

INSTITUTE ON ASSETS
AND SOCIAL POLICY

Policies &
Practices

MINIMUM WAGE

CREATING AN ASSET FOUNDATION

Daphne Lamson Hunt and Sandra Venner

Revised December 2005

MINIMUM WAGE: CREATING AN ASSET FOUNDATION

A Publication in the Asset Building Policies and Practices Series

PURPOSE OF MINIMUM WAGE LAWS

The fundamental promise in America is that each of us will have a real opportunity to join the economic mainstream, become contributing members of society and share in the American Dream. Entering the economic mainstream requires sufficient earnings and job-related benefits to allow families to live securely, make ends meet and have something left over to save. Yet many *working* families remain poor. Their earnings do not provide a stable foundation from which they can meet daily needs, save for the future, and build other assets. The minimum wage was established to help ensure that individuals and families have these basic building blocks for greater economic security.

A key assumption among Americans is that those who are willing to work hard should, and will, move ahead. They will be able to take advantage of a myriad of opportunities and achieve the American Dream of homeownership, a college education for their children, and a secure retirement. At the very least, having a job will stave off poverty and provide the opportunity to make a living from work. For minimum wage workers in 2005, especially those with families, this may no longer be true. Today's minimum wage worker earns only three-fifths, in inflation-adjusted dollars, of the minimum wage paid at its highest point. In fact, if the minimum wage had maintained its 1968 peak value, it would be \$8.95 an hour today, instead of its actual \$5.15¹.

While the labor market largely mediates the income stream and other benefits that flow from holding a job, government policy has a history of regulating the labor market to protect and enhance employment income. The minimum wage is one of these longstanding government policies. But the law establishing the federal minimum wage, the Fair Labor Standards Act of 1938, foresaw the need for a balancing act. It stipulated that workers be paid at least enough to maintain a "minimum standard of living necessary for health, efficiency and general well-being." At the same time, it sought to do this "without substantially curtailing employment"². Government policy makers through the years have strived to strike that balance between ensuring that people who go to work each day earn enough to cover their essential needs while not setting the wage so high as to negatively impact small businesses or force employee lay-offs.

For many years, through Democratic and Republican administrations alike, the balance was achieved by making periodic adjustments to keep up with inflation and maintain the minimum wage at close to half of the median wage of American workers. From mid-1950s through 1980, this enabled a full-time worker earning minimum wage to support a family of three at the poverty level. While not allowing for a standard of living comparable to that of the average working family, many minimum wage families were able to cover essential needs and build a foundation for a more financially secure future.

Since the early 1980s, periodic legislative increases in the federal minimum wage have failed to keep pace with the wages of the average American, eroding to only 32% of what the average non-supervisory worker is paid today³. The impact is that a full-time job at today's minimum wage of \$5.15 an hour cannot support a household of two at the poverty level, and is barely enough to keep a single person above poverty. Most Americans today believe that the minimum wage should be maintained at a level that ensures working people earn enough to cover their essential needs. In 2001, realizing the continued eroded value of the federal minimum wage, 85% of Americans indicated they would support an increase according to a poll conducted by the Kaiser Family Foundation and Harvard University⁴.

The conviction that the federal minimum wage, last raised in 1997, is too low and does not reflect the intent in prior decades to establish a wage that is "fair" and "economically just" has driven many states to act. As of January 2006, fifteen states have a minimum wage that is 40% to 55% above the median wage of workers in that state, and five states have laws that establish a state minimum wage that is \$7.15 an hour or greater (see chart on page 5).

Integrating the minimum wage with other policies to build assets

Over the years additional government policies have been enacted to enhance support for those earning the minimum wage and others whose earnings do not effectively cover basic needs. Some low-wage workers are able to take advantage of government funded programs that offer health insurance, subsidized childcare, or assistance with food and housing. Since 1975, the federal Earned Income Tax Credit (EITC) has supplemented low-wages, especially those of families with children, through tax credits or refunds. But while such policies have contributed to creating an asset foundation for low-income people, they have also shifted responsibility from employers paying wages that provide employees sufficient income to cover essential needs to government programs subsidizing inadequate wages. The delicate balance of ensuring that people who work full-time can earn enough to cover the essential needs of their family while making sure that employers are not overburdened, has been lost.

The decrease in the real value of the federal minimum wage not only leaves government assuming greater responsibility for ensuring that low-wage workers have the essentials to get by, but it also leaves many individuals without basic supports. Many working parents, although living in poverty and lacking employer supported health benefits, are not eligible for government health insurance coverage. Long waiting lists prevent them from accessing subsidized childcare or housing assistance. And adults without dependent children are eligible for only nominal payments from the Earned Income Tax Credit.

Thus, the minimum wage remains a critical component in the network of government policies that aid Americans in creating an asset foundation. Together these policies provide a foundation of support from which people can build for the future. In the discussion that follows the purpose and promise of the minimum wage as a tool for building a stable asset

foundation are explored. At the end, examples of initiatives in three states are cited to serve as models both for other states and the federal government in the effort to establish a minimum wage that is fair and economically just.

BRIEF HISTORY AND CURRENT STATUS

As of March 2003, approximately 15.6 million workers (13.5% of the U.S. workforce) were defined as “low wage” (that is, earning between \$5.15 and \$7.99 an hour). These are workers who are trying to support themselves and their families, and who will be affected – both directly and through “ripple effects” – by an increase in the federal minimum wage. Of the 7.4 million workers who earn at or near the federal minimum wage, almost three-quarters are adults 20 years of age or older, and one-quarter are parents raising children under the age of 18⁵.

