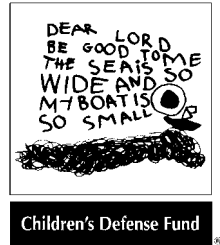


July 8, 2004

## Increasing the Minimum Wage: An Issue of Children's Well-Being

***Increasing the minimum wage to \$7.00 an hour would lift the earnings of millions of low-income workers and help them better support their families.***



America's workers are paying continuously rising costs for goods and services, yet those who earn very low wages have gone seven years with no action by Congress to raise the minimum wage and help them meet those costs. For too many working families a full-time job does not provide enough money to support a family. Raising the minimum wage would increase families' ability to pay for critical basics such as child care, housing, food and medicine. This increased purchasing power would in turn put more money back into struggling local economies.

The annual income of an individual working full-time, with two children, at the \$5.15 an hour minimum wage leaves them \$4,100 below the poverty level (2003). An increase in the minimum wage to \$7.00 would benefit 7.2 million children living in households where a worker earns between the current minimum wage and \$7.00 per hour<sup>1</sup>.

Because the minimum wage is not indexed for inflation, its purchasing power has eroded over time. The seven years since the last increase represents the second longest period over which Congress has failed to increase the minimum wage. As a result of the stagnating minimum wage, a full-time minimum wage paycheck – which would have kept a family of three above the poverty threshold during most of the 1960s and 1970s – provides an annual income that is not even three-quarters of the poverty line in 2003. Many of the 12.1 million American children living below the poverty line would benefit from such an increase. The current earnings of a single parent working full-time at minimum wage covers only 42 percent of the estimated cost of raising two children. This is down from 48 percent in 1997 when the minimum wage was last raised (see table). If the minimum wage were raised to \$7.00 per hour, it would cover 57 percent of the costs of raising two children, a significant improvement for working families.

Minimum wage earners are the sole income earners in 37 percent of families with children that would be affected by such a change.<sup>2</sup> This increase would help our neediest citizens most, as the lowest paid 40 percent of households would receive 60 percent of the increase in earnings.<sup>3</sup> Families with incomes of less than \$25,000 relied on minimum wage workers for an average of 76 percent of their total weekly earnings.

It is clear that an increase in the minimum wage to at least \$7.00 per hour is long overdue and desperately needed by millions of America's families.

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<sup>1</sup> Children's Defense Fund analysis of 2003 Current Population Survey data.

<sup>2</sup> *Ibid.*

<sup>3</sup> *Ibid.*

## Ten Reasons to Increase the Minimum Wage

1. *\$5.15 an hour is not a livable wage.*

An individual working full-time at the current minimum wage only makes \$10,712 per year—over \$4,100 below the 2003 poverty line for a family of three. Working full-time every week of the year, the current minimum wage covers only 42 percent of the estimated cost of raising two children in 2004, down from 48 percent in 1997 when the minimum wage was last raised. The purchasing power of the minimum wage has been eroded, leaving low-income families struggling to stay afloat, as the income gap continues to widen. If the minimum wage were raised to \$7.00 per hour, it would cover 57 percent of the estimated cost of raising two children, a significant improvement for a single parent (see attached document).

2. *Over 7.4 million workers today earn at or near the federal minimum wage. Of these, 5.3 million are adults (aged 20 or older) and 1.8 million are parents raising children under 18 years of age.*

Contrary to a common perception, minimum wage jobs are not reserved for teens. In fact, most minimum wage workers are adults, and many are the key breadwinners in their families. Recent research shows that moderate increases in the minimum wage can help boost the earnings of many working poor families—including families leaving welfare for work—without resulting in a loss of job opportunities.

