

INCREASING THE MINIMUM WAGE

A Union Leader's Guide to the Debate

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What's the Point of a Minimum Wage, Anyway?

According to California state law, the minimum wage in the state must be “adequate to supply the necessary cost of proper living to, and maintain the health and welfare of employees in this state.”¹ California has had a minimum wage since 1916, when it established its first state minimum wage for cannery workers. Today, nearly all California workers in the private sector are covered by the minimum wage laws. At the national level, the federal government instituted a national minimum wage under the Fair Labor Standards Act in 1938 in order to assure “the maintenance of the minimum standard of living necessary for health, efficiency, and general well-being of workers.”²

In November 1996 California voters decide whether to increase the minimum wage by voting on Proposition 210. Passage of Prop. #210, The Liveable Wage Act of 1996, proposes to raise the California state minimum wage from its old level of \$4.25 an hour to \$5.75 an hour in two steps— to \$5.00 an hour in March, 1997 and then to \$5.75 in March, 1998.

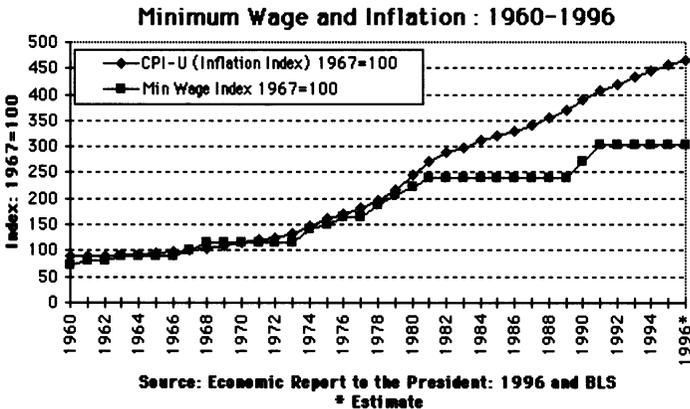
In August 1996, President Clinton signed the federal minimum wage increase into law. The federal increase in the minimum wage will raise the

national minimum of \$4.25 an hour to \$4.55 effective on October 1, 1996 and to \$5.15 effective in September, 1997. Although the federal raise is a move in the right direction, a raise to \$5.15 is not enough for low wage workers struggling to make ends meet. The federal increase would restore only 48% of the purchasing power the minimum wage has lost since 1979. If the minimum wage is raised another sixty cents to \$5.75 an hour it will have regained 81% of its 1979 buying power.³



Low Minimum Wage + Inflation = Bad News for Workers

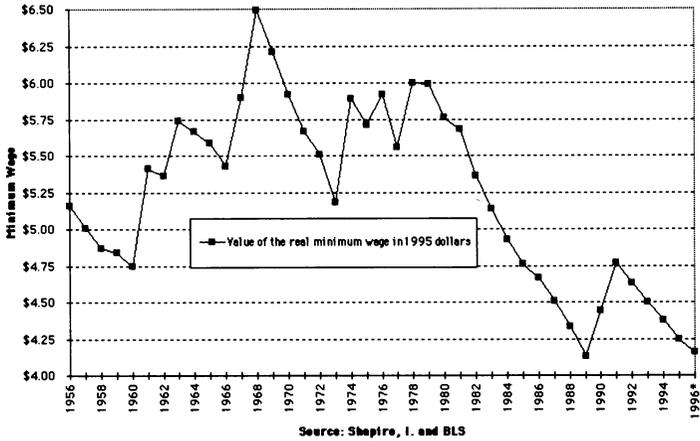
After its high point in 1968, the real value of the minimum wage remained relatively steady throughout the 1970's, but it has decreased in value since 1979. In California, since the last minimum wage increase in 1988, the minimum wage has lost 26% of its purchasing power due to inflation. Adjusted for inflation, the real value of the minimum wage in 1996 dollars is now at a forty year low. ⁴



For workers to earn as much in 1996 dollars as they did in 1968, we would have to raise the minimum wage to \$6.68 per hour.⁵