The minimum wage was first established in 1938, with the enactment of the Fair Labor Standards Act (FLSA). It created a wage “floor” below which certain workers in the U.S. could not be legally paid. The original \$.25-an-hour rate initially applied to workers engaged in work directly involving or related to interstate commerce (thus affecting about one-fifth of all workers). Amendments in the 1960s extended the minimum wage to larger classes of workers, including those employed in such areas as retail, construction, public schools, and nursing homes⁶. The minimum wage was established to shelter workers from exploitive practices. While some opponents of the minimum wage felt that it would harm businesses, proponents argued that it was a way to stimulate the economy to benefit both workers and employers.

The current federal minimum wage, in effect since 1997, is set at \$5.15 per hour. The most recent proposal for a federal increase was the “Fair Minimum Wage Act of 2005,” put forth by Senator Edward Kennedy in May 2005, which sought \$7.25 an hour. It is estimated that such an increase would directly impact the wages of 7.3 million workers earning at or near the minimum rate⁷. Moreover, increases in the minimum wage are argued to also impact those earning just above minimum wage. This “ripple effect” would likely affect workers currently earning up to \$8.00 an hour, impacting an additional 8.2 million workers⁸. Women and minorities stand to benefit the most from an increase to the federal minimum wage. While women are slightly less than half of the workforce, 60% of workers who would be directly affected by the proposed increase to the minimum wage are women. African- Americans and Hispanics make up less than one-quarter of the workforce, but they comprise about 35% of workers who would be directly affected by the proposed minimum wage increase⁹.

Early in the 20th century, states took the lead in establishing a minimum wage, beginning in 1912 in Massachusetts. By 1923, sixteen states and the District of Columbia had minimum wage laws. Since the establishment of the federal minimum wage in 1938, states have continued to enact their own laws to pick-up where federal law leaves off. While Alaska was the only state in 1979 to have its own minimum wage set above the federal rate, 15 states had followed by 1989¹⁰. This increase coincided with the fact that in 1977, Congress enacted a 3-step growth in

the federal minimum wage – the last two stages of which did not keep up with inflation. In 1978, the inflation-adjusted value of the minimum wage began to decline, reaching value in 2005 that is one third lower than in 1978. Thus, states began to “make up” for the decreasing value of the federal minimum wage.

Currently, six states have *no* minimum wage laws of their own¹¹. Two have minimum wages set *below* the federal level for jobs not covered by federal law¹². Seventeen states (and D.C.) have rates *above* the federal level for all covered occupations, and an 18th state, Nevada, is likely to follow suit in 2006. The remaining states have a minimum wage set *at* the federal level, but extend it to include more occupations. The following table shows the states in the U.S. with a current minimum wage rate above the federal level. Minimum wage laws in many of these states have set the lowest wage near 50% of the state’s median wage. Washington, Oregon and Florida have indexed their minimum wage to inflation, and Vermont will do so starting in 2007. Nevada voted in 2004 to index its rate as well, but such an action requires a second public vote to take place in 2006. (See discussion on indexing below.)

State Minimum Wages Above the Federal Level as of January 2006

State	Minimum Wage (% of Median Wage)	Median Wage (Nov. 2004)	Minimum Wage Indexed?	Year of latest raise
Alaska	7.15 (42%)	17.06		2003
California	6.75 (43%)	15.55		2002
Connecticut	7.40 (43%)	17.10		2005
Delaware	6.15 (42%)	14.80		2000
District of Columbia	7.00 (31%)	22.34		2006
Florida	6.40 (51%)	12.50	Yes, annually to CPI-W ^b	2006
Hawaii	6.75 (47%)	14.26		2006
Illinois	6.50 (45%)	14.49		2005
Maine	6.50 (49%)	13.17		2005
Massachusetts	6.75 (39%)	17.24		2001
Minnesota	6.15 (40%)	15.51		2005
Nevada ^a	6.15 (47%)	13.15	Yes, annually to CPI	
New Jersey	6.15 (38%)	16.40		2006
New York	6.75 (42%)	16.20		2006
Oregon	7.50 (52%)	14.41	Yes, annually to CPI-U ^c	2006
Rhode Island	6.75 (46%)	14.82		2004
Vermont ^d	7.25 (55%)	13.09		2006
Washington	7.63 (47%)	16.07	Yes, annual inflation adjustment is 2.6%	2006
Wisconsin	5.70 (41%)	13.90		2005

^aSecond public vote required in 2006 to pass.

^bConsumer Price Index for Urban Wage and Clerical Workers

^cConsumer Price Index for All Urban Consumers

^dVermont will begin indexing its minimum wage to the lower of 5% or the CPI-U in 2007.

POLICY CHALLENGES

Impact on business start-up and entry-level jobs

Some contend that increases to the minimum wage negatively impact employers, particularly small businesses¹³. They believe that new business development is hindered and that businesses are overburdened by wage increases, and thus forced to increase prices, lay off workers, or both. Given that approximately two-thirds of the jobs created in the U.S. since the 1970s have been in small businesses, the potential consequences of negatively impacting these employers could be significant¹⁴.

It is also argued that increasing the minimum wage is ultimately detrimental to low-wage workers, as it forces employers to hire fewer workers and thus results in fewer available entry-level jobs. One oft-cited study by the Employment Policies Institute claims that as many as 645,000 jobs were lost by the October 1996 increase of the federal minimum wage from \$4.25 to \$4.75¹⁵.

