



PAYCHECK \$ and POLITICS

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Workers, Businesses, and the Minimum Wage in Arkansas

by Kathryn Hazelett

“The U.S. minimum wage of \$5.15 an hour has not been raised in nearly a decade and we believe it is out of date with the times...we simply believe it is time for Congress to take a responsible look at the minimum wage.”

—F. Lee Scott, C.E.O. of Wal-Mart Corporation

Do we have a minimum wage?

The federal minimum wage was originally passed as a part of the Fair Labor Standards Act to ensure that low-income workers would earn a “decent living.” The idea that no one who works full-time should live in poverty is as true today as it was in 1938.

The federal minimum wage has been in place for almost seven decades, has been increased 19 times by Congress, but is currently failing to live up to its intended purpose. The last time the minimum wage was raised was in 1997. Over these past eight years, the purchasing power of the minimum wage has fallen by 17 percent.¹

That purchasing power, or real buying power, of the minimum wage is at its lowest point in all but one of the last 50 years. Families earning the minimum wage today are actually

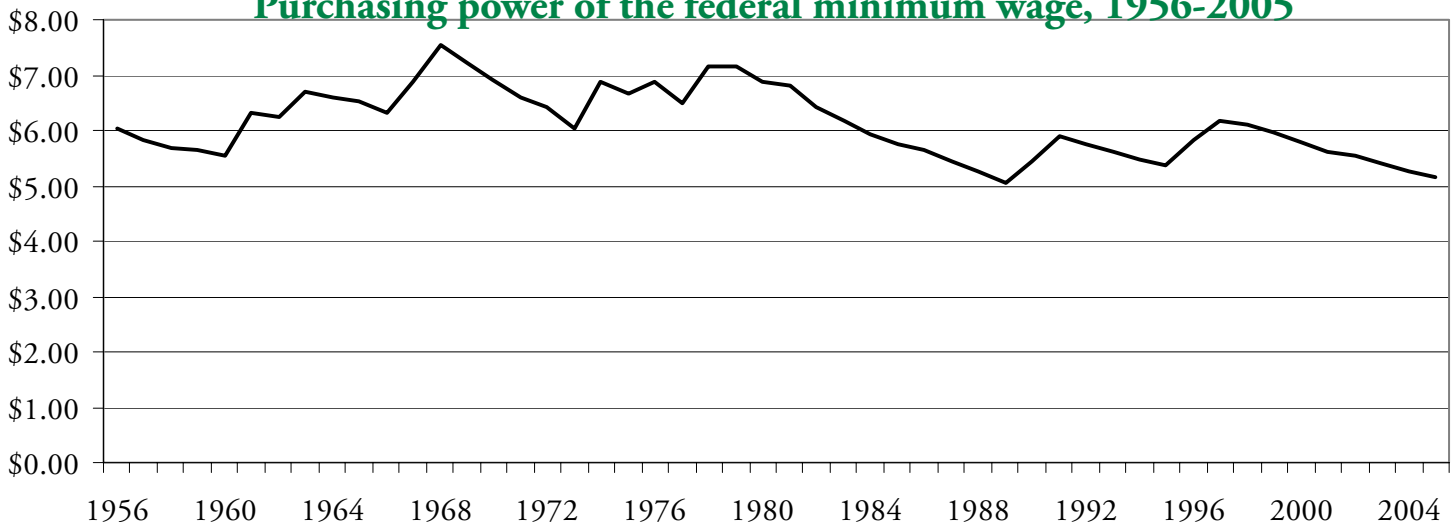
No business which depends for existence on paying less than living wages to its workers has any right to continue in this country. By living wages I mean more than a bare subsistence level – I mean the wages of a decent living.

— Franklin Delano Roosevelt

able to buy less than their counterparts of the last five decades.

Today’s minimum wage stands at \$5.15 an hour. If an employee worked full-time year-round, that employee would bring home \$10,712, just 2/3 of the federal poverty line for a family of three (\$16,090 in 2005). A “decent living” should certainly mean earning enough to live above the federal poverty line, an amount that is also widely acknowledged as not being enough to meet basic needs. A study by the Economic Policy Institute released in August of 2005 calculated that a parent with two children living in the metropolitan Little Rock area would need \$30,036 to meet the basic needs of housing, food, child care, transportation and health care. If the minimum wage is indeed a wage designed to provide a decent living, we are falling behind.

Purchasing power of the federal minimum wage, 1956-2005



Source: EPI conversion of the nominal federal wage to the real federal wage using the CPI-U-RS inflation rate.

