Michigan League for Human Services

Economic Policy Institute

A State Minimum Wage Helps Working Families Without Hurting Jobs

November 2005

During the past eight years, Michigan's current minimum wage of $5.15 has failed to keep up with inflation. As a result, the lowest-wage workers, many of whom have families to support, are unable to purchase as much as they could a few years ago. Legislation has been introduced to raise the minimum wage in Michigan to $7.15 per hour over the next two years with an annual adjustment for inflation. This analysis explains the impact of a minimum wage increase on low-wage workers and businesses in Michigan.

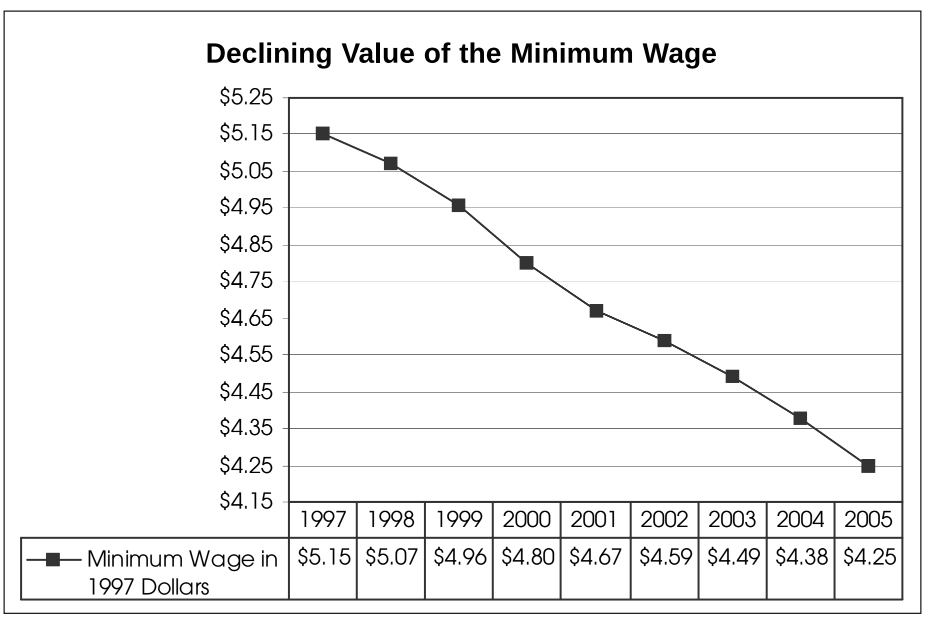
The federal minimum wage has eroded in value.

The federal minimum wage has remained at $5.15 an hour since 1997, having been raised from $4.25 in two steps over a two-year period. During each of the eight years that the minimum wage has remained at $5.15, inflation has caused minimum wage workers to experience a decline in their buying power. The real value of the minimum wage has decreased by 17.5 percent since 1997, and is now back at $4.25 in 1997 dollars. In other words, due to annual inflation, all of the gains from the last federal minimum wage increase have been lost (Fig. 1).

A minimum wage job now pays less in real dollars than in any other year, save one, since 1955. It is 32 percent lower than the minimum wage in 1968, when it was equivalent to $7.54 an hour in 2005 dollars. Since the federal minimum wage was first enacted in 1938, in only one other time (during 1981-1990) have more than eight years elapsed without an increase. To wait even one more year before raising the federal minimum wage would set a new precedent for the length of time without an increase, and would bring its value down to unprecedented levels (Fig. 2).