However, these concerns have been refuted by various analyses. For example, the Fiscal Policy Institute investigated the small business establishment and employment growth rates between 1998 and 2001, comparing states with minimum wages set at the federal level of \$5.15 to states with higher minimum wages. This study found that in states with higher minimum wages, start-ups of businesses with fewer than 50 employees increased by 3.1%, almost twice the 1.6% growth rate of states with the federal minimum wage. The number of employees in these small businesses grew by 4.8% in higher minimum wage states, versus 3.3% in all other states¹⁶. Another 2004 report found that the 1998-to-2004 growth rate of total employment in higher minimum wage states was 6.2% compared to 4.1% in states with the federal minimum wage¹⁷.

Targeting low-income workers and families

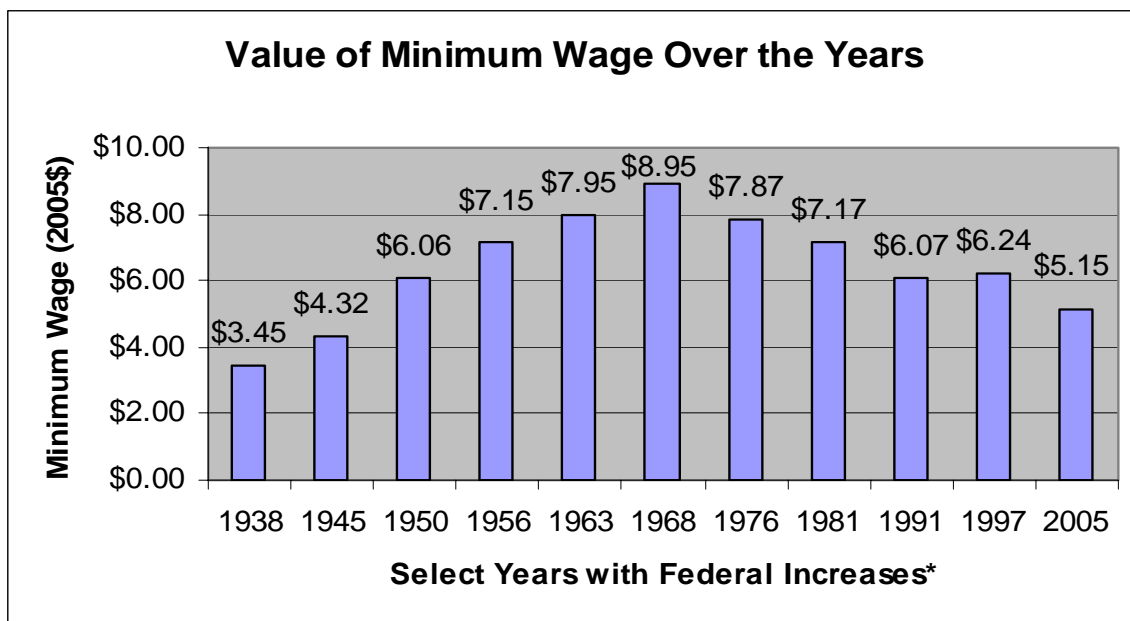
Another concern about the efficacy of raises in the minimum wage is that the minimum wage itself does not properly target the population of low-income workers. Some critics contend that minimum wage increases largely affect teenagers and other individuals living in households earning well above the poverty level¹⁸. However, data indicate that of those individuals directly affected by the most recent federal increase in the minimum wage, 70% were over the age of 19, and 35% of the income gains went to the poorest one-fifth of working households¹⁹. More recently, it has been argued that an increase of the federal minimum wage to \$7.00 an hour would see almost 60% of the benefits going to the bottom two-fifths of households²⁰.

POLICY SOLUTIONS

Indexing to inflation

Sporadic legislative adjustments have not kept pace with inflation and the wage of average workers over the last quarter century, leading many to advocate for indexing the minimum wage to inflation and eliminating the need for periodic legislative negotiation and approval of wage increases. The graph below displays the federal minimum wage in 2005 dollars. In the 1970s, the minimum wage not only peaked in real value, but it was also approximately half of the average worker's wage; today it is about 32%²¹.

While raising the federal rate to \$7.25 an hour would improve incomes for millions of Americans, it does not address the problem of keeping wages level with inflation. Thus, it has been proposed that the minimum wage not just be raised, but also be indexed to inflation as determined by the Consumer Price Index (CPI). Of the 29 states proposing increases in their minimum wages during the 2005 legislative session, 16 sought indexing²². Indeed, four states (Washington, Oregon, Florida and Vermont [starting in 2007]) have adopted indexing, and Nevada will likely join them in 2006. By indexing the minimum wage, proponents argue that the income of low-wage workers is able to “keep up” with the market, and that “indexing will take politics out of the minimum wage issue, and put the fairness back in”²³.



*The federal minimum wage did not increase in 2005 – this information is provided for current comparison.

Indexing falls prey to all of the most common arguments opposing minimum wage increases (spurring of job loss, negative impacts on business, lack of targeting, etc.), because it institutionalizes automatic hikes, and thus stifles any future debate about increases. Opponents

also contend that the CPI is not a good standard as it overstates inflation, and that indexing would lead to uncertainty in business planning and budgeting. In fact, just as the less predictable, periodic increases to the minimum wage have no apparent negative impact on business, neither does indexing. Washington was the first state to index its minimum wage; a public referendum passed in 1998 that raised the state minimum wage from \$4.90 to \$6.50 over two years, and then instituted indexing that began in 2001. Research indicates that between 1998 and 2001, state employment in low-wage sectors actually increased; moreover, the declines in these sectors beginning in 2001 are attributable to the national recession, and are much less than the declines in higher-paying sectors²⁴.