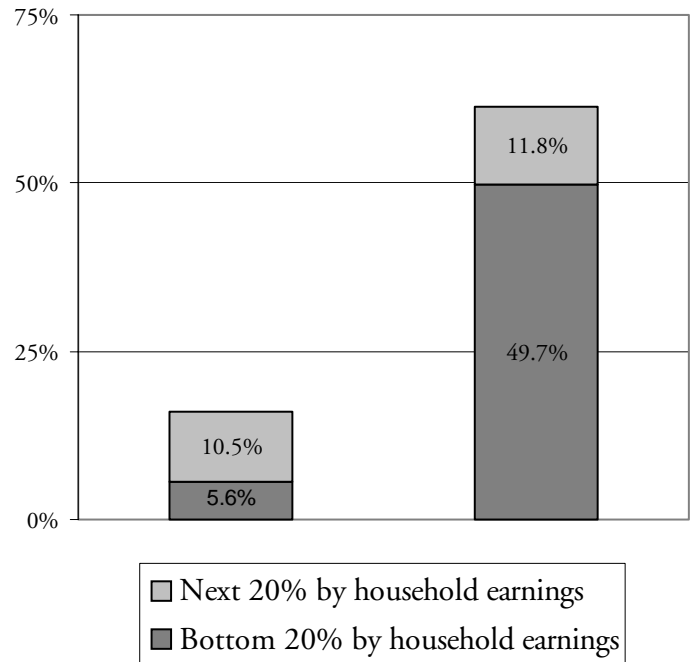
Why a minimum wage?

The minimum wage is commonly referred to as a wage floor, a wage below which no employer can go. Setting a minimum wage recognizes that a decent wage is a necessity in our land of opportunity; it recognizes the value of work. The minimum wage is also about fairness; in a labor market in which low-wage workers often do not have negotiating power, the minimum wage prevents exploitation of those workers. Setting a minimum wage is a recognition of the fact that the market can't set a fair price when one side holds all of the bargaining chips.² Most importantly, though, the minimum wage provides an income boost to families in need.

What would the minimum wage be worth today if it had kept up with inflation?

The minimum wage, as enacted as part of the Fair Labor Standards Act, was not scaled for inflation. What this means is that as the cost of living (the cost of buying goods and services) increases, the minimum wage does not. The minimum wage stays stagnant until Congress or individual states step in to increase it. If the minimum wage had been scaled for inflation in 1968, it would currently be worth \$7.51 an hour.

Share of gains from increase in Arkansas minimum wage compared to share of total household earnings, bottom 40% of households



Source: EPI analysis of 2004 CPS-ORG data.

Characteristics of Arkansas workers affected by minimum wage increase to \$6.15

	Affected directly	Other low-wage workers*	Total workforce**
Number of workers	56,000	71,000	1,055,000
Percent of workforce	5%	7%	100%
Gender	┌──────────────────┐		
Male	38%		52%
Female	62%		48%
Age			
20 and older	80%		96%
Work hours			
20-34 hours per week	29%		11%
Full-time (35+ hrs.)	53%		85%
Industry			
Retail trade or leisure & hospitality	45%		20%
Occupation			
Sales or service	55%		24%

Source: EPI analysis of 2004 Current Population Survey data.

The share of weekly earnings contributed by low wage workers in Arkansas, 2004*

	Average share	Share of families with 100% of earnings from affected workers
All families with an affected worker	60.2%	46.4%
Excluding families without children	65.9%	55.0%

Source: EPI analysis of 2004 CPS-ORG data.

Who benefits from an increase in the minimum wage?

Often thought of as the wage that teenagers earn when flipping burgers for a summer job, there is a concern that the minimum wage is not well-targeted to impact low-income families. Given this concern, it is educational to look at who would actually benefit from an increase in the minimum wage.

In Arkansas, if the minimum wage were raised to \$6.15 an hour (one dollar higher than the current level), 12 percent of the labor force, or 127,000 workers would benefit from an increase in the minimum wage.³ These 127,000 workers include both the number of workers that would be directly affected by an increase (those currently earning the minimum wage) as well as those that earn up to a dollar above the increased wage. The latter group would see a bump in their wages as a result of the increase; the basic theory being that these workers were earning more than the minimum wage before the increase and will continue to do so after the increase.

Not only are many of these workers not teenagers, many work more than part-time and contribute significantly to their families' incomes. (See Tables on pages 2 & 3.)

While the minimum wage should not be judged solely on its efficiency at targeting low-income families, it is important to show that it does well at doing just that.

Would businesses be hurt by an increase in the minimum wage?

In short, existing research clearly shows that businesses will not be hurt (or forced to lay-off the very workers an increase is intended to aid) by increasing the minimum wage.