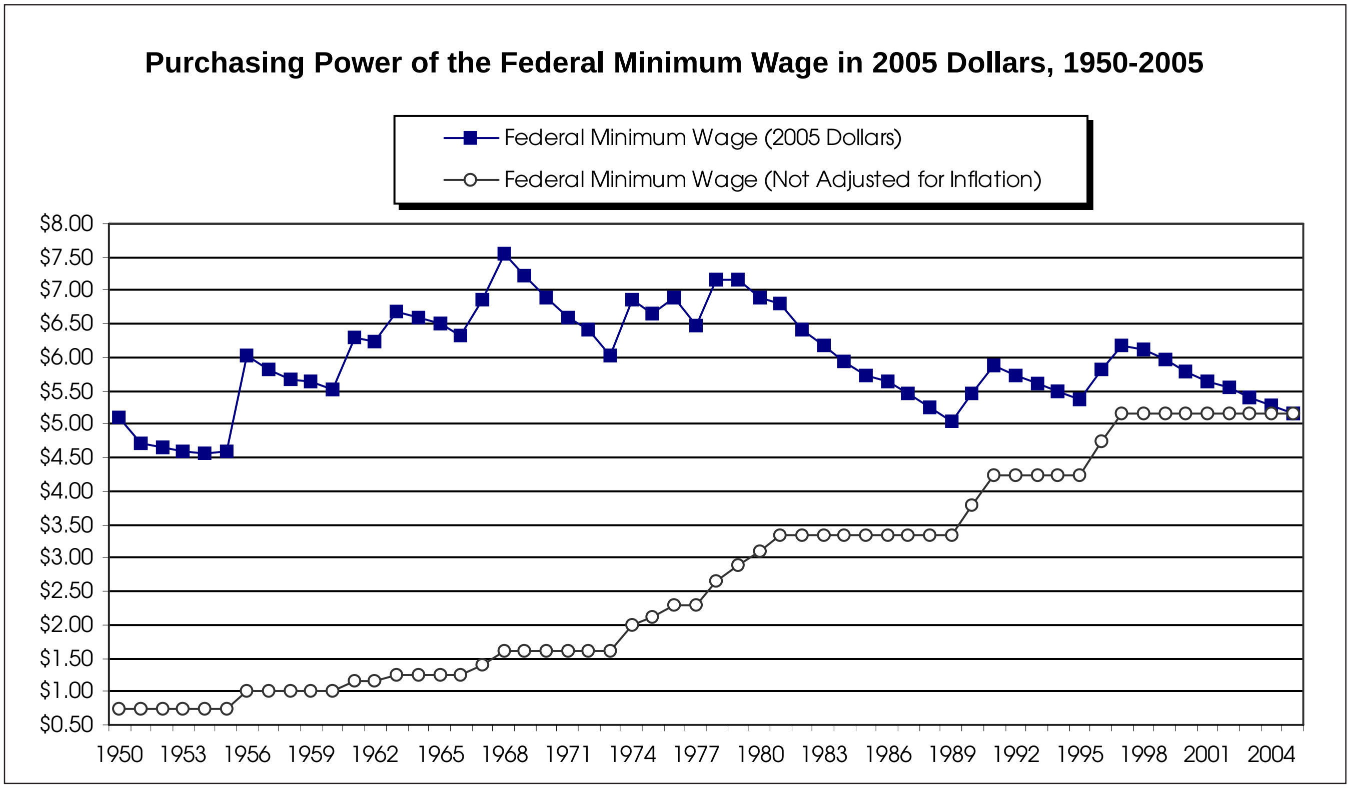
Fortunately, Michigan does not have to wait for federal action in order to raise the minimum wage for Michigan workers. Several states have established minimum wages that are higher than the federal minimum wage level, and two states annually adjust for inflation (Fig. 3).

Fig. 1



Source: Bureau of Labor Statistics inflation calculator
Prepared by Michigan League for Human Services

Fig. 2



Source: Economic Policy Institute using CPI-RS to adjust for inflation

Many minimum wage earners support families.

In 2003, approximately 95,000 Michigan workers were compensated at or below the federal minimum wage of $5.15 per hour.[1] These workers can be found in virtually any sector, but are often concentrated in the retail and the leisure and hospitality sectors (which are also among the fastest growing sectors).[2] In Michigan, 351,000 workers would be directly affected by a minimum wage increase to $7.15 over the next two years.