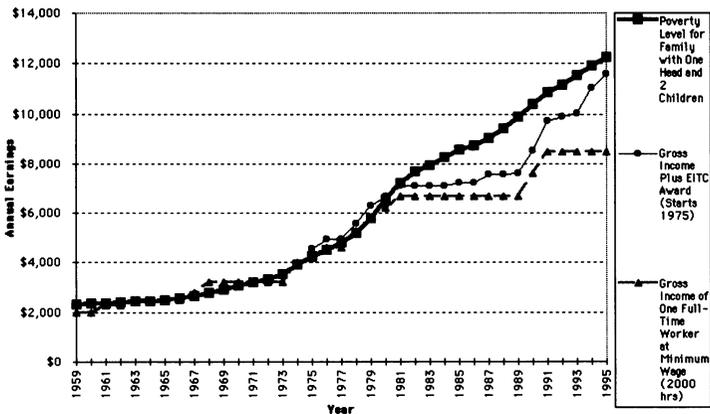
As the real value of the minimum wage has declined, many working families have slipped below the poverty line. Full time work at the minimum wage was adequate to support a family of

Declining Value of the Real (inflation adjusted) Minimum Wage



three at the poverty line throughout the 1960's and 1970's. Today, one wage earner working for the minimum wage brings home \$8,840 a year. This annual income would place a family of three 32% below the poverty line of \$12,980.⁶ Even with the addition of the earned income tax credit, the family is still 5% below the poverty line.

Full Time Earnings and Poverty Level for a Three Person Household with the Head Earning Minimum Wage



At \$4.25 An Hour, Working Families Need Public Assistance to Survive

Many people working full-time at minimum wage are forced onto government assistance to meet their basic bills. Public programs which help working people get by include: AFDC, Food Stamps, School Lunch and School Breakfast, MediCal, and General Assistance. Raising the minimum wage will help working people to rely less on public assistance and will save taxpayer dollars on state, federal and local public assistance programs. In fiscal year 1995-96, at least 125,000 people in working families would have needed less aid through the AFDC program alone if they had been earning \$5.75 an hour instead of \$4.25.⁷

AFDC SAVINGS in California as a result of raising the Minimum Wage to \$5.75/hr.			
Min. Wage	Federal Savings	State Savings	County Savings
\$5.00	\$632,014	\$600,413	\$31,601
\$5.75	\$10,570,802	\$10,042,261	\$528,540

Today, many single parents cannot afford to work at minimum wage jobs because what they earn will not cover child care. People who are able and willing to work are forced to stay home, care for their kids, and accept public assistance. Raising the minimum wage will make childcare affordable for those families and will create a powerful incentive for parents to work rather than remain on public assistance.⁸

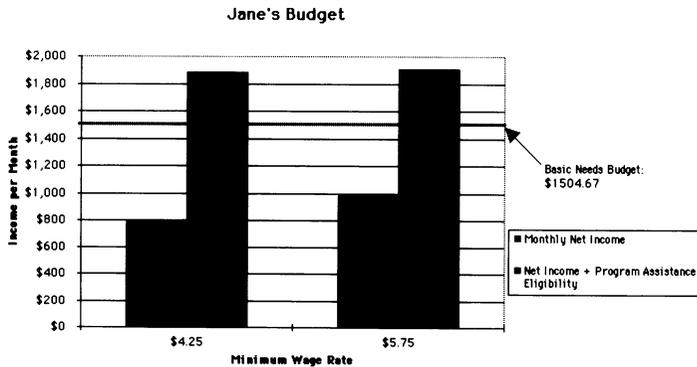
A higher minimum wage pushes up wages for hourly workers who make more than the minimum wage. Millions of workers' wages in the United States are "linked" to the minimum wage: even though these workers may earn more than the minimum, their wages respond to changes in the minimum wage rate.⁹ One economic study, conducted in California after California's 1988 minimum wage increase, showed a 5% raise in the average hourly wages of retail workers overall and an 8% raise in the average hourly wages of restaurant workers.¹⁰



A Case Study: Jane Gets a Raise

Raising the minimum wage will have a real impact in real people's lives and will save the taxpayers money.

Imagine Jane, a single working mom with two school age kids living in San Francisco. Each month Jane needs \$1504.67 in income to pay for the basic necessities for herself and her children. Working full time at the current minimum wage of \$4.25, Jane will only bring home \$795.17/month after taxes. Every month Jane will be \$709.50 short. Earning so little, Jane's family is eligible for AFDC (Aid to Families with Dependent Children), Food Stamps, medical insurance and free lunch and breakfast at school for the kids. The total value of these benefits is \$1090.67. Assuming Jane takes advantage of all the programs for which she is eligible, she will be able to get by with assistance and her earnings.



