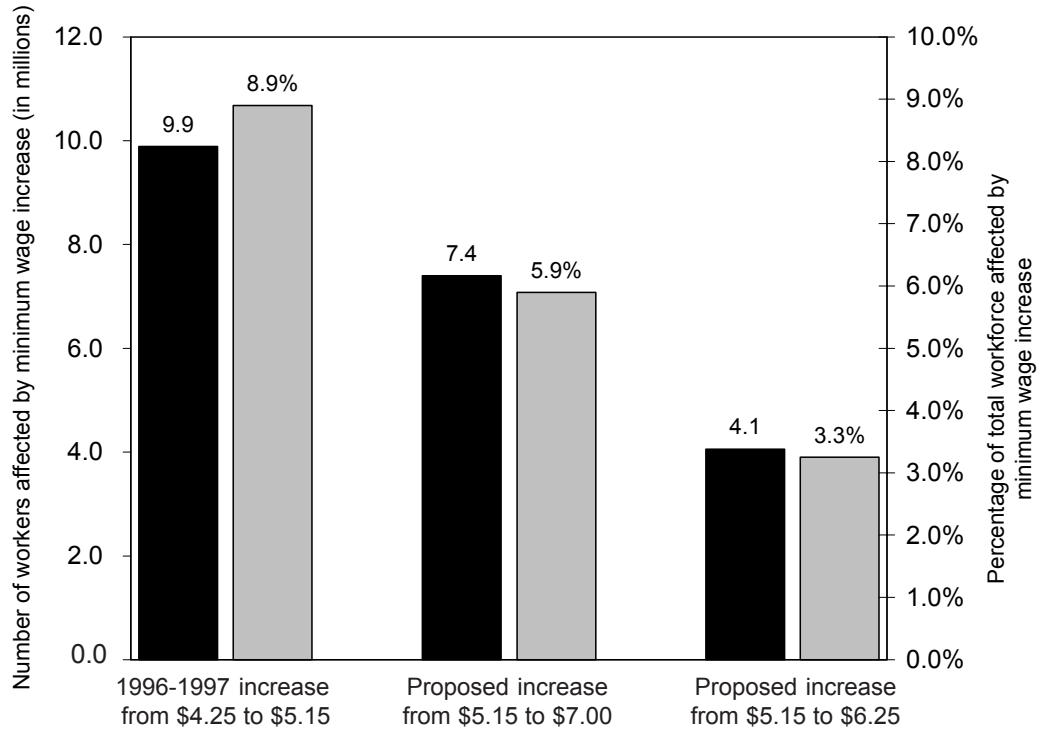
Economy-wide impact of a minimum wage increase

Raising the minimum wage does not simply increase wages for workers earning the minimum wage—it also increases the wages of those earning more than the existing minimum wage. Numerous studies have found that a minimum wage increase has a "ripple effect" for workers above the "old" minimum wage rate but below the "new" minimum wage rate. These workers often receive a new wage rate that is above the new minimum wage (Spriggs and Klein 1994, pp.12-13). Similarly, workers earning just above the new minimum wage rate may also receive raises above the new minimum wage (Spriggs and Klein 1994, pp. 17-18; Bernstein and Schmitt 1997, p. 2). Employers often raise the wages of these better-paid workers in order to maintain pay differentials with minimum wage workers in their own firm and in other firms (Bernstein and Schmitt 1997, p. 2; Spriggs and Klein 1994, pp. 12-13).

The low-wage workers most affected by the minimum wage increase are consumers who are more likely than higher-wage workers to spend their additional earnings on necessary goods and services. Raising the minimum wage increases consumers' purchasing power, thereby putting more money back into local economies. (Increases in the salaries of higher-wage workers are more likely to go toward savings because their wages already cover their basic needs.) Thus, increasing the minimum wage will stimulate considerable spending and further fuel the economy as a whole.

FIGURE 2

Comparison of proposed minimum wage increases to 1996-97 increase



Source: EPI analysis of 2003 Current Population Survey.