3. *Inadequate income hurts children.*

Children with a parent working full time at minimum wage still live below the poverty line. More than half of poor Americans (55 percent) experience serious deprivation such as lack of food, utility shutoffs, crowded or substandard housing, or lack of a stove or refrigerator. Recent years have brought fresh evidence both of the high human and economic toll of allowing children to grow up poor—and of the high payoff to ending child poverty. Poor children are at least twice as likely as non-poor children to suffer stunted growth or lead poisoning, or to be kept back in school. Poor children score significantly lower on reading, math and vocabulary tests when compared with otherwise-similar non-poor children. Nearly one out of ten children in the United States live in households that would benefit from an increase in the minimum wage to \$7.00 per hour. Such an increase would help to reduce child poverty.

4. *Increasing the minimum wage to \$7.00 an hour would increase the purchasing power of 7.4 million workers and their families who currently earn at least the minimum wage.*

Low-income families are more likely to spend additional income in the local economy than are wealthy families. An increase in the minimum wage would allow millions of workers to purchase critical items like medicine, food and clothing for their families. It would be enough money for a low-income family of three to buy:

- Almost 9 months of child care;
- 2 ½ years of health care for two children; or
- Almost 9 months of transportation costs.

5. *An increase in the minimum wage will not increase joblessness.*

Opponents of increases in the minimum wage continue to raise the specter of higher unemployment as a result of such an increase. However, numerous empirical studies have found that modest increases in the minimum wage have little or no effect on levels of employment<sup>4</sup>. One study measured the impact of a minimum wage increase in New Jersey on fast food workers in the early 1990s and found that employment actually increased, and that the increased labor costs for employers may have been offset by higher levels of productivity and savings due to lower turnover rates. According to Alan Binder, an economist who formerly served on the Federal Reserve Board and the Council of Economic Advisors, “Evidence casting doubt on the theory that the minimum wage reduces employment is not limited to the Card-Krueger study. About 20 different studies by two dozen authors have produced similar results.”<sup>5</sup>

6. *As the minimum wage stagnates, America’s income gap is growing.*

The richest one-fifth of households made more than ten times as much in median income as the poorest one-fifth in 2002, Census Bureau figures show. This is the widest income gap on record, and the results can be clearly seen. Bonuses on Wall Street for 2003 were predicted to be up 20 to 30 percent from the previous year, to total \$10.7 billion, an average of \$66,800 per employee. At the same time, hourly workers’ average wages rose by 26 cents, or 1.7 percent, while CEO salaries realized an increase from 1990 to 2003 of 313 percent<sup>6</sup>. If the minimum wage had increased as quickly as CEO pay since 1990, it would today be \$15.71 per hour, more than three times the current minimum wage of \$5.15 an hour<sup>7</sup>. While growth in productivity is high it has not gone into wages, but rather into corporate profits<sup>8</sup>.

According to a recent study, between 1989 and 2001 the credit card debt of very low-income families (earning less than \$10,000 per year) increased at a staggering rate of 184 percent.<sup>9</sup> The study attributes this dramatic rise in debt to structural economic factors including stagnant growth in real income among low and moderate income families in the face of exploding housing and healthcare costs.<sup>10</sup>

7. *The percentage of poor children living with a full-time year-round worker is growing.*

In 2002 more than 4 million families with children had total earnings below the four-person federal poverty level of \$18,392 even though the head of the family worked. In 1.6 million of the families, earnings were this low even though the head of the family worked full time year-round.<sup>11</sup> The prevalence of low hourly wages and the inability to secure steady full-time

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<sup>4</sup> Card, David and Alan Krueger. *Myth and Measurement: The New Economics of the Minimum Wage*, Princeton, NJ: Princeton University Press, 1995.

<sup>5</sup> *New York Times*, May 23, 1995 (Cited in, “The Minimum Wage: It ain’t what it used to be,” Campaign for a Fair Minimum Wage. Available at <http://www.adaction.org/mwbook.html> (downloaded March 3, 2004).

<sup>6</sup> “Recovery Trickles Down Very Slowly,” *Washington Post*, January 16, 2004.

<sup>7</sup> *Ratio of CEO Pay to Average Worker Pay Reaches 301 in 2003 United for a Fair Economy* April 14, 2004

<sup>8</sup> Market Place on NPR 6/24/04

<sup>9</sup> “Draut, Tamara and Javier Silva. “Borrowing to Make Ends Meet: The Growth of Credit Card Debt in the ‘90s,” *Demos, A Network for Ideas & Action*, September, 2003, page, 10.