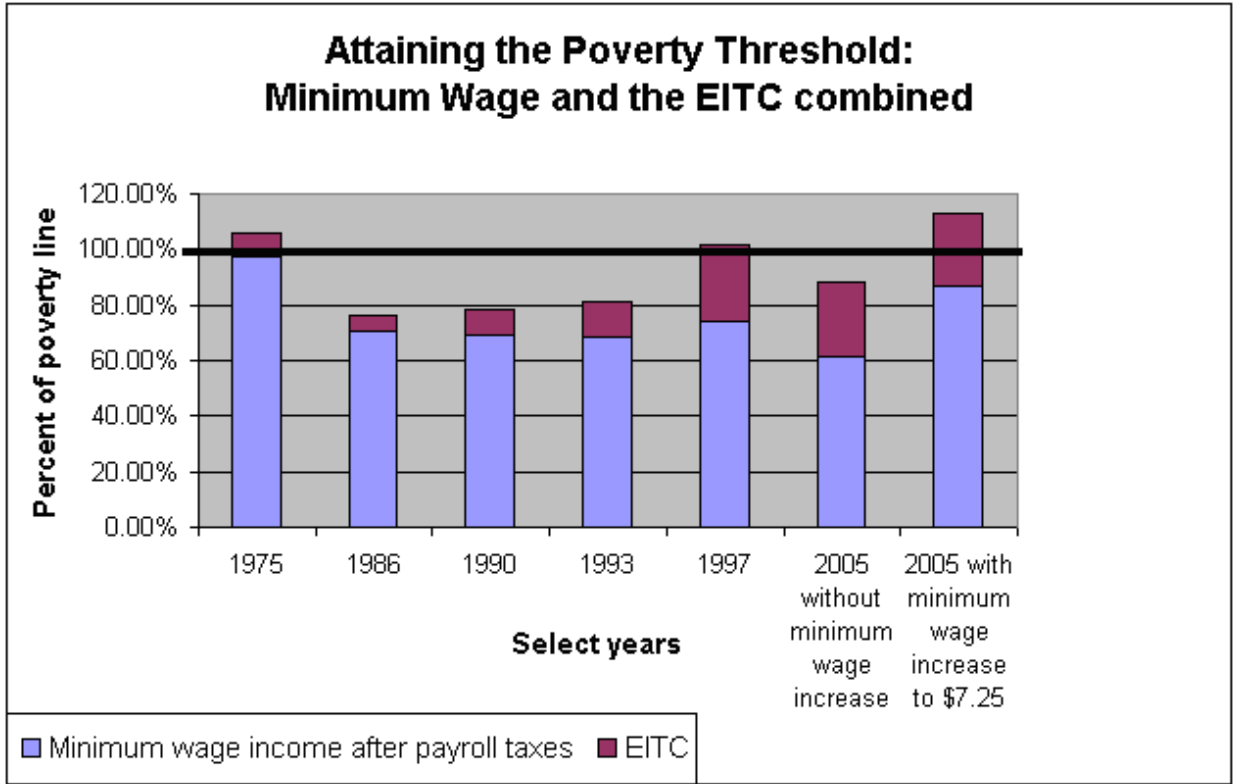
Local initiatives for “living wages”

In response to low minimum wages and the lack of indexing, many local governments have taken it upon themselves to pass “living wage” ordinances. Living wages typically apply to a restricted set of workers (usually those employed in local government and city/county-contracted or subsidized work), and are often based on the federal poverty guidelines for a specific family size – usually a family of three or four²⁵. ACORN, a major advocacy group for living wages, reported in 2004 that there were 124 living wage ordinances in U.S. cities and counties²⁶. As of 2004, these ordinances called for bottom wages ranging from \$7.06 to \$14.75 an hour²⁷.

Enhanced by public investment in low-income households

The minimum wage does not stand alone in aiding families to achieve economic self-sufficiency. The minimum wage and Earned Income Tax Credit (EITC) can complement each other in providing a strong foundation for many low-income working families. The EITC, in its sensitivity to family size and income, addresses the concern about lack of targeting by the minimum wage. On the other hand, minimum wage laws continue to ensure that business assumes responsibility for paying workers at least enough to maintain a “minimum standard of living necessary for health, efficiency and general well-being” as called for in the original 1938 legislation²⁸.

Some critics of increases to the federal minimum wage argue that the EITC is sufficient to alleviate poverty²⁹. However, analysis indicates that, unless minimum wage is ultimately indexed to inflation, EITC and the minimum wage together cannot sustain families above the poverty line over time. In 1968, the minimum wage alone was able to sustain a family of three above the poverty level. Since its initiation in 1975, the EITC has made up for loss in the real value of the minimum wage, but this compensating capacity diminishes as the gap widens in each additional year after an adjustment to the wage rate.



Note: Analysis assumes one parent, working full-time year-round at minimum wage, with two children.

This decrease in EITC's ability to make up for the shrinking real value of the minimum wage is demonstrated in the above graph. As can be seen, the 1997 federal minimum wage increase, combined with the EITC, pushed families above the poverty line – indeed, this was one of President Clinton's express goals with the expansion of federal EITC in 1993³⁰. However, the declining real value of the minimum wage has rendered this goal less and less attainable. Moreover, some full-time workers earning the minimum wage are now ineligible for maximum EITC benefits. This is because the earnings level at which a family attains maximum EITC benefits is adjusted for inflation. By 2005, it exceeded the earnings garnered from minimum wage employment³¹. For example, a single parent with two children who works full-time, year-round at the minimum wage annually earns \$10,712. However, in 2005, the income bracket at which that family type qualified for the maximum EITC started at \$11,000. Thus, this minimum wage worker received a credit of \$4285, which was \$115 less than the maximum credit of \$4400³².