Direct and indirect effects of two proposed minimum wage increases

EPI analyzed the 2003 Current Population Survey (CPS) to determine the effects of proposed increases in the minimum wage to $6.25 and to $7.00 per hour, assuming that the minimum wage increase is fully phased in by April 2006. **Figure 2** compares the direct effects of an increase in the minimum wage under each of the two proposals with the 1996-1997 increase that raised the minimum wage from $4.25 to $5.15 in two steps. These "direct" effects only consider workers earning less than the new minimum wage. These estimates are one of the most important considerations when evaluating the benefits of a minimum wage proposal to low-income workers and the potential costs to employers.

The last minimum wage increase in 1996-1997 directly improved the earnings of 9.9 million workers, or 8.9% of the workforce. It did so without negative employment or economic consequences and can therefore be used as a benchmark for a successful minimum wage package. The impact of the $6.25 and $7.00 proposals, however, falls far short of the 1996-1997 increase. The Fair Minimum Wage Act of 2004 proposes to increase the minimum wage to $7.00, raising the wages of 7.4 million workers, or 5.9% of the workforce. A smaller increase to $6.25 would only raise the wages of 4.1 million workers, or 3.3% of the workforce.

In addition to these "direct" effects, EPI also estimates that there would be additional "spillover" effects for workers who currently earn above the new minimum wage rate. Hiking the minimum wage to $7.00 would likely have a ripple effect on other low-wage workers who make up to $8.00. This ripple effect would encompass approximately 8.2 million additional workers, or 6.6% of the workforce, who would otherwise be expected to earn between $7.00 and $8.00. A $6.25 proposal could potentially raise the wages of approximately 4.2 million additional workers, or 3.4% of the workforce, who would otherwise be expected to earn between $6.25 and $7.25.

Characteristics of workers affected by the minimum wage increase

Estimates of the characteristics of those workers who would be affected if the minimum wage were raised to $7.00 under the Fair Minimum Wage Act of 2004 are shown in **Table 1**. EPI's estimates, calculated using the Current Population Survey, find that:

- Low-income working households would reap substantial benefits, with 39% of the income gains generated by the increased minimum wage going to the poorest 20% of working households (with average weekly earnings of only $271) and 60% of the gains going to the poorest 40% of households (with average weekly earnings of $414).
- Thirty-six percent of families with workers who would benefit from an increase in the minimum wage rely exclusively on the earnings of those minimum wage workers.
- Seventy-two percent of those directly affected by an increase in the minimum wage are adults age 20 and over and 61% are women.
- Forty-four percent of affected workers are employed full time (working 35 hours a week or more) and 77% work 20 hours a week or more.
- 3.4 million children have at least one parent who would be affected by an increase in the minimum wage.

The minimum wage increase would not only help women and adults, but would also raise wages of minorities, who are disproportionately earning at or slightly above the minimum wage: African Americans are 15% of those earning below $7.00 but only 11% of the workforce, while Hispanics are 19% of those earning below $7.00 but only 13% of the workforce.

The increase would also disproportionately help non-unionized workers, those in the retail trade and leisure and hospitality industries, and workers in service and sales occupations. According to a recent analysis by the Bureau of Labor Statistics (BLS) using 2002 data from the Current Population Survey (CPS), 67% of workers earning at or below the minimum wage are in service occupations, and food-service workers hold more than 50% of all the jobs at or below minimum wage (BLS 2003, Table 4). The retail trade industry also has a disproportionate number of workers earning at or below minimum wage (22% of employment but 62% of those at or below minimum wage) (BLS 2003, Table 5).

Table 2 shows the effects of the Fair Minimum Wage Act of 2004 by state.

TABLE 1
Characteristics of workers affected by minimum wage increase to $7.00*

	Hourly wage between $5.15 and $7.00**	Hourly wage between $7.00 and $8.00***	Total workforce****
Number of workers (in millions)	7.4	8.2	124.7
Percent of workforce	5.9%	6.6%	100.0%
Gender			
Male	39.1%	42.3%	51.7%
Female	60.9	57.7	48.3
Race / ethnicity			
White	62.1	58.8	70.0
Black	14.8	13.0	11.1
Hispanic	18.9	22.9	13.1
Age			
16-19	28.1	15.9	4.7
20 and older	72.0	84.2	95.3
Work hours			
1-19 hours	22.7	13.8	5.7
20-34 hours	33.3	26.8	12.8
Full time (35+ hours)	44.0	59.4	81.5
Industry			
Retail trade	22.9	22.7	11.9
Leisure and hospitality	28.0	19.2	8.7
Manufacturing	5.4	8.8	13.3
Occupation			
Sales	21.7	18.6	10.9
Service	40.7	33.1	16.5
Union coverage			
Covered	4.6	5.7	14.3
Not covered	95.4	94.3	85.7