When the federal minimum wage was last raised in 1997, the low-wage labor market performed better than it had in decades.⁴ Employment and earnings opportunities of low-

wage workers grew rapidly, blowing a hole in the theory that increasing the minimum wage hurt its intended beneficiaries.

As a result of the federal government's inactivity on the minimum wage, states are stepping into the chasm and increasing wages at the state level. There are now 17 states plus the District of Columbia with wages higher than \$5.15 an hour. These states are diverse in both population and location and include Florida, Nevada, Washington, Massachusetts, and Illinois. That states have increased wages on their own has given economists the ability to study the increases' effects on employment and small businesses by comparing states with wages above the federal level to states that have not increased their wages. Researchers have thus been able to isolate the impact of the wage change.

One such comparison by the Fiscal Policy Institute (FPI) studied the impact of higher minimum wages on small businesses. FPI compared the outcomes for businesses with fewer than 50 employees in states with minimum wages above the federal level against those with a wage at the federal level. They showed that there was more growth in the businesses in states with a higher minimum wage. Between 1998 and 2001, the number of small businesses in states with higher minimum wages grew twice as quickly (3.1 percent vs. 1.6 percent), employment grew 1.5 times as quickly, and annual and average payroll growth also showed an increase.⁵ While these factors may not be attributable to an increase in the minimum wage, they certainly counter the argument that increasing the minimum wage hurts small businesses.

Another related study showed that "...there seems to be no discernible correlation between minimum wage increases and a rise in business failures, either in the year the increase occurred or in the following year. If anything, the evidence leans the other way."⁶

And, in Oregon, an analysis by the Oregon Center for Public Policy reported that minimum wage employers were found to be posting "strong job growth." In 2002, Oregon voters raised the minimum wage to \$6.90 and scaled it for inflation based on cost-of-living adjustments. Between the time of the implementation of the increased minimum wage in the first quarter of 2002 and the first quarter of 2005, restaurant jobs generally increased by 7.7 percent annually, with fast food job gains coming in at 10.3 percent. Non-farm payroll employment grew just 4.1 percent.⁷

Recent data and research all indicate that increasing the minimum wage will harm neither small businesses nor their workers. In fact, research shows employers are able to absorb some of the cost of the minimum wage increase through higher productivity, lower recruiting and training costs, decreased absenteeism, and increased worker morale.

We owe it to our hard working families to raise the minimum wage, to have a true "minimum wage," to fully value a day's work. No one working full-time should live in poverty.

“Higher than \$5.15: states with minimum wages above the federal level”

Alaska	\$7.15
Connecticut	\$7.10
California	\$6.75
Delaware	\$6.15
District of Columbia	\$6.60
Florida *	\$6.15
Hawaii	\$6.25
Illinois	\$6.50
Maine	\$6.50
Massachusetts	\$6.75
Minnesota	\$6.15
New Jersey	\$6.15
New York	\$6.00
Oregon *	\$7.25
Rhode Island	\$6.75
Vermont **	\$7.00
Washington *	\$7.35
Wisconsin	\$5.70

Source: Economic Policy Institute

* Florida, Oregon and Washington all annually adjust their minimum wages for inflation.

** Vermont will begin annually adjusting their minimum wage level on January 1, 2007.

(Endnotes)

1 Unhappy Anniversary: Federal Minimum Wage Remains Unchanged for Eighth Straight Year, Falls to 56-Year Low Relative to the Average Wage. Jared Bernstein and Isaac Shapiro, Center on Budget and Policy Priorities and Economic Policy Institute; September 1, 2005; pg. 1.

2 The Who and Why of the Minimum Wage: Raising the Wage Floor is an essential part of a strategy to support working families. Jeff Chapman and Michael Ertlinger, Economic Policy Institute, Issue Brief #210, August 6, 2004; pg. 3.

3 Economic Policy Institute Analysis of the 2004 Current Population Survey data.

4 Minimum Wage and Its Effects on Small Business. Jared Bernstein, Economic Policy Institute, Viewpoints, Text of testimony before the U.S. House Subcommittee on Workforce Empowerment and Government Programs, April 29, 2004; pg. 5.

5 *Ibid.*

6 *Ibid.*

7 Minimum Wage Employers Posting Strong Job Growth, Oregon Center for Public Policy, News Release, September 16, 2005; pg.1.

The State Fiscal Analysis Initiative (SFAI) Project

The mission of Arkansas Advocates is to ensure that all children and families have the resources and opportunities to lead healthy and productive lives and to realize their full potential. The goal of our SFAI project is to improve the economic well-being of the state’s families with children by providing timely and credible analysis to policymakers, the media, and the public and promoting a more informed public debate about state tax and budget issues. The views of this report are those of the author and does not reflect that of the funders.

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