CONCLUSION

A minimum wage set at a level that enables a family to cover essential needs and to begin to save for the future lays the basic foundation for building household assets and creating real opportunity to join the economic mainstream. Minimum wage laws can strike the balance between ensuring that people who go to work each day earn enough to meet their needs and that employers are not unfairly overburdened. In the past on the federal level and today in numerous states, this balance has been achieved when the minimum wage rate is maintained near one-half of the median wage of American workers.

But even at this level, minimum wage laws alone cannot fully provide the economic security and mobility necessary for families to build assets for themselves and their children over a lifetime. Refundable tax credits and government assistance programs are also necessary to relieve the disproportionate burden of taxes for low-income households and to assist low-wage families with expenses that take an overwhelming bite out of their paycheck. Rather than viewing government-funded programs, such as EITC, as substitutes for the payment of family supporting wages, together they can provide the foundation for independence upon which people can build for the future.

EXAMPLES OF PROMISING STATE POLICIES

State minimum wage increases typically take place in three ways: public initiatives/ referenda, legislation, and, more rarely, through state committee recommendations. Below are examples of promising practices and policies emerging from these three routes of action. These brief narratives provide the rationale and strategies that lead to successful passage of minimum wage laws in the recent past. The actual legislation and more detailed information about the initiatives and the players are available through web site links.

Florida: Action through statewide referendum

On November 2, 2004, just as the state weighed in for Republican President George Bush, Florida made another important vote, that is to raise the minimum wage. Recognizing a need to help the state's 300,000 minimum wage workers struggling to make ends meet with the federal \$5.15-an-hour, 72% of voters supported "The Florida Minimum Wage Amendment" – commonly known as "Amendment 5" – which raises the state rate to \$6.15 an hour *and* indexes it annually to inflation. Amendment 5 carried a majority vote in *every county* in the state.

Instrumental in the campaign was "Floridians for All," the coalition which sponsored the bill. Assembled by the Florida ACORN, Floridians for All included, among other groups: the state AFL-CIO, SEIU Local 1991, South Florida Jobs with Justice, the Florida Education Association, the Florida Council of Churches, and progressive business leaders³³. In order to place the minimum wage initiative on the November 2004 ballot, the coalition gathered over 957,000 signatures that they submitted in July of that year. Floridians for All also worked to register voters, and targeted traditionally African- American and Hispanic neighborhoods. By the time they had garnered the over 900,000 signatures for the ballot petition, they had also registered 122,000 voters throughout the state³⁴. In the weeks leading up to the final vote, Floridians for All went on a 10-day, 15-city bus tour in a final push for support.

ACORN has chapters in 28 states; its decision to focus so strongly on Florida came after it commissioned a statewide poll that indicated overwhelming support for increasing the state's minimum rate. ACORN budgeted \$2 million for the campaign. Organizers focused their efforts on six strategic counties. ACORN and AFL-CIO lobbied House Democrats and select Republicans. Through TV ads, Internet campaigns, door-to-door efforts and a number of public events they were able to counter the opposition posed by business leaders and others waging the usual arguments against a wage hike³⁵.

Florida's fight for an increased minimum wage was also likely aided by the September 2004 publication of an "Economic Analysis of the Florida Minimum Wage Proposal," put out by the Center for American Progress³⁶. This report provided a direct assessment of the costs likely to be incurred by Florida businesses if such a minimum wage hike were to occur – and the report went on to address how businesses could easily adjust through very minimal price hikes. For

example, it argued that retail stores could cover the costs by instituting a .05 percent increase on its sales – e.g., raising the price of a \$20.00 item to \$20.01.

It has also been argued that ballot initiatives, like Amendment 5 in Florida, may be the “way to go” with issues like minimum wage. Such initiatives claim to attract more voters to the polls, as people are more likely to come out to vote if there is something on the ballot for which they can voice their support³⁷.

In October of 2005, five months after the raise to \$6.15 in Florida, the state’s unemployment rate fell to 3.4%, the lowest it had been since 1976. (Many business owners attributed this to the shifting of costs to increased prices, instead of laying off workers.)³⁸ Furthermore, early evidence from Washington and Oregon – the other two states with indexed minimum wages – suggests that there are no significant links between their minimum wage increases and unemployment or job loss³⁹.

Full language of Florida Minimum Wage Amendment: <http://www.floridiansforall.org/index.php?id=97>

Sources:

<http://www.floridiansforall.org/>

<http://www.acorn.org/>

<http://www.pww.org/article/articleview/6095/1/240/>

New York: Legislation supported by business leaders

Until December 2004, New York state's minimum wage was set at the federal level of \$5.15. A legislative increase, however, was enacted on January 1, 2005, and will eventually raise the state minimum wage to \$7.15. (The minimum wage went up to \$6.00 in 2005, will increase to \$6.75 in 2006, and will ultimately reach \$7.15 in 2007.)

Passage of the New York legislation was contentious, involving election year politicking and, ultimately, overriding a gubernatorial veto. In 2004, the Democratic-led Assembly passed two bills seeking an increase in the minimum wage (one called for \$7.10 an hour, the other for \$7.25). Republicans, eyeing the upcoming election in November and conscious of two vulnerable state Senate seats in New York City, made claims to support an increase. Republican Governor George Pataki also claimed to support an increase, although he argued that this was best accomplished at the federal level – a state increase, he felt, would reduce New York's economic competitiveness relative to neighboring states with lower minimum wages¹.