* Assuming a phase-in with the final step enacted in April 2006.
** In states with minimum wage rates above $5.15 but less than $7.00, these are the workers earning between the state minimum wage and $7.00.
*** Those most likely to be affected by "spillover effects."
**** Includes workers not covered by minimum wage.

Source: EPI analysis of 2003 Current Population Survey data.

Opposition to raising the minimum wage

Opponents of minimum wage increases repeat the same misguided arguments against an increase. First, opponents allege that the market should set the minimum wage, not the government. Second, they claim that raising the minimum wage will cost many low-wage workers their jobs. Third, they contend that the minimum wage is not well targeted, with most of the benefits accruing to teenagers and families that already have relatively high income levels. These arguments are refuted in the sections that follow.

TABLE 2
Number and percentage of workers affected by minimum wage increase to $7.00 by April 2006, by state

UNITED STATES	5.9%	7,373
NORTHEAST		
New England		
Maine	**	**
New Hampshire	3.3%	20.5
Vermont	***	***
Massachusetts	**	**
Rhode Island	**	**
Connecticut	***	***
Middle Atlantic		
New York	6.6%	531.3
New Jersey	4.6	174.2
Pennsylvania	6.5	348.3
MIDWEST		
East North Central		
Ohio	7.6%	395.7
Indiana	6.4	180.4
Illinois	6.2	343.6
Michigan	5.7	243.2
Wisconsin	6.0	158.5
West North Central		
Minnesota	3.9%	97.6
Iowa	7.5	103.9
Missouri	6.1	158.6
North Dakota	9.4	27.5
South Dakota	7.5	26.9
Nebraska	7.9	66.3
Kansas	8.0	97.6
SOUTH		
South Atlantic		
Delaware	**	**
Maryland	4.5%	112.6
Dist. of Columbia	**	**
Virginia	5.0	166.7
West Virginia	12.0	82.1
North Carolina	6.3	228.5
South Carolina	8.4	145.1
Georgia	6.2	233.6
Florida	6.3	430.8
East South Central		
Kentucky	8.7%	148.9
Tennessee	6.7	161.9
Alabama	9.4	175.2
Mississippi	10.7	121.5
West South Central		
Arkansas	11.4%	120.9
Louisiana	12.4	212.8
Oklahoma	9.6	138.2
Texas	9.9	911.6
WEST		
Mountain		
Montana	11.6%	42.7
Idaho	10.0	55.8
Wyoming	10.3	23.5
Colorado	3.6	74.0
New Mexico	10.7	80.9
Arizona	5.6	125.4
Utah	8.1	84.2
Nevada	5.6	53.9
Pacific		
Washington	***	***
Oregon	***	***
California	2.7%	392.7
Alaska	***	***
Hawaii	**	**

* Assuming a phase-in with the final step enacted in April 2006.
** Insufficient sample size to estimate. In these cases, higher state minimum wages lessen the impact of a federal increase.
*** Alaska, Connecticut, Oregon, Vermont, and Washington have or will have minimum wages above $7.00 by 2005.

Source: EPI analysis of 2003 Current Population Survey data.

The government's role in setting the minimum wage

When it passed the Fair Labor Standards Act (FLSA) more than 60 years ago, the Congress decided that the federal government should set a minimum wage beneath which no worker's wages should fall. In the FLSA, Congress enunciated its goal to reduce "labor conditions detrimental to the maintenance of the minimum standard of living necessary for health, efficiency, and general well-being of workers."[2]

Federalism scholars frequently cite equitable income redistribution as a primary economic function of the federal government (see, e.g., Oates 1972, pp. 3, 6-8), and the minimum wage is precisely the type of policy that requires the uniformity of a national requirement. States are, of course, free to set minimum wage levels higher than the national minimum wage; 12 states and the District of Columbia have done just that.