Forty percent of current minimum wage workers are the sole income providers for their families. Nationally, 71 percent of those affected by the last minimum wage increase were age 20 or older. Likewise, 68.2 percent of Michigan workers who would be affected directly by a raise to $7.15 an hour are age 20 or older. (These statistics refute the common misconception that most minimum or near-minimum wage workers are teenagers from middle-class or affluent families and are supported financially by, and living with, their parents.) Fig. 4 gives several demographics, including age, of the workers most likely to benefit from an increase.

The idea that most minimum wage workers are dependents in middle-class households is also refuted by statistics showing that most of the Michigan households that would benefit from an increase to $7.15 are low-income. As Fig. 5 shows, 40.7 percent of the share of gain from such an increase would go to Michigan households in the bottom twenty percent (known as the lowest quintile or fifth) of total household earnings, and 60.4 percent would go to Michigan households in the bottom forty percent.

[1] U.S. Department of Labor, Bureau of Labor Statistics, *Characteristics of Minimum Wage Workers: 2003*.
[2] For more information, see the Michigan League for Human Services, *Michigan's Growing Low-Wage Labor Force*, June 2005.

Fig. 3

States With Minimum Wages Above the Federal Level, 2005 and Beyond

	2005	2006	2007	Beyond
United States	**$5.15**			
Washington	7.35	**	**	**
Oregon	7.25	**	**	**
Alaska	7.15	*	*	*
Connecticut	7.10	$7.40	$7.65	
Vermont	7.00	7.25	**	**
California	6.75			
Massachusetts	6.75			
Rhode Island	6.75			
District of Columbia	6.60	7.00		
Illinois	6.50			
Maine	6.35			
Hawaii	6.25	6.75	7.25	
New Jersey	6.15	7.15		
Delaware	6.15			
Florida	6.15	**	**	**
Minnesota	6.15			
New York	6.00	6.75	7.15	
Wisconsin	5.70	6.50		

* At least $1 above federal rate
** Indexed to inflation

Source: U.S. Department of Labor
Chart by Economic Policy Institute

Fig.4

Characteristics of Michigan Workers Affected by Minimum Wage Increase to $7.15

	Affected directly	Other low-wage workers*	Total workforce
Number of workers	351,000	281,000	4,295,000
Percent of workforce	8.2%	6.5%	100.0%
Gender			
Male	42.3%	36.4%	51.7%
Female	57.7%	63.6%	48.4%
Race			
White	73.1%	73.8%	81.8%
Black or Hispanic	22.4%	23.4%	14.4%
Age			
Under age 20	31.8%	15.6%	5.3%
20 and older	68.2%	84.4%	94.7%
Work hours			
20-34 hours per week	35.9%	31.1%	14.1%
Full-time (35+ hrs.)	32.8%	52.5%	78.6%
Industry			
Retail trade or leisure and hospitality	54.8%	42.5%	19.9%
Occupation			
Sales or service	67.0%	53.1%	26.4%

*Those most likely to be indirectly affected by a minimum wage increase.

Source: EPI analysis of 2004 Current Population Survey data

Though directly-affected workers only make up 8.2 percent of Michigan's total workforce, the earnings of these workers are significant to their families. In 2004, minimum wage workers contributed 45.8 percent of their families' total weekly earnings. In fact, nearly one-third of these families had their earnings coming entirely from family members earning the minimum wage (Fig. 6).

Fig.5

Distribution of Minimum Wage Gains by Total Household Earnings in Michigan

Weekly earnings quintile	Share of total earnings	Share of gain from increase	Average weekly earnings	Average Annual Earnings
5	42.9%	11.5%	$2,380	$123,760
4	24.3%	15.7%	$1,361	$70,772
3	16.9%	12.5%	$931	$48,412
2	10.8%	19.7%	$606	$31,512
1	5.0%	40.7%	$280	$14,560

Source: EPI analysis of 2004 CPS-ORG data

Fig.6

Michigan Families Who Would Benefit Directly from a Minimum Wage Increase, 2004

	Average share of weekly household earnings that come from a directly-affected worker	Percent of families benefiting from increase for whom 100% of earnings come from a directly-affected worker
• Families who would benefit directly from an increase to $7.15	45.8%	32.1%
• Families with children who would benefit directly from an increase to $7.15	46.3%	32.6%

