

Raising the Floor: Who Would Benefit from a Minimum Wage Increase in Wisconsin

September 2003

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Executive Summary

At just \$5.15 per hour, the federal minimum wage has been losing purchasing power since 1997. Here in Wisconsin, we can help restore the promise and rewards of work for low-wage workers. How? By raising the state minimum wage.

Proposals to raise the minimum wage are controversial, for two reasons. First, opponents often argue that an increase would mainly benefit teenagers and upper-income part-time workers, instead of the low-income workers who need help the most. Second, opponents say a minimum wage hike would actually reduce job opportunities for low-income workers, by making them too costly for employers to afford.

In this report, the Center on Wisconsin Strategy investigates the effects of raising the minimum wage in Wisconsin. Since the most recent state legislative proposal would have raised Wisconsin's wage floor to \$6.80 per hour, we use that as the benchmark in our report. Our report relies on data and analyses provided by the Economic Policy Institute in Washington, D.C.

As our findings suggest, the opponents are wrong on both counts:

- Raising the minimum wage to \$6.80 would directly lift the wages of 130,400 low-wage workers, and is likely to indirectly increase the wages of 147,600 other Wisconsin workers who currently earn between \$6.80 and \$7.80 per hour.
- Most of the workers (57.6 percent) who would benefit directly are adults.
- More than two-thirds of the workers who would benefit directly are employed more than half time, and nearly a third are working full time.
- The increase would be especially helpful in boosting the earnings of women and minorities.
- The benefits of a minimum wage hike would go disproportionately to low-income families with low weekly earnings.
- There is no credible evidence to support the argument that a minimum wage increase would lead to job losses for low-income workers.

So who wins with a higher minimum wage in Wisconsin? Low-wage workers who can't support their families on what they currently earn. As the federal minimum wage has declined in value over time, many low-income households have seen their living standards suffer. Wisconsin has the opportunity to change that by raising the state minimum wage. Several other states, including our neighboring state of Illinois, have recently done so. Let's follow their lead.

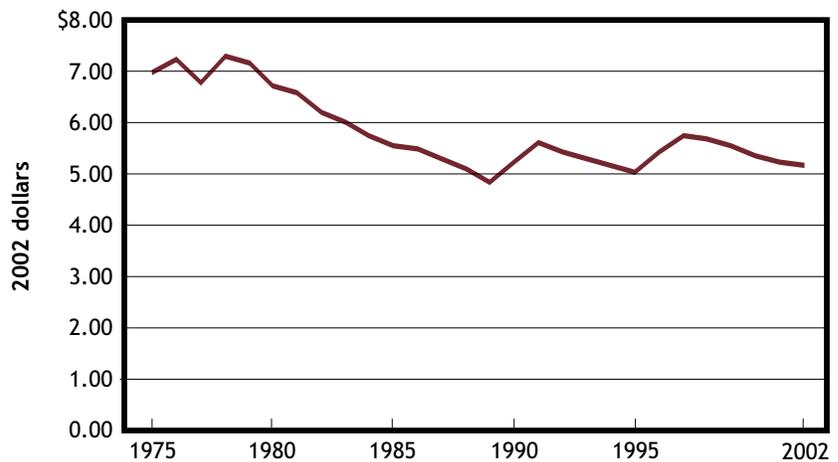
Introduction

The federal minimum wage, and that currently in place in Wisconsin, is \$5.15 per hour. Since it was last raised in a two-stage process in 1996 and 1997, it has lost all the buying power associated with that increase. In other words, inflation has brought the real value of the minimum wage back down to 1995 levels – already a historic low.

Historically, when the federal government has neglected to raise the minimum wage for some time, the states have picked up the slack and raised their own minimum wages. This is also true today: since 1997, the number of states with minimum wages higher than the federal level has increased from six to 12 (plus Washington, D.C.).¹

A gradual decline in the value of the minimum wage has actually been going on for decades. Because of this long-term decline, even with the proposed increase Wisconsin's minimum wage would still have less purchasing power than it did in 1981. The figure below shows the value of both the Wisconsin and federal minimum wages since 1975.

Value of the Federal Minimum Wage, 1975-2002



Source: U.S. Department of Labor.