The Bush Administration and other policy makers have discussed a "state flexibility" proposal that would allow states with minimum wage rates of $5.15 an hour to opt out of future federal minimum wage increases. There is compelling evidence that some states would jump at the opportunity to opt out: seven states have no state minimum wage and two states have a state minimum wage that is lower than the federal minimum wage.[3] (A "state" minimum wage rate applies to workers who are not eligible to receive the federal minimum wage because they are not covered by the FLSA.)

Allowing states to opt out of the federal minimum wage would deprive millions of low-wage workers with a much-needed increase in their living standards. Such a loophole would, over time, erode—and ultimately eliminate—the national wage floor. If an opt-out were allowed, states might "compete" with one another to attract business by advertising their low wage rates. Such competition would force all businesses to pay lower wages, even those that wanted to adequately compensate workers by paying higher wages. Converting the minimum wage to an "aspiration" that all states are free to ignore would facilitate a "race to the bottom" that is bad for workers and for the nation as a whole.

The effect of minimum wage increases on employment

A common argument against raising the minimum wage is that wage increases will reduce employment because firms will be forced to lay off workers in order to compensate for the wage hikes. One particularly pervasive myth is that minimum wage increases hurt small businesses. However, as shown on the following pages, empirical evidence and new, more relevant economic models indicate that modest minimum wage increases have little to no effect on job loss.

Traditional economic models fail to predict the employment effects of minimum wage increases. Standard textbook economic theory predicts that if the price of something increases, purchasers will demand less of it. Based on this theory, some economists instinctively oppose the minimum wage because they believe that raising cost of labor through a minimum wage increase will cause employers to hire fewer low-wage workers. The standard economic model, however, breaks down when it is applied to the low-wage labor market because:

- unlike the situation for other commodities, increases in wage rates can actually change worker behavior, uniquely changing the very nature of the "good" (i.e., labor) itself;

- firms and workers do not have "perfect information" about wage rates, worker productivity (assumed to be equal across all employees), and job opportunities;
- workers can negotiate wages and need not take the "market wage" as given;
- there are large transaction costs for workers (who are assumed to exit and re-enter the labor market instantaneously); and
- there are large transaction costs for employers (who are assumed to fill their job vacancies instantaneously) (see e.g., Bernstein and Schmitt 1998, pp. 33-36).

Recent empirical research finds that employment has not fallen when Congress enacted previous increases in the federal minimum wage or when states raised their minimum wage above the federal level. The traditional economic model does not explain the labor market response to modest increases in the minimum wage. Newer economic models of the low-wage labor market do, however, explain why there is little to no job loss associated with an increased minimum wage. These more sophisticated models make more reasonable assumptions:

- employers are free to set wages because they know workers face substantial costs while unemployed;
- employers pay their workers a lower wage than the workers would earn in a competitive market with perfect information;
- workers who are paid higher wages have lower turnover; and
- lower turnover leads to more experienced workers and higher productivity, therefore lowering recruiting and training costs for the employer (see, e.g., Bernstein and Schmitt 1998, pp. 40-42).

Employers frequently oppose an increase in the minimum wage, claiming they will have to lay off workers if the minimum wage increases. However, this has largely been untrue in the past. While employers may experience higher costs after a wage rate hike, evidence suggests that these increased costs may be offset by other benefits such as lower employee turnover, lower recruiting and training costs, higher employee productivity, decreased absenteeism, and high worker morale (Holmes and Zellner 2004, pp. 76-77; Sklar et al. 2001, pp. 76-79; Bernstein and Schmitt 1998, pp. 40-42).[4]

Moreover, employers pay their workers less than the actual value of their work, and the difference between the value of the employee's work and the employee's salary is part of an employer's profit. Over the last three years, corporate profits in the United States have expanded by 57.5%, while private wage and salary income has actually decreased by 1.7% over the same period (Price 2004). Employers are likely to retain their workers after a minimum wage increase given this recent surge in corporate profits and the likelihood that the value of their employees' work is greater than the salary they are paid.

Modest minimum wage increases do not result in job loss.