Ultimately, Speaker of the Assembly Sheldon Silver and Senate Majority Leader Joseph Bruno, a Republican, compromised on the gradual increase to \$7.15. The bill resulting from this compromise, S7682/A11760, passed at the end of July by very large margins in both the Assembly and the Senate. Before the month was out, Governor Pataki vetoed this bill, claiming again that it harmed New York's competitiveness. Thirteen days later, the State Assembly voted 126 to 20 to override Pataki's veto. A similar override, however, did not immediately emerge from the Senate. With elections approaching in November, some speculated that Bruno was stalling – to campaign using minimum wage promises, and/or to hold out for a federal increase. When the federal increase did not take place, and the Republican party lost the two Senate seats for which it was lobbying, it appeared that Bruno was left to uphold his earlier promises regarding the wage hike. In early December, the Senate voted 50 to 8 to override the governor's veto.

The Senate Majority Leader repeatedly cast the minimum wage increase not only as a way to boost the earnings of low-income workers, but also as a way of helping them “realize the value and dignity of hard work”⁴⁰. Taking this bent on the issue, and holding true to campaign promises, left Bruno open to criticism by the state's Conservative party, whose disapproval of Bruno's support of the increase eventually spurred them to withdraw their endorsement of him in the election. Other opponents to the increase were business leaders and groups like the Business Council of New York, which lobbies for small business interests and claimed that an increase would hurt business competitiveness.

Election year politics was not the only reason for passage of the minimum wage increase. A strong coalition – the “\$5.15 Is Not Enough Coalition” – stood behind the raise, organizing

¹ In particular, Pennsylvania and New Jersey. Massachusetts, Connecticut and Vermont already had minimum wages higher than the federal level.

constituents and holding rallies. Key players in this movement were the Working Families Party (a Brooklyn-based advocacy group backed by labor unions), the Brennan Center for Justice, the Fiscal Policy Institute, Jobs with Justice, New York ACORN, the New York Immigration Coalition, labor unions, and Roman Catholic Bishops. While opposition to the wage increase was put forth by some business groups, other business leaders came forward in support. Of note, the Tompkins County Chamber of Commerce issued a resolution in April of 2004 supporting a higher minimum wage. Also, the Partnership for New York City (a prominent group of business leaders) supported the increase, arguing that the training and turnover costs associated with employees leaving to seek higher-paying jobs pressure employers to pay higher wages. The president, Kathryn Wylde, stated that, "This churning of workers is their single biggest expense." Money saved by paying lower wages is lost to the "cost of recruitment, human resources and lost investment in training people to run the cash register when they'll be gone in six months"⁴¹.

Analyses by the Fiscal Policy Institute project that 1.2 million workers are and will be affected by the increases: 691,000 workers who earn between \$5.15 and \$7.15 will be directly impacted, and another 509,000 who earn between \$7.15 and \$8.15 will be indirectly impacted by ripple effects of the increases⁴².

New York minimum wage law:

<http://public.leginfo.state.ny.us/menugetf.cgi?COMMONQUERY=LAWS> (Labor Article 19, Section 652)

Sources:

<http://www.nycp.org>

Wisconsin: Municipal initiatives spur statewide policy

Recently, Wisconsin was engaged in a discussion around raising its minimum wage. An administrative rule to raise the minimum wage to \$6.50 an hour had already been passed. This rule was put forward by the Minimum Wage Advisory Council, appointed by the governor and comprised of representatives from business, labor and education leaders as well as state legislators. However, Republicans in the legislature temporarily delayed the administrative rule by passing a bill to block its implementation. This hold was to last until the end of the legislative session in which it was passed -- a date which state Republicans have pushed back from May to December of 2006. While it was inevitable that, barring Governor Jim Doyle's (D) veto of the rule (unlikely given that he established the Minimum Wage Advisory Council), the increase would take place, Republicans were seeking a compromise of \$6.00 an hour.

Unsatisfied with the political hold-up at the state level, some Wisconsin cities took the initiative to address what many saw as an inadequate minimum wage (remaining at the federal level of \$5.15 since 1997). Madison had already raised the minimum wage for businesses operating in the city to \$5.70 an hour, effective January 1, 2005. It would increase to \$6.50 in 2006 and then to \$7.25 in 2007. In 2008, the city's minimum wage would then increase to \$7.75 and thereafter be indexed to inflation. Milwaukee had also instituted a wage increase (to \$5.70 an hour on October 1, 2004 and to \$6.50 a year later), and similar legislation was pending in LaCrosse.

The actions taken by these localities, according to some commentators, likely contributed to the lack of business opposition to a state-level wage increase. One observer noted that "the Balkanization of the minimum wage in Wisconsin would be an administrative nightmare for any multi-site business. The business leaders may view a statewide increase as preferable to 30 different minimum wages in the state"⁴³.

In May 2005, the legislature and the governor reached a compromise: to end the block of the increase while simultaneously prohibiting cities from exceeding the new state rate. So, on June 1, 2005, the state minimum wage was raised to \$5.70 (it will then increase to \$6.50 on June 1, 2006); on that same day, Governor Doyle signed a bill barring the institution of local wage floors⁴⁴. Again, little business opposition or reaction was to be found – an absence attributed to some employers' mere relief that the political haggling had finally come to an end⁴⁵.

Wisconsin's experience with increasing its minimum wage highlights an interesting case of localities responding to state inaction in the same way that states have responded to lack of timely action at the federal level. However, as this particular case demonstrates, the strength of the local lobby may fall prey to eventual legislative compromise.

The Minimum Wage Advisory Council's final recommendations (see pp.37-39):

http://www.dwd.state.wi.us/er/equal_rights_division/pdf_files/mwac_final_report.pdf

Sources:

http://www.dwd.state.wi.us/er/equal_rights_division/initiative_to_raise_the_minimum_wage.htm

Vermont: Indexing minimum wage through legislation

In 2003, Vermont legislation was adopted which would raise the state minimum wage to \$7.00 an hour over a two year period. On the heels of this final increase – which took place in January of 2005 – the state Senate began discussing another increase in the state rate ...this time, one that included a cost of living adjustment, or “COLA.”

