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THE WHO AND WHY OF THE MINIMUM WAGE

Raising the wage floor is an essential part of a strategy to support working families

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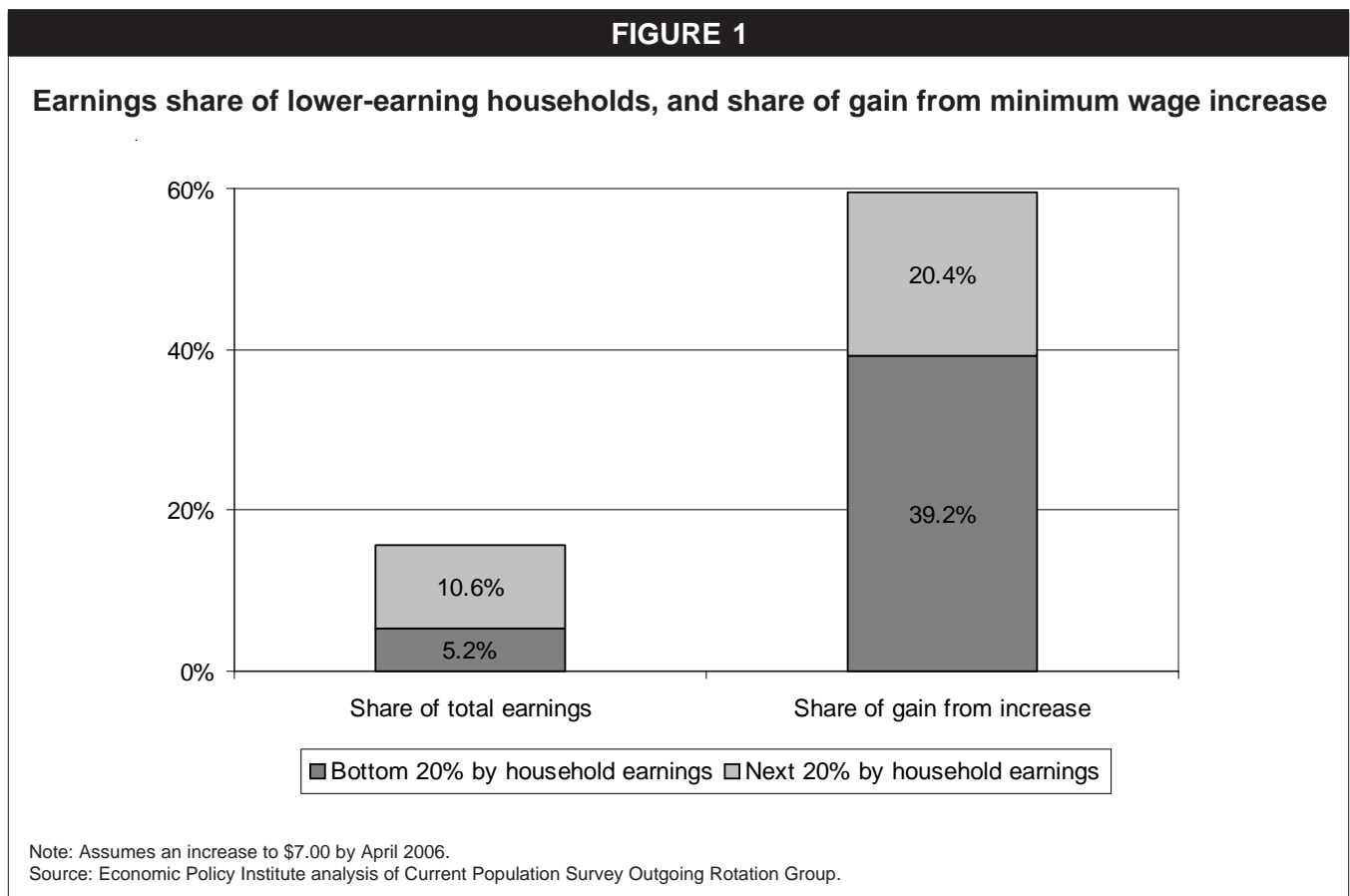
Seven years of federal inaction have allowed rising inflation to eat away at the buying power of the minimum wage. Moreover, the last three years have seen a slack labor market that has produced stagnant wages and incomes. It is not surprising, therefore, to hear calls for restoration of the value of the minimum wage, a crucial 65-year-old bulwark for decent wages. While federal efforts have repeatedly been blocked since Congress last raised the minimum wage in 1996-97, the number of states with minimum wages set above the federal level has risen from five in 1997 to 13 in 2004 (counting Washington, D.C.). Several other states, including New York, Minnesota, Nevada, and Florida, are taking serious looks at raising their minimum as well.