¹ States that have minimum wages higher than the federal minimum wage of \$5.15 (or will have as of January 1, 2004) are: Alaska (\$7.15), California (\$6.75), Connecticut (\$6.90 currently, \$7.10 as of January 1, 2004), Delaware (\$6.15), Illinois (\$5.50 as of January 1, 2004, \$6.50 as of January 1, 2005), Hawaii (\$6.25), Maine (\$6.25), Massachusetts (\$6.75), Oregon (\$6.90), Rhode Island (\$6.15), Vermont (\$6.25), Washington (\$7.01), and Washington, D.C. (\$6.15).

Who Would Benefit from an Increase in Wisconsin's Minimum Wage?

Proposals to raise the minimum wage have usually generated heated debate. Opponents generally claim that making low-wage workers more expensive to their employers would raise the earnings of some workers, but cost too many other workers their jobs. Opponents also argue that the benefits of higher incomes for low-wage workers would accrue mostly to suburban teenagers and part-time workers from middle- and upper-middle-income households rather than to the working poor.

For their part, proponents point out that the minimum wage has historically been key to raising the earnings of low-wage workers. Proponents also say that real-world evidence refutes the notion that minimum wage increases result in job losses or mainly benefit those who do not really need a raise.

Data released by the Economic Policy Institute (EPI) generally support those calling for an increase in the minimum wage. Table 1 shows various characteristics of the workers who would benefit from the proposed increase.

Not Just Teenagers on Summer Break

- If today's minimum wage were \$6.80 instead of \$5.15, then 130,400 Wisconsin workers (5.3 percent of the workforce) would now have higher wages.
- Most of the workers (57.6 percent) who would directly benefit from the proposal are adults, not teenagers.
- More than two-thirds of the workers who would benefit are working more than half time, and three out of ten minimum wage workers are working full time (35 or more hours per week).
- These earnings increases would help women earn more: 57.5 percent of the workers who would benefit are women, while less than half of the total workforce is female.
- Workers who would benefit from the increase are over-represented in low-wage industries and occupations: 55.1 percent work in the retail trade industry (which employs only 17.5 percent of the total workforce) and 60.6 percent work in sales or service occupations (which employ only 22.1 percent of the total workforce).
- National data show that minorities would benefit significantly from an increase in Wisconsin's minimum wage. (The sample size for minorities is too small to generate reliable findings.)

- In addition to the 130,400 workers who would benefit directly, an additional 147,600 workers currently earn between \$6.80 and \$7.80 per hour (less than \$1.00 above the proposed minimum wage). Various studies of “spillover effects” find that these workers are likely to benefit from the increase as well. As Table 1 shows, these workers are even more likely than minimum wage workers to be employed full time.

Table 1

Characteristics of Workers Who Would Benefit from Raising Minimum Wage to \$6.80 Per Hour

	Workers currently earning \$5.15-\$6.80 per hour (benefit directly)	Workers currently earning \$6.80-7.80 per hour (benefit indirectly)	Workers not affected	Total workforce*
Number of workers	130,400	147,600	2,152,600	2,468,500
Percent of workforce	5.3%	6.0%	87.2%	100.0%
<i>Sex</i>				
Male	42.5%	38.1%	53.1%	51.3%
Female	57.5%	61.9%	46.9%	48.7%
<i>Age</i>				
16-19	42.4%	26.0%	3.2%	6.8%
20 and older	57.6%	74.0%	96.8%	93.2%
<i>Weekly work hours</i>				
1-19 hours	32.2%	} 47.7%	4.7%	7.2%
20-34 hours	36.6%		11.0%	13.6%
Full-time (35+ hrs.)	31.2%	52.6%	84.3%	79.2%
<i>Industry</i>				
Retail trade	55.1%	39.7%	13.4%	17.5%
<i>Occupation</i>				
Sales } Service }	60.6%	48.1%	17.6%	22.1%

* Includes workers not covered by minimum wage.

Note: Figures may not add up exactly due to rounding.

Source: EPI analysis of Current Population Survey data.

Increase Would Target Working Poor

Because the minimum wage is not limited to workers in low-income families, some opponents of the policy raise concerns that it is poorly targeted: that is, some who benefit from the increase don't actually need the increase. As the data in Table 2 show, however, most of the benefits of the increase would in fact flow to low-income working families.