When Jane gets a raise from \$4.25 to \$5.75, she will bring home \$982.11/month after taxes. Now Jane will be \$522.56 short each month. Jane's family will still be eligible for Food Stamps, MediCal and school meals, but they will receive \$167.00 less in AFDC assistance. This means that Jane will have about \$20.00 more a month to help make ends meet and taxpayers will save \$167.00 in AFDC benefits.

If Jane had not been receiving any benefits at all, her net income would have been \$795.17 a month. After the raise she will take home \$982.11. This difference is a gain of \$186.94 for Jane and her children, the equivalent of several weeks' groceries or school clothes for the kids.



Jane's Budget

Basic Needs Budget	
Rent/Utilities	\$777.00
Groceries	\$322.34
Transportation	\$67.50
Clothing	\$159.14
Personal Care	\$50.69
Health Care	\$128.00
Total	\$1504.67

Monthly Net Income	\$4.25/hr	\$5.75/hr
+Gross monthly	\$708.48	\$958.33
-Fed. Inc. Tax	\$106.27	\$143.75
-FICA	\$54.20	\$73.31
-State Inc. Tax	\$7.09	\$15.24
+EITC	\$254.25	\$256.08
Total	\$795.17	\$982.11
Income shortfall of meeting needs	\$709.50	\$522.56

Assistance Eligibility	\$4.25/hr	\$5.75/hr
Food Stamps	\$313.00	\$313.00
School Meals	\$14.76	\$14.76
MediCal	\$423.00	\$423.00
AFDC	\$340.00	\$173.00
Total	\$1,090.76	\$923.76

Questions & Answers

Q: Won't small businesses lose profits and maybe even go out of business if California raises the minimum wage?

A: The history of past raises in the minimum wage demonstrates that detectable numbers of companies do not go out of business due to increases in the minimum wage, even though businesses do have to pay more in wages. For example, in Washington State, 93% of the businesses are classified as "small businesses." The minimum wage in Washington was raised above the federal levels in 1990. Despite payroll increases, bankruptcy is down since 1990 and statewide unemployment did not rise.¹¹

Q: Won't raising the minimum wage cause unemployment and prevent job creation?

A: There is no conclusive evidence that a raise in the minimum wage will cause unemployment. In fact, a growing body of economic research shows that reasonable increases in the minimum wage will have little or no effect on jobs. For example, recent economic studies by Princeton economists David Card and Alan Krueger found no reductions in employment after minimum wage increases in California, Texas and New Jersey. Card and Krueger specifically concluded in their California study that the 1988 increase in the California mini-

imum wage had “little or no effect on employment growth.”¹² “Since the federal minimum wage was last increased in 1991, there has been no corresponding decrease in employment nationwide. In fact, millions of new jobs have been created.”¹³ The fact that a number of careful studies have failed to find any negative employment effects from past minimum wage increases makes it pretty clear that if the California raise in 1996 has any effect at all, it will be very slight.

Q: Aren't most minimum wage workers teenagers from middle class families just working for spending money?

A: Actually, the majority of workers affected by a raise in the minimum wage are not teenagers and many are supporting families on these low wages. In California, 2.1 million people report hourly wages of less than \$5.75 an hour. Of these low wage workers, 81% are twenty years old or older and 45% are 30 years old or older. Nationally, 40% of minimum wage workers are the sole breadwinner in their households. The average minimum wage worker provides more than half of his or her family's total income.¹⁴

Q. If the California minimum is higher than the national minimum, won't California lose jobs and revenue to other states?

A: Minimum wage workers tend not to be employed in jobs which are subject to global or in-

terstate competition. As of January, 1995, more than 90% of minimum wage worker's jobs were in retail, food services, building services, personal services and government.¹⁵ Because these jobs are not mobile, they are unlikely to be lost to other states or overseas due to an increase in the minimum wage.

Even more importantly, California currently has the lowest minimum wage on the West Coast. Both Washington and Oregon have already set minimum wages above the federal level, so they are not likely to be in wage competition with California.

Q: Can the State of California afford the added expense of paying state workers a higher minimum wage?