<sup>10</sup> *Ibid.*, page 12.

<sup>11</sup> U.S. Census Bureau, Detailed Poverty Tables for 2002, “Table POV23. Poverty Status, Work Experience, and Family Earnings for People 16 Years and Over.” Available at [http://ferret.bls.census.gov/macro/032003/pov/new23\\_100\\_01.htm](http://ferret.bls.census.gov/macro/032003/pov/new23_100_01.htm)

employment explains why 73 percent of poor children in 2002 were poor despite living in families where someone worked for at least part of the year. Thirty-five percent of poor children lived in families where someone worked full-time year-round--a figure that has doubled since 1991 (when it stood at 18 percent). A study of the nation's food banks in 2001 found that almost one-third of emergency food clients' households had jobs as their main source of income. The proportion of soup kitchen clients who were employed increased from 19 percent in 1997 to 28 percent in 2001. Similarly, the percent of food pantry clients who had jobs increased from 21 percent to 25 percent in this same time period.<sup>12</sup>

8. *When a family's income is not adequate to meet its basic needs, parents face impossible choices.*

Many parents work a 40-hour week but do not earn enough to pay for their families' basic necessities. According to the Family Economic Self-Sufficiency Project, low-income parents may need to alternate paying bills every other month, risk bad credit, utility cutoffs or eviction, forgo needed health care, move into substandard housing, compromise on the quality of child care, or skip meals so their children will be able to eat.

9. *An increase in the minimum wage would benefit the most disadvantaged workers and families.*

A 1998 Economic Policy Institute (EPI) study found that households in the bottom 20 percent of the income spectrum (earning an average of \$15,728 per year), who in total earned only 5 percent of the nation's aggregate family income, received 35 percent of the total benefits of the last increase in the minimum wage.<sup>13</sup>

According to EPI analyses of 2003 data, the lowest 40 percent of households would receive 60 percent of the increase in earnings if the minimum wage were increased to \$7.00 per hour. More than half of all teenagers who would be eligible for an increase in the minimum wage reside in households with below-average incomes<sup>14</sup>. Moreover, almost 61 percent of the benefits of a minimum wage increase would go to women, while less than half of the total workforce is female, thus helping to close the pay gap between women and men.<sup>15</sup>

10. *Americans support an increase in the minimum wage.*

There is strong public support for helping low-income workers to meet their families' needs and advance economically according to a W.K. Kellogg Foundation poll and a survey conducted by Jobs for the Future (JFF).<sup>16</sup> The poll found broad support for the idea that work should pay enough to support a family. In the JFF survey, 94 percent of Americans agree that "as a country, we should make sure that people who work full-time should be able to earn enough to keep their families out of poverty." Some 77 percent in the Kellogg poll agreed that government should help families that leave welfare for work but remain poor.

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<sup>12</sup> Myoung Kim, Jim Ohls, Rhoda Cohen, *Hunger in America 2001 National Report Prepared for America's Second Harvest Final Report* (Princeton, NJ: Mathematica Policy Research, October 2001). Available at <http://www.mathematica-mpr.com> (downloaded February 6, 2002)

<sup>13</sup> Bernstein, Jared and John Schmitt. "Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase," *Economic Policy Institute*, 1998. Available at [http://www.epinet.org/content.cfm/studies\\_stmwp](http://www.epinet.org/content.cfm/studies_stmwp).

<sup>14</sup> Appelbaum, Eileen, Jared Bernstein, et. al. "The Minimum Wage and Working Women", June 18, 2004.

<sup>15</sup> *Ibid.*

<sup>16</sup> The W.K. Kellogg Foundation poll results are available at [www.jff.org/programs/cluster3/projects/careeradvsrat.html](http://www.jff.org/programs/cluster3/projects/careeradvsrat.html).