In the past, the most common arguments against raising the minimum wage were that doing so would hurt the economy as a whole and harm the employment prospects of low-wage workers. But as mounting economic evidence refutes those claims, minimum wage opponents have been turning to another argument—namely, that the minimum wage doesn't actually help people in need and that increasing the minimum wage benefits the better-off rather than those with low incomes. Those taking this position have called for increased government spending on social programs for low-income workers as a preferable alternative.¹

Is the minimum wage a poorly targeted anti-poverty tool that mainly benefits the well-off and does little for those with low incomes? After all, although counter-intuitive, it is certainly possible for the minimum wage to benefit the scion of a wealthy family living off trust funds at night but flipping burgers for minimum wage by day. In reality, however, these cases are extremely rare. The minimum wage is an effective tool for targeting families and households that rely heavily on low-wage work to maintain a decent standard of living:

- If the federal minimum wage were raised to \$7.00, as proposed in the Fair Minimum Wage Act of 2004, the bottom 40% of households by wages and salaries would receive nearly 60% of the benefits, despite the fact that they earn only 15.8% of earnings (**Figure 1**).
- A substantial portion (38%) of low-wage workers in March 2003 lived in families with incomes below 200% of the poverty line in 2002—an income range (less than \$29,000 for a family of three in 2002) in which people are often unable to afford basic necessities.
- For those above 200% of the poverty line, the earnings of low-wage workers are essential to their families’ incomes and therefore their standard of living. In fact, 1.4 million families with incomes hovering above 200% of poverty would drop below that line if it weren’t for the earnings of those families’ low-wage workers. For such families, though not impoverished now, the minimum wage is important for keeping them in the middle class.

But even if the minimum wage were not this well-targeted at helping those in need, it serves an important role in the U.S. economy and in society. It is a fundamental statement of principle about the value of work, opportunity, and the responsibilities of employers.



The purpose of the minimum wage

Everyone should have the opportunity to earn a decent wage. No American should be compelled to work at a rate that, assuming full-time labor, every weekday, all year long, amounts to the \$10,712 that the current minimum wage provides. This is equally as true for a middle-class youth working to raise money for college as it is for a single mother supporting a family. The minimum wage is not just about helping the impoverished. It is about fairness, the value of work, and the opportunities that work provides.

Furthermore, no employer should be allowed to unreasonably profit by exploiting the lack of negotiating power of low-wage workers. The free market fails to set a fair price when one side holds all the bargaining chips. In another context, this is why laws exist against monopolies. If only one supplier supplies a good, it can charge more than the good is worth because the purchaser is powerless to obtain it elsewhere. Low-wage workers are in the opposite position of the monopolist. They lack the skills that command higher wages, but, because they need to work to survive, they cannot withhold their labor from the market. The monopolist can set the price at almost whatever level it wants, while the low-wage worker must take almost whatever is offered for his or her labor. Minimum wages exist for the same reason that laws against monopolies exist—they deal with situations in which the market fails to set fair prices.

But beyond the principle of valuing work and the economic rationale of correcting for market failures, the minimum wage provides a concrete benefit. Not surprisingly, low-wage workers tend to live in low-income households. Thus, raising the minimum wage provides income support to families in need. While it is important to understand that the minimum wage should not be judged solely on its efficiency at targeting low-income families, research shows that it performs well at doing just that.

Opponents of the minimum wage have made much of the fact that many low-wage workers do not live in low-income families. But a careful look at affected workers reveals that, for most of them, the earnings from their low-wage jobs are an important component of their families' incomes—even if the families are not technically “poor.” The fact that a higher minimum wage would also help some middle-income families is hardly a mark against it.

The family incomes of low-wage workers

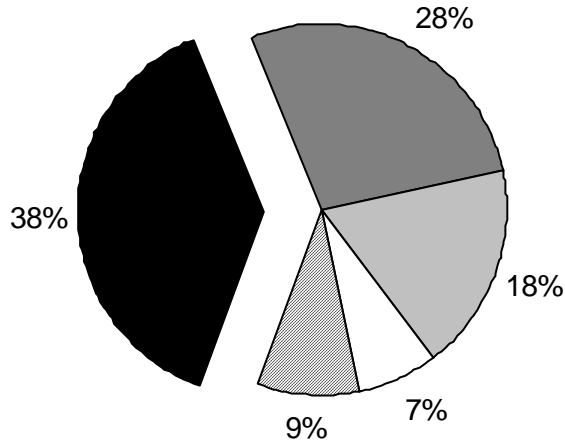
In March 2003, about 13% of the workforce were low-wage workers (defined here as those earning between \$5.15 and \$7.99 an hour). Raising the minimum wage would likely have a direct or indirect effect on the earnings of many of these millions of workers.

