



Impact of Proposed Minimum-Wage Increase on Low-income Families

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Introduction and Summary

In the nine years since Congress last acted to increase the minimum wage, inflation has eroded about 18 percent of its purchasing power. Meanwhile, low-wage Americans and their families enter the 2005 holidays facing high and rising costs for home heating (up 21.6 percent in the last year), gasoline (up 37.0 percent), air fare (up 9.1 percent), and other seasonal expenses.¹

By our estimates, increasing the federal minimum wage to \$7.25 per hour over the next 26 months as proposed in the “The Fair Minimum Wage Act of 2005,” would raise the annual earnings of the average full-time, full-year, minimum-wage worker² by \$1,520 per year.³ This raise would be enough to cover about seven months of expenditures on transportation for the average low-income family⁴, or nine months worth of groceries, or 11 months of home heating and utilities, or 22 months of clothing. For the typical part-time, full-year, minimum-wage worker, we estimate that the proposed increase would raise annual income by \$1,050, or enough to cover about five months of average transportation expenditures, or six months of groceries, or seven months of heating bills, or 15 months of clothing expenditures.

Holiday bills also often mean running up credit-card balances. For the average full-time, full-year minimum-wage worker, the proposed increase in the minimum wage would be sufficient to pay off about 23 percent of the average \$6,500 credit-card balance held by families earning less than \$35,000 per year.⁵ For a part-time, full-year, minimum-wage worker, the increase could pay down 16 percent of the average credit-card balance.

¹October 2004 to October 2005 increase in Consumer Price Index for corresponding expenditure categories, from Bureau of Labor Statistics web site <http://data.bls.gov/>.

²Minimum-wage workers defined here as earning between the current federal minimum wage of \$5.15 per hour and the proposed new minimum wage of \$7.25 per hour. We assume that a full-time, full-year, worker works 40 hours per week for 50 weeks per year, and a part-time, full-year worker, works 25 hours per week for 50 weeks per year.

³All expenditures reported and estimated increases are in 2004 dollars and based on 2004 expenditure and earnings data, which are the most recent full-year data available.

⁴Defined as a family in the bottom 20 percent of the income distribution, according to Bureau of Labor Statistics analysis of the 2004 Consumer Expenditure Survey.

⁵Demos and the Center for Responsible Lending, *The Plastic Safety Net: The Reality Behind Debt in America*, New York: Demos, 2005, Table 1.

Living on the Minimum Wage

Of course, even with a substantial raise in the minimum wage, families that rely on minimum-wage workers will still be struggling. A full-time, full-year, minimum-wage worker earns \$10,300 annually, putting her below the poverty threshold of \$13,020 for a one-parent, one-child family. They are also far below a basic family budget, which is an estimate of how much it costs to purchase basics, such as housing, groceries (no meals out), health care, child care, and other necessities within a community. Basic family budgets for a one-parent, two-child family ranges from \$22,329 in rural Nebraska to \$58,320 in Boston, Massachusetts, with a national median of \$34,920.⁶ However, a full-time, full-year, minimum-wage worker only earns about one-third of the median family budget for a one-parent, two-child family.

Working families need an increase in the minimum wage, but they also need access to affordable goods and services. Most workers employed at or near the minimum wage, for example, are not offered (or cannot afford) health insurance from their employer, leaving them with a high probability of being uninsured. Most do not have access to paid sick leave when they or their children become ill.⁷ Further, many cannot afford market rates for basic quality child care.⁸ Minimum-wage workers need health insurance for themselves and their families, affordable, quality child care, and access to paid sick leave, along with a raise in the minimum wage.

The reality is that many households depend on minimum-wage workers for a substantial portion of their income. A substantial share of minimum-wage workers, for example, are adults making significant contributions to the total household income. In the early 2000s, for example, fewer than one-in-five minimum-wage workers was under the age of 20 and half were between ages 25 and 54.⁹ In 2002, minimum wage workers earned an average of 68 percent of their total family income.¹⁰

The Evolution of the Minimum Wage

The purchasing power of the federal minimum wage has fallen 18 percent since the last mandated rises in 1996 and 1997. **Figure 1** displays the inflation-adjusted value of the federal minimum wage from 1955 through 2008. The figure demonstrates that the real value of the minimum wage now hovers near its lowest point in 50 years. In fact, if Congress does not act to raise the federal wage floor, the real value of the minimum wage would fall by 2008 to a level last seen in 1955. The proposed hike to \$7.25 by the beginning of 2008 (the thin, dashed, red line) would restore the purchasing power of the minimum wage to about where it was in the mid-1980s.