The first proposal put forth involved an increase to \$8 an hour which would in subsequent years be indexed. According to one news report at the time, “the goal behind this legislation is to take political wrangling out of guaranteeing a minimum wage for the lowest-income workers in the state. Under current policy, the minimum wage changes only when the Legislature adopts a new law.”⁴⁶ Yet, much “wrangling” took place over this proposal. Not only was the idea of indexing the minimum wage to a COLA hotly debated, but the index on which that COLA should be based also proved to be contentious.

Over time, the Senate dropped the \$8-an-hour proposal, and simply sought to index the current minimum wage to the Consumer Price Index-Urban (CPI-U). At first, the Senate sought to index the minimum wage every other year, but ultimately decided to do so on an annual basis. The House considered a similar bill, but looked to set the base rate at \$7.25 (instead of the current \$7.00) and to thereafter index the rate to annual increases in the average weekly wage (an index referred to as the AWW) in Vermont. One report stated that, “the CPI-U for 2003 was 2.3% versus the AWW of 3.4%. On average the AWW has been 1.52% higher than the CPI-U over the last few years.”⁴⁷ Advocates for the use of the AWW argued that it better represented the cost of living increases faced by local Vermont workers, while the CPI-U merely reflected national urban trends. Ultimately, lawmakers agreed on raising the minimum wage to \$7.25 an hour in January 2006 and then annually indexing it to the CPI.

On June 28, 2005, Vermont Governor Jim Douglas, a Republican, signed the bill (S. 80) into law, making Vermont the first (and only) state in the U.S. to *legislate* the indexing of the minimum wage – other states with indexed minimum wages have passed such laws through public initiatives.

Advocacy groups were influential in the process. In particular, the Vermont Livable Wage Campaign (VWLC) worked to increase the minimum wage and to index it to inflation by engaging in research, analysis, education and community organizing⁴⁸.

Vermont minimum wage statutes:

<http://www.state.vt.us/labind/Wagehour/381-384vsa.htm>

Sources: <http://www.vtlivablewage.org/legislation.html>

MORE RESOURCES

History of Minimum Wage

http://www.epinet.org/content.cfm/issueguides_minwage_minwage
<http://www.financeproject.org/irc/win/minimum.asp>
<http://www.dol.gov/esa/minwage/america.htm>
<http://www.aflcio.org/issues/legislativealert/stateissues/minimumwage/>

Indexing to Inflation

http://www.epinet.org/content.cfm/issuebriefs_ib195
http://www.epinet.org/content.cfm/webfeatures_snapshots_04282004
http://www.epionline.org/studies/epi_minimumwage_03-2003.pdf

Living wage

<http://www.livingwagecampaign.org/index.php?id=1958>
http://www.epinet.org/content.cfm/issueguides_livingwage_livingwage
<http://www.brockport.edu/~library5/NickelAndDimed/LowMinimumLivingWage.htm>

Impact on Business

<http://www.fiscalpolicy.org/minimumwageandsmallbusiness.pdf>
http://www.epinet.org/content.cfm/webfeatures_viewpoints_raising_minimum_wage_2004

Effects on Entry-Level Jobs

<http://www.aflcio.org/mediacenter/resources/upload/minimumwagefactbooklet.pdf>
http://www.epinet.org/content.cfm/briefingpapers_bp151
http://www.epinet.org/content.cfm/briefingpapers_bp150
http://www.epinet.org/content.cfm/studies_stmwp
<http://www.fiscalpolicy.org/minimumwageandsmallbusiness.pdf>

Card, David, and Alan B. Krueger. 1994. Minimum Wages and Employment: A Case Study of the Fast-food Industry in New Jersey and Pennsylvania. *The American Economic Review*, 84, 4, 772-793.

Card and Krueger's book *Myth and Measurement: The New Economics of the Minimum Wage*, 1997

<http://www.pupress.princeton.edu/titles/5632.html>

Public investments

<http://www.epinet.org/content.cfm/issuebrief201>
http://www.epinet.org/content.cfm/webfeatures_viewpoints_minimum_wage_maximizing
Bluestone and Ghilarducci. 1996. *Making Work Pay: Wage Insurance for the Working Poor*.
<http://ideas.repec.org/p/lev/levppb/28.html>
http://www.epinet.org/content.cfm/webfeatures_snapshots_05052004