Not surprisingly, a significant share of low-wage workers had low family incomes in 2002.² Nationally, 38% of workers who earned between \$5.15 and \$7.99 in March 2003 had low incomes in the previous calendar year (**Figure 2A**). (Low income is defined here as income below twice the poverty line, a commonly used measure for the level at which the costs of basic needs start to be provided for. As noted above, for a family of three this is less than \$29,000 per year.) For these low-wage, low-income, workers:

- On average, their earnings contributed 68% of their total family income in 2002.
- Almost half (47%) were married or had children.
- Eighty-seven percent were 20 years of age or older.

FIGURE 2A

Low-wage workers by family income and characteristics, 2002



Incomes below 200% of poverty line

■ All workers

Incomes above 200% of poverty line

■ Parent or spouse

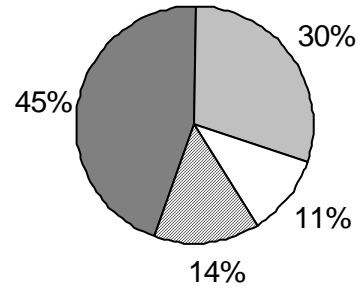
□ Children

■ Other adult family members

■ Individuals

FIGURE 2B

Characteristics of low-wage workers in families above 200% of poverty, 2002



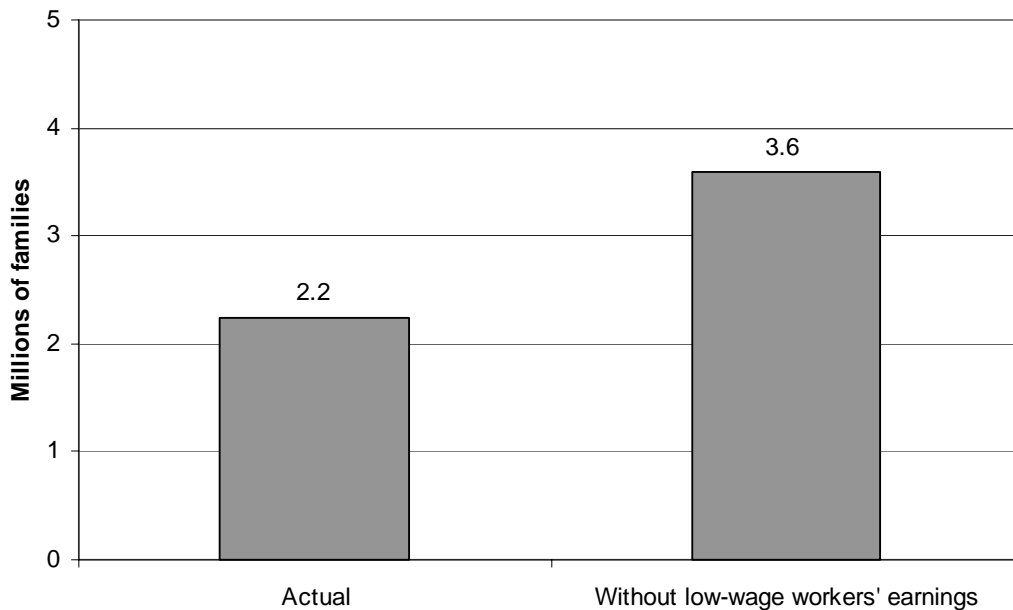
Source: Authors' analysis of March 2003 Current Population Survey outgoing rotation group.

The remainder of low-wage workers lived above the low-income line. Yet these workers are hardly the wealthy teenage caricatures invoked by minimum wage opponents (**Figure 2B**):

- Forty-five percent of the low-wage workers living above the low-income line were married or had children, and for many of them their earnings were essential to their families' economic well-being. On average, these workers' earnings contributed 37% of their families' incomes in 2002. Thirty-five percent of these workers would have been in families with incomes below the low-income line without their earnings.
- Thirty percent of low-wage workers living above the low-income line are un-married adults without children living with their families or relatives.³ They are predominantly young adults living at home. In some cases the income of these workers was important to their families—16% of them would have had family incomes below the low-income line if it weren't for their earnings, and, on average, they provided about one of every six dollars of their family's income in 2002. Another indicator that these workers are struggling to meet their basic needs, even though they are not living in poverty, is that about one-third did not have health insurance during the entire year of 2002. Also, a large group of these workers (42%) were enrolled in college. Thus, this

FIGURE 3

Number of working families with low-wage workers below 200% of poverty



Note: "Low-wage workers" earn between \$5.15 and \$7.99. Excludes sub-families.
Source: Economic Policy Institute analysis of Current Population Survey Outgoing Rotation Group.

appears to be a group dealing with the expense of education or unable to afford to move out of the family home because of low personal income.