⁶Allegretto, Sylvia. *Basic Family Budget Calculator*. Economic Policy Institute.

<http://www.epi.org/content.cfm/datazone_fambud_budget>, accessed December 12, 2005.

⁷Lovell, Vicky. 2004. *No Time to be Sick: Who Suffers When Workers Don't Have Sick Leave*. Washington, DC: Institute for Women's Policy Research.

⁸Boushey, Heather, and Joseph Wright. 2004. *Working Moms and Child Care*. Washington, DC: Center for Economic and Policy Research.

⁹Boushey, Heather. 2005. No Way Out: How Prime-Age Workers Get Trapped in Minimum-Wage Jobs. *WorkingUSA: The Journal of Labor and Society* Vol. 8, No. 6, pp. 659-70.

¹⁰Chapman, Jeff, and Michael Ettlinger. 2004. *The Who and Why of the Minimum Wage: Raising the wage floor is an essential part of a strategy to support working families*. Washington, DC: Economic Policy Institute No. Issue Brief No. 201.

Characteristics of Minimum-Wage Workers

Table 1 summarizes the characteristics of workers that would benefit from the proposed increase in the minimum wage. In total, about 7.7 million workers would receive a pay increase. Most of these beneficiaries are women (61.7 percent, compared to 38.3 percent who are men). About 70 percent are adults age 20 or older; over half are 25 or older. Black and Hispanic workers would benefit disproportionately from the increase, since black and Hispanic workers are overrepresented among minimum-wage workers, but white workers account for the large majority (62.4 percent) of the projected beneficiaries. Workers with less than a high-school degree make up the largest share of minimum-wage workers (36.9 percent), followed closely by workers with a high-school degree (34.6 percent). Even workers with some college education, however, account for over one-fifth (22.8 percent) of all minimum-wage workers.

Table 2 gives the share of each type of worker that would receive an increase as a result of the proposed increase. According to the data in the table, the 7.7 million workers who would benefit from the hike (see Table 1) represent about 4.4 percent of the total workforce. About 5.7 percent of all women and 3.3 percent of all men would receive a pay increase if the minimum wage were increased to \$7.25 over the next 26 months. Almost one-third (30.8 percent) of teenagers, 8.2 percent of 20-to-24 year olds, 14.9 percent of part-timers, 6.2 percent of blacks, and 5.8 percent of Hispanics would see their wages rise.¹¹

Table 2 also provides an estimate of the average increase each type of worker would receive. Only workers who earn exactly the current federal minimum wage of \$5.15 would receive the full increase to \$7.25. Workers who earn more than \$5.15, but less than \$7.25 would also see their wages rise, but the increase would be smaller. The figure in the second column of Table 2 shows the average pay raise for all workers that would receive at least some increase as a result of the fully phased-in proposal. According to the Current Population Survey data, the average increase would be about \$0.79 per hour, with small variations for workers with different characteristics.

Table 3 reports the number and share of workers that would benefit from the proposed increase, as well as the average size of the wage increase, separately for each state. The first column of the table also lists the level of the state minimum wage in effect in each of the 14 states that currently have a state wage floor that is above the federal level.

Texas is the state with the largest number of potential beneficiaries (658,000). Pennsylvania (405,000), Florida (377,000), and Ohio (364,000) follow. When beneficiaries are measured as a share of the total state workforce, however, the biggest winners are Montana (10.8 percent), West Virginia (10.6 percent), Alabama (10.1 percent), New Mexico (9.8 percent), Oklahoma (9.6 percent), Mississippi (9.5 percent), Louisiana (9.1 percent), and Idaho (9.0 percent). Several high-wage and high-minimum-wage states, including Vermont, Connecticut, the District of Columbia, Washington, and Oregon, have no discernible number of workers with wages in the range that would be affected by the proposed phased increase.

¹¹These estimates exclude any “spillover” effects that a minimum-wage increase might have on raising the wages of workers who earn more than, but close to, the new \$7.25 minimum wage. To the extent that employers act to retain at least a portion of the relative wage differences between minimum-wage workers and those earning just above the minimum wage, an increase in the federal wage floor could affect more workers than our estimates here suggest.

Impact of the Proposed Increase

Table 4 attempts to translate our estimates of the average hourly increase under the proposed legislation into concrete economic benefits for low-income families with minimum-wage workers. We present results separately for part-time and full-time workers. The first row of the table shows the average hourly increase for part-time (\$0.83) and full-time (\$0.75) workers. The second row of the table converts these hourly pay increases into their annual equivalent. If we assume that a part-time worker works 25 hours per week for 50 weeks in a year, then the average \$0.83 per hour increase for part-timers would mean an additional \$1,038 per year for the part-timer's family. Similarly, if we assume that a full-time worker works 40 hours per week, 50 weeks per year, the resulting rise in annual family income would be \$1,500.