The quality of empirical minimum wage research has increased significantly over the past decade because economists have been able to conduct "pseudo-experiments" based on wage differences between states with higher state minimum wages and states with the federal minimum wage. This natural variation allows economists to isolate the impact of a wage increase instead of relying on economic theory to estimate what the impact of a wage increase might be. This extensive empirical research shows that the employment effects associated with a modest minimum wage increase are close to zero, and in some cases may result in modest employment gains:

- David Card analyzed the 1989-1990 federal minimum wage increase (from $3.35 to $3.80) and found that raising the minimum wage had no negative effects on employment (Card 1992, p. 36).
- A later survey-based study by David Card and Alan Krueger compared the employment effects of a 1992 minimum wage increase in New Jersey with the employment effects in the neighboring state of Pennsylvania and found that the New Jersey minimum wage increase did not lead to a measurable negative impact on employment (Card and Krueger 1994, p. 792). Card and Krueger subsequently confirmed their survey results with state government data and published their findings in a 2000 *American Economic Review* article (Card and Krueger 2000).
- In 1995, Card and Krueger reviewed seven analyses of separate minimum wage increases from across the country and found that there was an "absence of negative employment effects" and therefore "reasonably strong evidence against the prediction that a rise in the minimum wage invariably leads to a fall in employment" (Card and Krueger 1995, p. 389). Card and Krueger found "zero or positive employment effects for different groups of low-wage workers in different time periods, and in a variety of regions of the country" (Card and Krueger 1995, p. 389).
- EPI's analyses of the federal minimum wage increases in 1996 and 1997 came to similar conclusions, finding any employment effect was "economically small and statistically insignificant" and just "as likely to be positive as negative" (Bernstein and Schmitt 1998, pp. 4 and 33).
- The 1999 Economic Report of the President reviewed this body of research, finding "the weight of the evidence suggests that modest increases in the minimum wage have had very little or no effect on employment" (Council of Economic Advisers 1999, p. 112).
- In 2004, the Fiscal Policy Institute (FPI) compared total employment in states with a state minimum wage set above the $5.15 federal level to all other states. FPI found that aggregate employment in the higher minimum wage states increased by 6.1% between 1998 and 2004, whereas employment in states with only the federal minimum wage increased by only 4.1% (FPI 2004, p. 8).

There is no evidence that, because the economy is currently experiencing a slow recovery, this is a bad time to increase the minimum wage. Historical experience shows that raising the minimum wage during periods of slow growth does not reduce employment. When the minimum wage was increased

from $3.35 to $3.80 during the economic downturn of 1990, a highly regarded analysis of that increase found that "there is no evidence that the rise in the minimum wage significantly lowered teenage employment rates" (Card 1992, p. 36). Finally, there is no evidence that an increase in minimum wages affects other non-wage characteristics, such as reduced employee benefits or increased prices. Moreover, even if there are minor job losses associated with an increase in the minimum wage, the research indicates that the benefits of increasing the wage far outweigh its associated costs as measured by job losses.

Small businesses are unlikely to be hurt by modest increases in the minimum wage.
Opponents of minimum wage increases also argue that an increase will disadvantage small businesses in particular by rendering them unable to compete and forcing them to lay off workers. Based on this argument, some have suggested that a small business opt-out is appropriate for any future minimum wage increase. Permitting any such piecemeal opt-out undermines the goal of the federal wage floor and erodes the effectiveness of the minimum wage. Furthermore, there is no reliable evidence that a modest minimum wage increase would force small businesses to reduce employment. In fact, available research is to the contrary.

Not only does empirical research show a lack of employment effects during previous federal minimum wage increases, but FPI recently found that small businesses experienced higher employment growth in states with a minimum wage above the $5.15 federal minimum (FPI 2004, pp. 1, 8, and 11). Specifically, FPI found that, between 1998 and 2001:

- the number of establishments with fewer than 50 employees rose twice as quickly in states with a higher minimum wage (3.1% in higher minimum wage states versus 1.6% in states with the federal minimum wage);
- the number of employees in small establishments grew by 4.8% in higher minimum wage states but only by 3.3% in all other states; and
- small business annual and average payrolls grew faster in high minimum wage states (Fiscal Policy Institute 2004, pp. 11-12).[5]

Sklar et al. recently considered the impact on small businesses as well. They calculated the increased cost associated with raising the minimum wage to $8.00 as a percentage of net receipts (i.e., total receipts less payroll and benefits) by firm size and industry. The analysis found little variation in the cost of the wage increase relative to receipts across firm size and concluded that small businesses "should not be disproportionately affected by a minimum wage increase" (Sklar et al. 2001, pp. 81-83).