- Fourteen percent of those with low wages and incomes of more than twice-poverty were adults living alone. These adults had average annual earnings in 2002 of just over \$26,000. About a third of these workers did not have health insurance.⁴
- Eleven percent of those with low wages and incomes of more than twice-poverty were children.

Thus, the picture of low-wage workers is not the one of undeserving well-off families that minimum wage opponents would like the public and policy makers to imagine, but is, for the most part, one of struggling families and individuals—whether officially impoverished or not. In fact, 1.4 million families that weren't categorized as low income in 2002 would have been if it weren't for the earnings of the low-wage workers in their families (**Figure 3**).

The minimum wage is not enough

As the preceding section describes, the minimum wage is a well-targeted way of helping those in need, including the impoverished, the near-poor, and the at-risk middle class. But, despite its concrete benefits and its value as an important intervention in the labor market and statement about work, it is not enough. There are many workers who have wages that are above the minimum yet are much in need.

In particular, those with children often live on incomes below twice-poverty (a level dependent on family size) despite wages in excess of \$8.00 per hour. This degree of impoverishment isn't surprising when one considers that working at \$8.00 per hour, 52 weeks, 40 hours per week generates an income of \$16,640.

- Twenty-five percent of all workers with wages above \$8.00 per hour and incomes below twice-poverty were married parents, and 20% were single parents. While these parents worked substantial hours in 2002 (an average of 36 hours a week for 44 weeks of the year) and earned at least \$8.00 per hour, their earnings were not sufficient to meet the costs of raising a family.
- For these low-income working parents with children, the earned income tax credit (EITC) is a particularly helpful government support, among several others. Expanding it would greatly help these families unaffected by a minimum wage increase. It would take a tripling of the current credit to raise these families above the low-income line.
- This group would also benefit from the expansion of public health insurance programs, as 31% of these workers were without any kind of health insurance coverage throughout 2002.

Another reason that many workers with wage levels above \$8.00 per hour end up with low incomes is that they can't work enough hours. Sixteen percent of the low-income, higher-wage workers faced unemployment or layoffs at some point during 2002 for an average of 19 weeks. For these workers, unemployment insurance as well as federal policies aimed at lowering unemployment are crucial.

Thus, when opponents of the minimum wage suggest that it doesn't do enough to eliminate the gap between earnings and need, they are correct. For a substantial number of low-income workers, their pay is above that affected by a minimum wage but not enough to support their families, or they can't work enough hours. For these workers, additional supports are needed.

Conclusion

The minimum wage has been an important part of the U.S. economy for 65 years. It is a statement of how the nation values work; it is a tangible measure of how Americans view employers' obligation to their workers; it is an equalizer in a low-wage labor market where workers have little bargaining power; and it is an effective policy that helps low- and middle-income families with low-wage workers. These are the reasons why policy makers at both the federal and state level are acting to ensure that the minimum wage continues to be an effective floor to the wages of working Americans.

Endnotes

1. These tactics pervade recent arguments sponsored by the Employment Policies Institute, an operation housed at the lobbying firm Berman and Company, which works with low-wage employers to oppose minimum wages. See, e.g., “Why Raising the Minimum Wage Is a Poor Way to Help the Working Poor,” Richard V. Burkhauser and Joseph J. Sabia, June 2004.
2. Why do we use wages from 2003 and incomes from 2002? The data source for this analysis is the March 2003 Current Population Survey. That survey asked respondents what their income was in the previous calendar year (2002). One-fourth of the sample was also asked about their wages and hours of work in the week of March 7 through March 13, 2003. These are the workers used in our analysis. The Current Population Survey is the data source used by most analysts examining the impact of the minimum wage by income level.
3. For the purposes of this analysis, we divided unmarried persons without children living with relatives into children or adults as follows: persons under age 18 are children; persons over 18 are adults; persons 18 years old are children if they were enrolled in high school in March 2003. Otherwise they are adults.
4. The inclusion of much of this group in the “low-wage, higher-income” category appears problematic. For every group there is a problem in that we are identifying workers as low- or higher-wage based on a March 2003 wage and low- or higher-income based on a 2002 income (see endnote 2). For this group in particular, however, income details reported for 2002 appear inconsistent with wages reported for 2003. The reported annual earnings and hours of this group would suggest an average hourly wage in 2002 of \$14.00 per hour, yet we are categorizing them as low-wage based on their substantially lower 2003 reported wages. Whether this anomaly is due to reporting errors or the timing difference between the reporting period for income (2002) and for hourly wage (March 2003) requires further investigation. Nevertheless, the size of this group is probably overstated.