The remaining rows of the table use data from various government and private sources to illustrate what these annual-income gains would mean for low-income families. According to the Bureau of Labor Statistics' Consumer Expenditure Survey, the average low-income family (defined here as the average for the poorest 20 percent of families) spends about \$170 per month on groceries. At \$170 per month, the \$1,038 per year increase in average earnings for a part-time worker would allow the average low-income family to buy 6.1 months worth of groceries. The \$1,500 increase for full-timers would cover 8.8 months of groceries. Using analogous arithmetic, a family with a full-time beneficiary of the proposed minimum-wage increase would be able to pay 10.5 months of heating and utility bills, or 6.8 months of transportation costs, or 4.6 months of housing, or 21.5 months of clothing, or 23.6 months of entertainment and toys. The annualized increase for part-timers would pay for 7.2 months of heating and utility bills, or 4.7 months of transportation costs, or 3.2 months of housing, or 14.9 months of clothing, or 16.3 months of entertainment and toys.¹²

A minimum-wage hike could also potentially have an important impact on low-income families' ability to afford private health insurance. If the minimum-wage job had employer-provided health insurance --the vast majority of low-wage jobs, of course, do not offer health insurance¹³-- then the \$1,500 average increase for a full-time worker would cover 1.7 months of total (employer and employee) costs for the average family health insurance plan, according to cost estimates from the Kaiser Family Foundation and the Health Research Education Trust.¹⁴ For the same full-time worker, the proposed hike would cover about 6.6 months of the average employee's contribution toward the premium.

The proposed increase could also make a substantial contribution to paying off credit-card debt held by low-income families. According to a recent report by Demos and the Center for Responsible Lending, the average low-income family (defined as earning less than \$35,000

¹²Expenditure data on Groceries ("food at home"), eat and utilities ("Utilities, fuels, and public services"), transportation ("Transportation"), housing ("Shelter"), clothing ("apparel and services"), entertainment and toys ("Entertainment") are from the Bureau of Labor Statistics, <http://www.bls.gov/cex/2004/Standard/quintile.pdf>, 2004, Table 1.

¹³For example, in an analysis of data from the Survey of Income and Program Participation, Boushey and Wright find that workers earning at the 30th percentile or below are far less likely (36.0 percent) to have employer-provided health insurance than are workers earning above the 70th percentile (80.3 percent). See Heather Boushey and Joseph Wright, "Workers Receiving Employer-Provided Health Insurance," Washington, DC: Center for Economic and Policy Research, April 13, 2004.

¹⁴Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits Annual Survey 2005*, <http://www.kff.org/insurance/7315/sections/upload/7375.pdf>, Chart 4.

per year) has an average credit-card balance of \$6,504.¹⁵ The \$1,500 in extra income for full-time beneficiaries of the increase could reduce that outstanding debt by almost one fourth (23.1 percent). Even for part-time workers, the extra income could lower average credit-card balances by 16.0 percent.

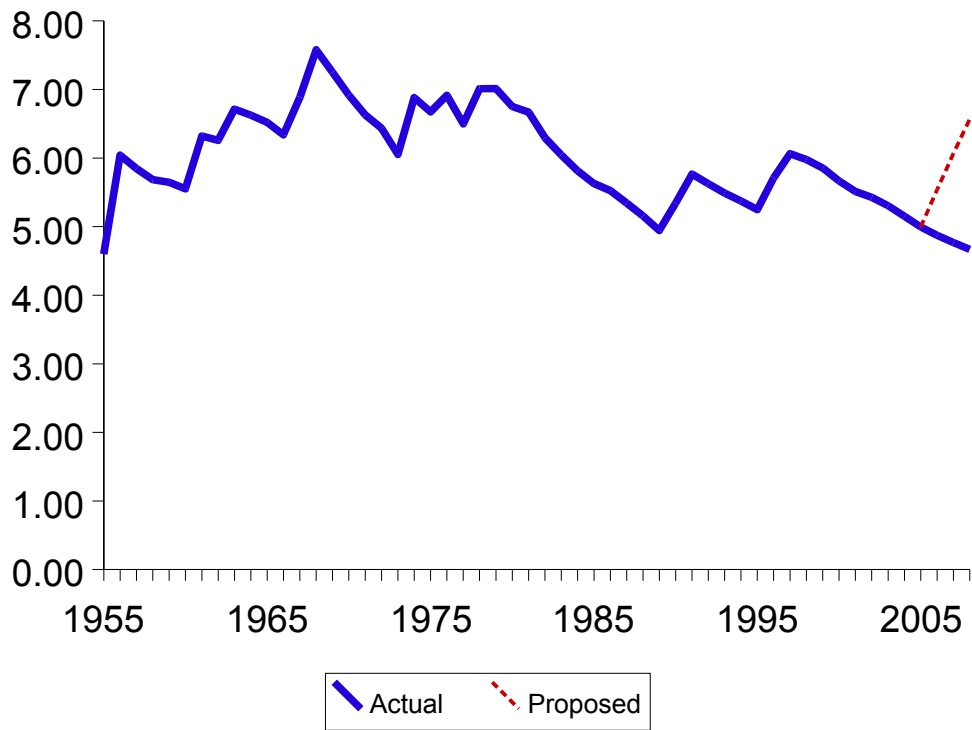
¹⁵Demos and the Center for Responsible Lending, *The Plastic Safety Net: The Reality Behind Debt in America*, New York: Demos, 2005, Table 1.