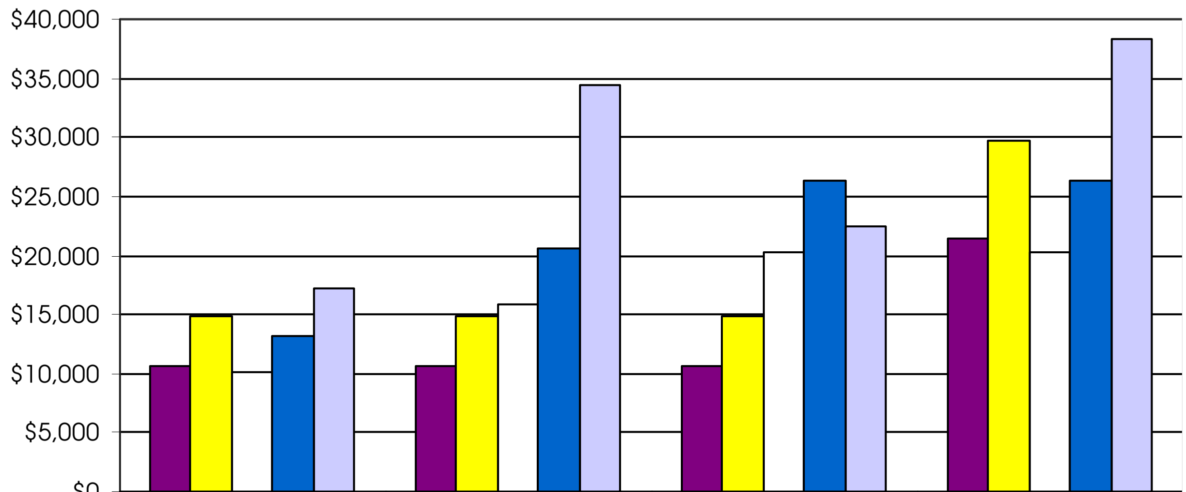
Source: Economic Policy Institute analysis of 2004 CPS-ORG data

The current minimum wage is inadequate for Michigan's workers and their families.

A worker earning minimum wage, forty hours a week and fifty-two weeks a year, grosses only $10,712 per year. This puts a single person with no dependents just barely over the federal poverty threshold. For a single parent with two children, a full-time minimum wage paycheck is equal to only 67.6 percent of the poverty threshold. In a two-parent family in which both parents earn minimum wage, both parents must work forty hours per week, fifty-two weeks a year to exceed the poverty threshold. In other words, a minimum wage job will keep most families significantly below or at the edge of poverty, according to the most widely accepted measure of poverty and income.

Fig.7

Minimum Wage, Poverty and Self-Sufficiency



	Single, No Children	Single Parent, 2 Children	Married Couple, 2 Children (1 Parent Working)	Married Couple, 2 Children (Both Parents Working)
Current Minimum Wage*	$10,712	$10,712	$10,712	$21,424
Proposed Minimum Wage*	$14,872	$14,872	$14,872	$29,744
Federal Poverty Threshold, 2006**	$10,135	$15,840	$20,296	$20,296
Maximum Income for Food Assistance Eligibility	$13,176	$20,592	$26,385	$26,385
Economic Self-Sufficiency Standard***	$17,228	$34,485	$22,435	$38,394

*Assumes full-time, year-round employment.
**Based on projections by the Michigan Department of Human Services.
***From the Michigan League for Human Services, *Economic Self-Sufficiency in Michigan: A Benchmark for Ensuring Family Well-Being*, March 2004. These figures are calculated using established expense estimates for such family necessities as housing, child care, food, health care and transportation.

Prepared by Michigan League for Human Services.