A: According to the Current Population Survey, 2.1 million people in the State of California earn less than \$5.75 an hour at their jobs. A raise in the minimum wage will give greater spending power. Because of this increase in spending, the state will be able to collect more sales tax revenue. According to a conservative estimate by the chief economist of the state Board of Equalization, an increase in the minimum wage would generate increased sales tax revenues of \$78 million dollars at the first step increase up to \$5.00. The second step up to \$5.75 would result in a revenue increase of

\$117 million more, for a total of \$195 million more dollars into state coffers annually. California's Legislative Analyst estimates that the state will spend an additional \$225 million in wages for state funded employees who are currently making \$4.25 an hour. While the additional state revenue will not entirely make up for this difference, there also will be a positive impact on the state economy as a whole when working people are able to buy more products and services. Increasing demand will expand markets for goods and create more jobs in both manufacturing and service sectors.

The real issue is that the State of California should not be paying its own employees less than a liveable wage. Many working people are not able to make ends meet at the minimum wage and are forced to resort to aid programs such as AFDC or EITC to make ends meet. With a higher minimum wage, federal, state and local governments would save in decreased benefits paid to working poor people and their families. With a lower minimum wage, taxpayers essentially subsidize businesses, allowing corporations to pay less than a living wage while public assistance programs pick up the slack. In a time when corporate profits are up 75% and CEO pay is up 92% on average, taxpayers should not have to bear the burden of corporate choices to pay low wages. ¹⁶

Q: Won't raising the minimum wage actually hurt the same disadvantaged people it's supposed to help?

A: In the State of California, Hispanic and black workers and workers of other minority ethnic groups together account for nearly 60% of workers in low and minimum wage jobs. Because of this distribution, minority group workers will benefit disproportionately when the higher minimum wage goes into effect.

A raise in the minimum wage will not discourage employers from giving opportunities to less experienced workers. Under existing California law, employers may continue to pay adult worker trainees 85% of the minimum wage as long as they do not make up more than 25% of the employer's workforce.¹⁷



Notes

1. California Labor Code. Sec. 1178.5.
2. Fair Labor Standards Act. 29 USC. Sec. 201, et. seq.
3. Liveable Wage Coalition. Buying power of the minimum wage adjusted for inflation using California Consumer Price Index, CA CPI-W for 1979 and 1996.
4. Shapiro, Isaac. *Four Years and Still Falling: The Decline in the Value of the Minimum Wage*. Washington, D.C.: Center on Budget and Policy Priorities, January 11, 1995. 14.
5. Liveable Wage Coalition. Value of the minimum wage over time adjusted using U.S. City Average Consumer Price Index, CPI-U for years 1968 and 1996.
6. Federal Register, March 4, 1996, 8286-8288.
7. State of California Department of Social Services. *Memo to Senate Office of Research*. Sacramento, California, 1995.
8. Burtlass, Gary, "Paychecks or Welfare Checks: Can AFDC Recipients Support Themselves?" *Brookings Review*, Fall 1994, 31-37.
9. Schmitt, John and William Spriggs. "The Minimum Wage: Blocking the Low Wage Path." To appear in Faux, Jeff and Todd Schafer, *Reclaiming Prosperity: A Blueprint for Progressive Economic Reform*. Armonk, NY: M.E. Sharpe, 1996. 167-8.
10. Card, David and Alan Kreuger. *Myth and Measurement: The New Economics of the Minimum Wage*. Princeton, NJ: Princeton University Press, 1995. 109.
11. U.S. Small Business Administration, Office of Advocacy. *1995 Small Business Profile*. U.S. Small Business Administration, 1995.

12. Card and Kreuger, 101.

13. Bureau of Labor Statistics cited in Reich, Robert. *Making Work Pay: The Case for Raising the Minimum Wage*. Washington, D.C.: U.S. Department of Labor, 1996. Unpaginated.

14. Economic Policy Institute. *Memo to Liveable Wage Coalition Analyzing the Outgoing Rotational Group of the 1995 Current Population Survey*. Washington, D.C.: Economic Policy Institute, 1996. 1.

15. *Ibid.*

16. Byrne, John. "How High Can CEO Pay Go?" *Business Week* (April 22, 1996): 100.

17. Card and Kreuger, 166-8.



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