Data Appendix

The main source of data in this report is the Current Population Survey (CPS), a large, nationally representative data set focused on labor-market outcomes. This analysis uses the Center for Economic and Policy Research extract of the Outgoing Rotation Group (ORG) of the CPS for the full calendar year 2004. Full details of the CEPR CPS ORG are available at <http://www.ceprdata.org/>.

Full programs and data are available upon request, but we call attention here to several features of our methodology. First, we restricted the universe to workers with reported or estimated hourly earnings of \$5.00 or more. Where states had minimum wages above the federal minimum wage, we eliminated any observations that had reported or estimated hourly earnings below the state minimum wage (rounded down to the nearest half-dollar to allow for rounding error in reporting of hourly wages). Second, our estimates here assume the full implementation of the proposed increase to \$7.25 by January 2008. Since inflation will have eroded slightly the value of that increase by the time it is fully implemented, we have converted the full increase to 2004 dollars using the Congressional Budget Office's projections of inflation in 2005, 2006, and 2007. In 2004, the \$7.25 minimum wage in January 2008 would be about \$6.71 in 2004 dollars. Third, we have defined minimum-wage workers here as all those earning at least \$5.00 per hour (or higher amounts where state minimum-wage laws apply) but less than \$7.25 per hour (adjusted for inflation, so effectively \$6.71 per hour in our data set).

Figure 1: Real value of federal minimum wage (\$2004)



Source: Authors' analysis. Deflated using CPI-U-RS chained to CPI-U.

TABLE 1
Characteristics of minimum-wage workers, 2004

	Number (thousands)	Share (percent)
All	7,699	100.0
Women	4,750	61.7
Men	2,949	38.3
16-19	2,313	30.0
20-24	1,497	19.4
25-64	3,533	45.9
65+	357	4.6
White	4,803	62.4
Black	1,218	15.8
Hispanic	1,326	17.2
Other	352	4.6
Part-time	4,489	58.4
Full-time	3,201	41.6
Less than high school	2,838	36.9
High school	2,661	34.6
Some college	1,759	22.8
College	357	4.6
Advanced degree	83	1.1

Notes: Minimum-wage workers defined as those who would receive an increase if the Fair Minimum Wage Act of 2005 had been fully implemented in 2004 (the last year for which a full year of data are available). The \$7.25 maximum by 2008 in the proposed has been converted to 2004 dollars, assuming the Congressional Budget Office's inflation projections for 2005, 2006, and 2007. Analysis of CEPR CPS Outgoing Rotation Group extract. See Data Appendix for further details.

TABLE 2**Shares of workers that would receive a wage increase under the "Fair Minimum Wage Act of 2005" and the average size of increase, 2004**

	Share of workers (percent)	Average increase (dollars)
All	4.4	0.79
Women	5.7	0.80
Men	3.3	0.79
16-19	30.8	0.85
20-24	8.2	0.77
25-64	2.5	0.76
65+	7.6	0.87
White	4.0	0.80
Black	6.2	0.80
Hispanic	5.8	0.78
Other	3.6	0.76
Part-time	14.9	0.83
Full-time	2.2	0.75
Less than high school	16.0	0.85
High school	4.9	0.77
Some college	3.5	0.77
College	1.1	0.70
Advanced degree	0.1	0.73

See notes to Table 1.