Comparing minimum wage earnings to the federal poverty threshold only tells part of the story, however. The Michigan League for Human Services has identified an economic self-sufficiency level that indicates how much a family must earn in order to meet all of its needs without relying on government or private assistance (See Appendix). Using this measure, the League estimates that a single full-time working parent with two children under age 6 must earn $16.58 per hour (322% of the current minimum wage) in order to meet all of his or her family's needs (Figs. 7 and 8). For this parent, a minimum wage income is only 31 percent of the self-sufficiency benchmark. If the parent lives in any of the six counties comprising the Detroit metropolitan area, that parent will need to pay up to 90 percent of his or her income just for rental of a two-bedroom dwelling.[3]

Fig.8

The Current Minimum Wage Compared to Standards of Well-Being for Various Family Types[1]

	Percent of Federal Poverty Threshold (2006)[2]	Percent of Economic Self-Sufficiency Level[3]
For a single person, $5.15 an hour is	105.7%	62.2%
For a single parent with two children, $5.15 an hour is	67.6%	31.1%
For a two-parent family with two children (one parent working), $5.15 an hour is	52.8%	47.7%
For a two-parent family with two children (both parents working, $5.15 an hour is	105.6%	55.8%

[1]Assumes full-time, year-round employment.
[2]Based on projections by the Michigan Department of Human Services.
[3]From the Michigan League for Human Services, *Economic Self-Sufficiency in Michigan: A Benchmark for Ensuring Family Well-Being*, March 2004. The economic self-sufficiency level is the amount of household income a family has to have to meet all of its basic needs without government or private assistance. The figures are calculated using established expense estimates for such family necessities as housing, child care, food, health care and transportation.

Prepared by Michigan League for Human Services

In addition to helping working families, increasing Michigan's minimum wage will reduce the strain on public assistance programs such as the Family Independence Program (FIP). The preceding figures make it clear that many families cannot afford to live at the current minimum wage level without relying on some form of public or private assistance to supplement their low wages. An increase in the minimum wage in Michigan will replace some these families' state-funded public assistance dollars with earned income dollars. Currently, in about half of Michigan counties, a family of four is eligible for FIP cash assistance if its entire household income comes from one minimum wage earner working full time. Raising the family's gross wages by two dollars per hour ($347 per month) would replace all of its FIP income with earned income, while allowing the family to continue receiving Food Assistance benefits which are wholly federally funded.

[3] According to Housing and Urban Development Fair Market Rents for 2005, a 2-bedroom dwelling in Lapeer, Macomb, Monroe, Oakland, St. Clair or Wayne county costs an average of $805 per month. The current definition of Fair Market Rent is the 40th percentile rent of the standard-quality rental housing units in the area.

Raising the minimum wage helps, rather than harms, the economy.

Raising the minimum wage puts more money into the pockets of affected workers. When that money is spent at local businesses, as it almost always is, it helps to preserve and increase jobs and strengthen the economy. Decreasing the number of working poor families and individuals also benefits local economies by alleviating some of the societal costs associated with having large numbers of working individuals unable to make ends meet.

One of the most common objections to raising the federal minimum wage, or establishing a minimum wage for Michigan that is higher than the federal minimum, is that it will result in job losses in the state or curb job growth. There is little evidence to support this. Following the last minimum wage hike in 1996, Michigan and many other states experienced job growth. Moreover, during a recent 41-month period, of the twelve states that had a minimum wage above the federal level for at least 24 months during that period, ten states experienced employment growth, and eight had growth levels above the national average (Fig. 9).

Fig.9

Employment growth in states with minimum wages higher than the federal minimum wage, 41 months after end of 2001 recession (in thousands)*

	Total Payroll Employment (seasonally adjusted)		Change		
	November 2001	**April 2005**	**Number**	**Percent**	**Rank****
Hawaii	547.4	594.7	47.3	8.6%	3
Alaska	289.9	307.7	17.8	6.1%	7
Oregon	1,571.8	1,640.5	68.7	4.4%	11
District of Columbia	656.5	680.9	24.4	3.7%	14
Rhode Island	475.5	493.0	17.5	3.7%	15
Delaware	416.3	430.7	14.4	3.5%	16
Washington	2,667.9	2,747.8	79.9	3.0%	19
Maine	605.4	618.4	13.0	2.1%	23
United States	**130,879.0**	**133,293.0**	**2414.0**	**1.8%**	
California	14,477.8	14,723.1	245.3	1.7%	26
Vermont	301.2	305.6	4.4	1.5%	27
Connecticut	1,676.2	1,669.2	-7.0	-0.4%	46
Massachusetts	3,280.0	3,200.0	-80.0	-2.4%	50