Recipients of the minimum wage increase

Some opponents have argued that the minimum wage is poorly targeted and does not benefit the working families who need it most. That contention is simply not true. The 1999 Economic Report of the Presi-

dent reviewed the empirical evidence and disputed this argument, stating that "most minimum wage workers are adults from lower income families, and their wages are a major source of their families' earnings" (Council of Economic Advisers 1999, p. 111)

The income gains from an increase in the minimum wage flow primarily to the bottom of the income scale. For example, 35% of the income gains generated by the 1996-1997 increase went to the poorest 20% of working households and 58% of the gains go to the poorest 40% of working households (Bernstein and Schmitt 1998, pp. 7-8).

Prior minimum wage increases have also raised the wages of minorities, who disproportionately earn at or slightly above the minimum wage (Bernstein and Schmitt 1998, pp. 5-6). Of those affected by the 1996-1997 minimum wage increase, 71% were adults (20 and older) and 58% were women (Bernstein and Schmitt, p. 6). Finally, "there is a nontrivial fraction of workers who spend substantial portions of their early careers consistently working in minimum wage jobs" and "there is an identifiable subpopulation of workers [namely, women, minorities, and the less educated] whose lifetime income and employment is likely to be associated with minimum wages" (Carrington and Fallick 2001, pp. 17 and 26).[7] For these workers, a minimum wage increase raises their lifetime earnings potential.

Conclusion

The minimum wage is a direct and proven method to increase the earnings of the working poor and to prevent market forces from depressing wages to an unacceptably low level. There is broad public support for an increase in the minimum wage. A January 2002 poll by Lake Snell Perry & Associates found that 77% of likely voters surveyed supported an increase in the minimum wage to $8.00 per hour and a January 2001 poll by Peter D. Hart Research Associates found that 83% of respondents favored increasing the minimum wage by $1.00 (to $6.15). The Lake Snell Perry & Associates survey also found that 79% of voters supported regular increases in the minimum wage to keep up with inflation.

Congress should act now to provide a significant increase to the minimum wage. In addition to raising the minimum wage, Congress should also index the minimum wage so that the wages of poor working families automatically keep up with the rising cost of living and are not subject to long periods of inaction that push more people into poverty.

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Endnotes

1. This comparison does not consider the effects of the Earned Income Tax Credit (EITC), a direct tax credit given to the working poor that helps raise a family's income level. The amount of the EITC rises as earnings rise until it reaches its maximum. When Congress fails to increase the minimum wage to reflect rises in the cost of living, not only does the family's purchasing power erode, but the family may also receive a lower tax credit. It is also important to note that, to the extent families must rely on the EITC to increase their income up to the poverty line, the tax paying public subsidizes employers who pay poverty wages to their employees.

2. Fair Labor Standards Act, 29 U.S.C. § 202(a).

3. These states are Alabama, Arizona, Florida, Kansas ($2.65), Louisiana, Mississippi, Ohio ($4.25), South Carolina, and Tennessee.

4. A recent comparison of Costco and Wal-Mart found that even though Costco's hourly wages and benefits were significantly higher than Wal-Mart's, Costco's employee turnover was lower and its productivity (profits per employee) was higher. Costco's higher-pay strategy results in a "productive and loyal workforce" with lower recruitment and training costs (Holmes and Zellner 2004, pp. 76-77).

5. The same relationships held true for small retail establishments (FPI 2004, p. 13).

6. While this recent study only considered the first 10 post-school years of a worker's career, it found that by the tenth year in a worker's career, 7% worked in jobs paying less than the minimum plus $.25, and 12 percent worked in jobs paying less than the minimum plus $1.00 (Carrington and Fallick 2001, p. 21).

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