TABLE 3

Number and shares of workers that would receive a wage increase under the "Fair Minimum Wage Act of 2005" and the average size of increase, by state, 2004

	State minimum (nominal dollars)	Workers (thousands)	Share workers (percent)	Average increase (dollars)
Maine	\$6.35	81	2.7%	\$0.34
New Hampshire	--	101	2.8	0.80
Vermont	7.00	0	0.0	--
Massachusetts	6.75	8	0.3	0.10
Rhode Island	6.75	4	0.1	0.07
Connecticut	7.10	0	0.0	0.08
New York	6.75	12	0.2	--
New Jersey	--	195	4.4	0.85
Pennsylvania	--	405	6.4	0.80
Ohio	--	364	6.8	0.78
Indiana	--	170	5.2	0.75
Illinois	6.50	6	0.1	0.09
Michigan	--	250	5.2	0.79
Wisconsin	--	193	5.1	0.77
Minnesota	--	119	3.1	0.85
Iowa	--	185	5.7	0.84
Missouri	--	150	5.3	0.74
North Dakota	--	220	8.7	0.76
South Dakota	--	199	6.9	0.81
Nebraska	--	246	8.0	0.86
Kansas	--	221	7.1	0.80
Delaware	6.15	40	1.6	0.32
Maryland	--	129	3.9	0.77
District of Columbia	7.00	0	0.0	--
Virginia	--	131	4.2	0.77
West Virginia	--	227	10.6	0.93
North Carolina	--	217	5.9	0.85
South Carolina	--	150	6.9	0.77
Georgia	--	139	5.1	0.86
Florida	--	377	5.6	0.77

(continued)

TABLE 3 (continued)**Number and shares of workers that would receive a wage increase under the "Fair Minimum Wage Act of 2005" and the average size of increase, by state, 2004**

	State minimum (nominal dollars)	Workers (thousands)	Share workers (percent)	Average increase (dollars)
Kentucky	--	178	7.5%	\$0.84
Tennessee	--	132	6.0	0.85
Alabama	--	226	10.1	0.81
Mississippi	--	155	9.5	0.85
Arkansas	--	149	8.3	0.83
Louisiana	--	156	9.1	0.85
Oklahoma	--	183	9.6	0.90
Texas	--	658	8.9	0.85
Montana	--	191	10.8	0.83
Idaho	--	177	9.0	0.77
Wyoming	--	197	8.1	0.80
Colorado	--	140	3.7	0.69
New Mexico	--	178	9.8	0.93
Arizona	--	152	6.5	0.83
Utah	--	174	7.0	0.78
Nevada	--	132	4.1	0.80
Washington	7.16	0	0.0	--
Oregon	7.25	0	0.0	--
California	6.75	20	0.2	0.08
Alaska	6.15	23	0.9	0.29
Hawaii	6.25	84	3.6	0.37

See notes to Table 1. State minimum-wage rates from the Bureau of Labor Statistics, *Monthly Labor Review*, various issues, and Department of Labor <http://www.dol.gov/>.

TABLE 4
Economic impact on low-income families of average wage increases under the
"Fair Minimum Wage Act of 2005"

	Avg. monthly spending	Part-timers 25 hrs per week	Full-timers 40 hrs per week
Average hourly increase		\$0.83	\$0.75
Average annual increase, full-year workers		\$1,038	\$1,500
Purchasing power, typical low-income family			
Groceries	\$170	6.1 months	8.8 months
Heating and utilities	\$143	7.2 months	10.5 months
Transportation	\$219	4.7 months	6.8 months
Housing	\$328	3.2 months	4.6 months
Clothing	\$70	14.9 months	21.5 months
Entertainment and toys	\$64	16.3 months	23.6 months
Family health insurance			
Full cost	\$907	1.1 months	1.7 months
Typical employee contribution	\$226	4.6 months	6.6 months
ADDENDUM:	Total	Share of total	
Credit-card balance	\$6,504	16.0%	23.1%

Notes: Assumes part-time workers work an average of 25 hours per week, 50 weeks per year; full-timers, 40 hours per week, 50 weeks per year. Groceries, heating, transportation, housing, clothing, and entertainment expenditures from the 2004 Consumer Expenditure Survey (see text and Data Appendix for details); low-income family is in the bottom quintile of the income distribution. Family health insurance costs from Kaiser Family Foundation and Health Research & Educational Trust, *Employer Health Benefits Survey 2005* (see text and Data Appendix for details). Credit card balance for households with an annual income of less than \$35,000 per year from Demos and Center for Responsible Lending, *The Plastic Safety Net*, 2005.