From a policy perspective, the minimum wage should not be judged solely on its efficiency at "hitting a target" (i.e., the extent to which it reaches low-wage workers in low-income families). The minimum wage is not designed to score highly on this criterion; instead, it is designed to build a wage floor under the labor market at which covered workers cannot legally be paid less. Its purpose, as conceived by its New Deal framers and as stated in the Fair Labor Standards Act, is to prevent market forces from driving the wages of the least skilled workers down below a level deemed minimally acceptable. Given the weak bargaining power of low-wage workers, this aspect of minimum wage policy remains as relevant as ever.

Even so, an increase in the minimum wage is in fact a fairly well targeted way to improve the lot of lower-earning households. As Table 2 shows, although the bottom 40 percent of households receive only 16.7 percent of total earnings, they would receive 49 percent of the gains from the proposed minimum wage increase. Likewise, while the bottom 60 percent of households get 34 percent of the earnings, they would get 70 percent of the gains from the increase.

Table 2

Distribution of Gains from Proposed Minimum Wage Increase, by Total Household Earnings

Weekly earnings quintile	Average weekly earnings	Share of total earnings	Share of gain from proposed increase
1 st (bottom 20%)	\$ 276.06	5.4%	36.2%
2 nd	574.55	11.3%	12.8%
3 rd (middle 20%)	872.85	17.3%	21.0%
4 th	1,245.01	24.4%	20.5%
5 th (top 20%)	2,080.05	41.6%	9.5%

Source: EPI analysis of Current Population Survey data.

Significant Impact on Families

While the proposed minimum wage increase would directly benefit less than six percent of the total Wisconsin workforce, the earnings of these workers are significant to their families (see Table 3). In 2001, minimum wage workers contributed 42.2 percent of their families' total weekly earnings. In fact, over 28 percent of these families had their earnings coming *entirely* from family members earning the minimum wage.

Table 3

Share of Weekly Earnings Contributed by Minimum Wage Workers, and Share of Families Benefiting from Increase that Rely Solely on Minimum Wage Earnings, 2001

	Average share of weekly earnings	Share of families benefiting from increase, with 100% of earnings coming from minimum wage workers
All families with a worker who benefits directly	42.2%	28.4%
Families with children with a worker who benefits directly	31.7%	19.1%

Source: EPI analysis of Current Population Survey data.

Job Loss Unlikely

Another fear voiced by opponents of raising the minimum wage is that doing so will hurt low-income workers by shrinking the number of jobs available to them. This concern has been an important focus of minimum wage debates. In response, economists have developed tests to measure the impact of such increases on low-wage employment opportunities.

Evidence from earlier rounds of minimum wage increases does not provide a clear or consistent answer to the question of whether such increases produce job losses.² In addition, an EPI analysis of the two-stage 1996-97 minimum wage increases showed no negative effects. EPI researchers conducted a thorough examination of whether some disemployment – either actual job loss through layoffs, or a decline in the rate of job growth in low-wage markets – resulted from those increases.³ They found no disemployment effects at the national level: there was no evidence of systematic job loss, and the measured impact on employment was generally economically small and not statistically significant.

Finally, a look at total employment in Wisconsin after the 1996-97 increases – and at employment in wholesale/retail trade and services, two of the most wage-sensitive industries – shows no evidence of declining job growth. In fact, employment growth rates in Wisconsin for trade and services were higher from March 1997 to March 1998 (the period most likely to show negative effects of a minimum wage hike) than from March 1995 to March 1996 (the year before the first of the two increases took effect). In the case of total non-farm employment, the growth rate was twice as high (2.6 percent compared to 1.3 percent).

To date, opponents have been unable to offer evidence to support their claim that job losses will occur following minimum wage increases.

² See, for example, David Card and Alan Krueger, *Myth and Measurement: The New Economics of the Minimum Wage* (Princeton, N.J.: Princeton University Press, 1995).

³ Details of this analysis, along with data sources and an explanation of the statistical methods employed, are available on the EPI website, <http://www.epinet.org>.

Conclusion

The value of the minimum wage has been in a general decline for decades. The federal government has failed to bolster its purchasing power by increasing the wage since 1997, and many states are once again making up for the federal neglect. Raising Wisconsin's minimum wage to \$6.80 would have an immediate and significant impact on the earnings of over 130,000 low-wage workers, most of them adults and most of them working more than 20 hours per week. Studies of past minimum wage increases also indicate that no appreciable job loss would occur in Wisconsin from such a wage increase. The costs, then, of such an increase, if there were any, would be outweighed by the substantial gains to low-income earners around the state.