*Only states with a higher minimum wage for at least 24 months during this period are included.
**1 indicates highest employment growth in the nation; 51 indicates lowest.
Source: Economic Policy Institute analysis of Bureau of Labor Statistics Data

Prepared by Michigan League for Human Services

A look at recent unemployment statistics shows no correlation between state minimum wages and high unemployment (Fig. 10). Between 2000 and 2004, nearly all states in the country had an increase in unemployment; however, of the states with minimum wages higher than the federal minimum wage, some experienced a larger than average increase in unemployment while others experienced a below-average increase or no increase at all. Other factors, such as reliance on manufacturing, are much more likely than minimum wage to determine a state's unemployment rate.[4]

[4] For a more in-depth look at labor trends and state minimum wages, see Jeff Chapman, *Employment and the Minimum Wage: Evidence from Recent State Labor Market Trends*. Economic Policy Institute, Washington D.C. , May 2004.

Fig.10

Unemployment in States With Minimum Wages Higher Than the Federal Minimum Wage

June 2005 unemployment rate			Unemployment rate increase 2000-2004		
State	Percent	Rank[1]	State	Percentage Points	Rank[1]
Hawaii	2.7%	51	Hawaii	-1.0	50
Vermont	3.5%	49	Washington	0.0	45
Delaware	4.1%	38	Vermont	0.4	38
Maine	4.7%	28	Delaware	0.6	30
Massachusetts	4.7%	29	Rhode Island	0.6	29
Rhode Island	4.8%	26	Maine	0.7	26
United States	**5.0%**		California	0.8	20
Connecticut	5.1%	19	Illinois	0.8	21
California	5.4%	13	**United States**	**0.8**	
Washington	5.5%	12	Oregon	1.0	16
Illinois	6.0%	8	Alaska	1.3	9
Alaska	6.4%	5	Massachusetts	1.4	7
Oregon	6.5%	4	Connecticut	1.8	3
District of Columbia	7.5%	1	District of Columbia	2.0	1

[1]Rankings based on U.S. Department of Labor unemployment rates for fifty states and the District of Columbia. 1 indicates highest unemployment rate in the nation or largest increase; 51 indicates lowest.

Source: U.S. Department of Labor
Prepared by Michigan League for Human Services

A concern almost always raised is that small businesses would be disproportionately affected by a raise in Michigan's minimum wage. The assumption behind this is that larger businesses would be able to absorb the added expense while small family businesses would go under. A study by the Fiscal Policy Institute has shown that this is not the case. In comparing small business growth from 1998 to 2001 between minimum wage states and states in which the federal minimum wage prevailed, it was shown that there was larger growth in the number of establishments and the number of employees in the minimum wage states. When the study was limited to small retail businesses, the results were again consistently more favorable to the minimum wage states.[5]

Moreover, an argument can be made that by encouraging and enabling employees to stay in their jobs longer, raising the minimum wage decreases turnover costs associated with hiring and training and increases productivity. Many small businesses, in fact, choose to pay wages higher than the minimum wage for precisely that reason.

Minimum wage opponents have sometimes suggested enactment of a state earned income tax credit (EITC) as an alternative to establishing a state minimum wage. While enacting a state EITC is a good idea and should be supported, it alone cannot make up for the loss of minimum wage spending power over the past eight years. A state EITC based on 25 percent of the federal credit would have put an additional $651

[5] *State Minimum Wages and Employment in Small Businesses*, Fiscal Policy Institute, New York, NY, April 20, 2004.

into Michigan's minimum wage workers' pockets in 2004, while a raise of two dollars in the current minimum wage would have given them an additional $4,160 before taxes. A state EITC is best seen as a complement to, rather than a substitute for, an adjustment in the minimum wage.

Recommendations for raising the minimum wage.