State policies

http://www.ncsl.org/programs/employ/minimumwagebills_%202004.htm

ENDNOTES

- ¹ <http://minneapolisfed.org/Research/data/us/calc/index.cfm>
- ² <http://www.usfca.edu/fac-staff/matravis/flsa.pdf>
- ³ http://www.epinet.org/issuebriefs/200509_epi_cbpp.pdf
- ⁴ Draut, Tammy, David Callahan and Corinna Hawkes. 2002. Crossing Divides: New Common Ground on Poverty and Economic Security. Demos. http://www.demos-usa.org/pubs/Crossing_Divides.pdf
- ⁵ http://www.childrensdefense.org/familyincome/minimum_wage_report_2004.pdf
- ⁶ <http://www.dol.gov/esa/minwage/coverage.htm>
- ⁷ http://www.epi.org/content.cfm/issueguides_minwage_minwagefacts
- ⁸ Chasanov, Amy. May 11, 2004. "No Longer Getting By: An Increase in Minimum Wage is Overdue." *EPI Briefing Paper #151*. http://www.epinet.org/content.cfm/briefingpapers_bp151
- ⁹ http://www.epi.org/content.cfm/issueguides_minwage_minwage
- ¹⁰ http://www.epinet.org/content.cfm/issuebriefs_ib195
- ¹¹ States with no minimum wage laws are: Alabama, Arizona, Louisiana, Mississippi, South Carolina and Tennessee. <http://www.dol.gov/esa/minwage/america.htm>
- ¹² States with minimum wages below the federal rate are Kansas and Ohio. The federal minimum wage still applies to all workers covered by the FLSA; these states' lower minimum wages apply only to categories of workers exempt from FLSA coverage. <http://www.dol.gov/esa/minwage/america.htm>
- ¹³ The definition of small businesses varies, largely by industry. For most manufacturing and mining, the maximum number of employees is 500; for wholesale trade, it's 100. For most retail and service industries, the maximum revenue is \$6 million. <http://www.sba.gov/size/indexguide.html>
- ¹⁴ <http://www.gothamgazette.com/article//20040216/202/871>
- ¹⁵ Employment Policies Institute. "Job Loss in a Booming Economy." 2nd Edition. April 1998. http://www.epionline.org/studies/epi_jobloss_02-1998.pdf
- ¹⁶ <http://www.fiscalpolicy.org/minimumwageandsmallbusiness.pdf>
- ¹⁷ <http://www.fiscalpolicy.org/minimumwageandsmallbusiness.pdf>; David Card and Alan Krueger, in their famous 1994 investigation of the fast food industry in New Jersey after that state's raising of the minimum wage (as compared to Pennsylvania establishments with a constant minimum wage), determined that increases in the minimum wage did not have significant impacts on employment levels, and indeed the increase in minimum wage was associated with increased employment (although this is statistically insignificant). This study, while receiving a number of subsequent critiques, was quite prominent, and was one of the pieces of evidence marshaled as support for the 1996 federal minimum wage increase.
- ¹⁸ <http://www.heritage.org/Research/Labor/WM19.cfm>; http://www.epionline.org/studies/burkhauser_07-2004.pdf
- ¹⁹ http://www.epinet.org/content.cfm/webfeatures_viewpoints_minimum_wage_maximizing
- ²⁰ <http://www.epinet.org/content.cfm/issuebrief201>
- ²¹ http://www.epinet.org/issuebriefs/200509_epi_cbpp.pdf
- ²² http://www.shrm.org/government/states/pendingleg_published/; http://www.nfib.com/object/IO_20656.html
- ²³ Economic Opportunity Institute. <http://www.econop.org/minimum.htm>
- ²⁴ <http://www.eoionline.com/MinimumWage/MinimumWage2003.pdf>
- ²⁵ http://www.epinet.org/content.cfm/issueguides_livingwage_livingwagefaq
- ²⁶ <http://www.livingwagecampaign.org/index.php?id=1958>
- ²⁷ <http://www.livingwagecampaign.org/index.php?id=1959>
- ²⁸ <http://www.usfca.edu/fac-staff/matravis/flsa.pdf>
- ²⁹ http://www.epionline.org/studies/epi_policybrief_07-2001.pdf
- ³⁰ <http://www.financeprojectinfo.org/irc/win/minimum.asp>
- ³¹ http://www.epinet.org/content.cfm/issuebriefs_ib180
- ³² <http://www.irs.gov/pub/irs-drop/rp-04-71.pdf>
- ³³ <http://www.floridiansforall.org/>; <http://www.acorn.org/index.php?id=8502>
- ³⁴ [http://www.acorn.org/index.php?id=2087&tx_ttnews\[pointer\]=1&tx_ttnews\[tt_news\]=3748&tx_ttnews\[backPid\]=42&cHash=40d4484dc9](http://www.acorn.org/index.php?id=2087&tx_ttnews[pointer]=1&tx_ttnews[tt_news]=3748&tx_ttnews[backPid]=42&cHash=40d4484dc9); <http://www.nhi.org/online/issues/139/organize.html>
- ³⁵ <http://www.nhi.org/online/issues/139/organize.html>
- ³⁶ http://www.floridiansforall.org/fileadmin/Floridians_For_All/FloridaMinimumWagestudy.pdf
- ³⁷ <http://www.ballot.org/>

-
- ³⁸ Barancik, Scott. Nov. 27, 2005. "Six Months and Counting; Minimum Wage." *St. Petersburg Times*.
- ³⁹ http://www.epinet.org/content.cfm/issuebriefs_ib195; http://www.epinet.org/content.cfm/briefingpapers_bp150
- ⁴⁰ Baker, Al. Dec. 6, 2004. "Over Pataki Veto, Minimum Wage to Rise to \$7.15." *The New York Times*.
- ⁴¹ http://www.jotf.org/about/media_clippings/wsj072704.htm
- ⁴² [http://www.fiscalpolicy.org/downloads/Counties\\$715.PDF](http://www.fiscalpolicy.org/downloads/Counties$715.PDF)
- ⁴³ <http://www.polstate.com/archives/006635.html>
- ⁴⁴ Marley, Patrick. June 2, 2005. "Local wage floors barred; Doyle signs bill to prevent patchwork of area minimums." *Milwaukee Journal Sentinel*. <http://www.jsonline.com/news/state/jun05/330531.asp>
- ⁴⁵ Dresang, Joel. June 1, 2005. "Minimum wage increase takes effect; Employers relieved issue is settled." *Milwaukee Journal Sentinel*. <http://www.jsonline.com/bym/news/may05/330235.asp>
- ⁴⁶ Sneyd, Ross. Jan. 21, 2005. "Senators debate how, whether to raise minimum wage." Associated Press State and Local Wire.
- ⁴⁷ http://www.pjcvr.org/PJC%20News/April2005_5.pdf
- ⁴⁸ <http://www.vtlivablewage.org/>