There are several ways to approach enactment of a state minimum wage. Following are some key recommendations for enacting a Michigan minimum wage efficiently and effectively:

- Raise the state minimum wage by two dollars per hour, from $5.15 to $7.15.
- To ensure that the minimum wage does not erode with inflation each year, include an annual or periodic adjustment. Several states currently do this. Including an automatic adjustment for inflation removes the need to go through legislative means for each increase and can more effectively prevent loss of buying power. An annual adjustment based on the consumer price index (or another reliable measurement) would be an efficient way to prevent erosion of buying power year to year.
- Raise the minimum wage for tipped employees. Currently under Michigan law, such employees must receive at least $2.65 per hour, with tips expected to make up the remaining $2.50. One current proposal would raise the minimum wage for tipped employees to $4.60 an hour.

Conclusion.

The federal minimum wage is outdated and has eroded to the point where all of the gains from its most recent increase have been lost. For eight years, Michigan's minimum wage workers have experienced a continued decrease in their buying power that has created hardship for their families and increased the need for public assistance. Other states have responded to the inadequacy of the federal minimum wage by enacting their own minimum wage thresholds, at no significant cost to the economy or job growth. It is time for Michigan to consider following their lead. An increase in Michigan's minimum wage, with regular adjustments for inflation, will keep low-wage workers able to support their families and provide a boost to local economies.

Michigan League for Human Services

The Michigan League for Human Services (MLHS) is a statewide citizens' non-profit organization dedicated to education, research and advocacy for the benefit of low income and other vulnerable citizens in the state of Michigan. MLHS is comprised of over 1,900 organizational and individual members and has served the human services community in Michigan since 1912.

Michigan League for Human Services
1115 South Pennsylvania Avenue, Suite 202
Lansing, MI 48912
Telephone: (517) 487-5436
Fax: (517) 371-4546
Web site: www.milhs.org

Economic Policy Institute

The mission of the Economic Policy Institute is to provide high-quality research and education in order to promote a prosperous, fair, and sustainable economy. The Institute stresses real world analysis and a concern for the living standards of working people, and it makes its findings accessible to the general public, the media, and policy makers.

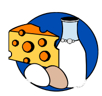
Economic Policy Institute
1660 L Street N.W., Suite 1200
Washington, D.C. 20036
Telephone: (202) 775-8810
Fax: (202) 775-0819
Web site: www.epi.org

APPENDIX

The Economic Self-Sufficiency Level in Michigan

Family Type	Number of Children under Age 6	Self-Sufficiency Wage[1] Hourly	Self-Sufficiency Wage[1] Annual
Single person	0	$8.28	$17,228
Single parent family	2	$16.58	$34,485
Two parent family (both working)	2	$9.23 each	$19,197 each
Two parent family (one working)	2	$10.79	$22,435

Expenses Per Month and as a Percent of Income[2]

Basic Needs	Single Person	Single Parent	Two Parents (both working)	Two Parents (one working)
 Housing	$416 29.0%	$522 18.2%	$522 16.3%	$522 27.9%
 Food	$194 13.5%	$361 12.6%	$520 16.2%	$520 27.8%
 Child Care	Not Applicable	$901 31.4%	$901 28.2%	Not Applicable
 Health Costs	$132 9.2%	$196 6.8%	$215 6.7%	$215 11.5%
 Transportation	$300 20.9%	$300 10.4%	$349 10.9%	$300 16.0%
 Clothing, Household, Personal & Phone	$147 10.2%	$291 10.1%	$362 11.3%	$362 19.4%
 Taxes	$247 17.2%	$303 10.5%	$331 10.3%	($49)[3] (2.6%)
Total Monthly Expense	**$1,436**	**$2,874**	**$3,199**	**$1,870**

[1]Hourly Wage is rounded to the nearest cent. [2]Percent may not add to 100% due to rounding.
[3]Parenthesis indicate a refund.
Source: Michigan League for Human Services publication *Economic Self-Sufficiency in Michigan: A Benchmark for Ensuring Family Well Being*, March 2004.