

# Policy Points: Raise the Minimum Wage to \$10 in 2010

## Let Justice Roll Living Wage Campaign

By Holly Sklar, Sr. Policy Adviser, 7/22/08

*"It is but equity...that they who feed, clothe and lodge the whole body of the people, should have such a share of the produce of their own labor as to be themselves tolerably well fed, clothed and lodged."*

-- Adam Smith, *The Wealth of Nations*, 1776.

*"A self-supporting and self-respecting democracy can plead no justification for the existence of child labor, no economic reason for chiseling workers' wages or stretching workers' hours. Enlightened business is learning that competition ought not to cause bad social consequences, which inevitably react upon the profits of business itself."*

-- Franklin D. Roosevelt, "A Fair Day's Pay for a Fair Day's Work," May 24, 1937.

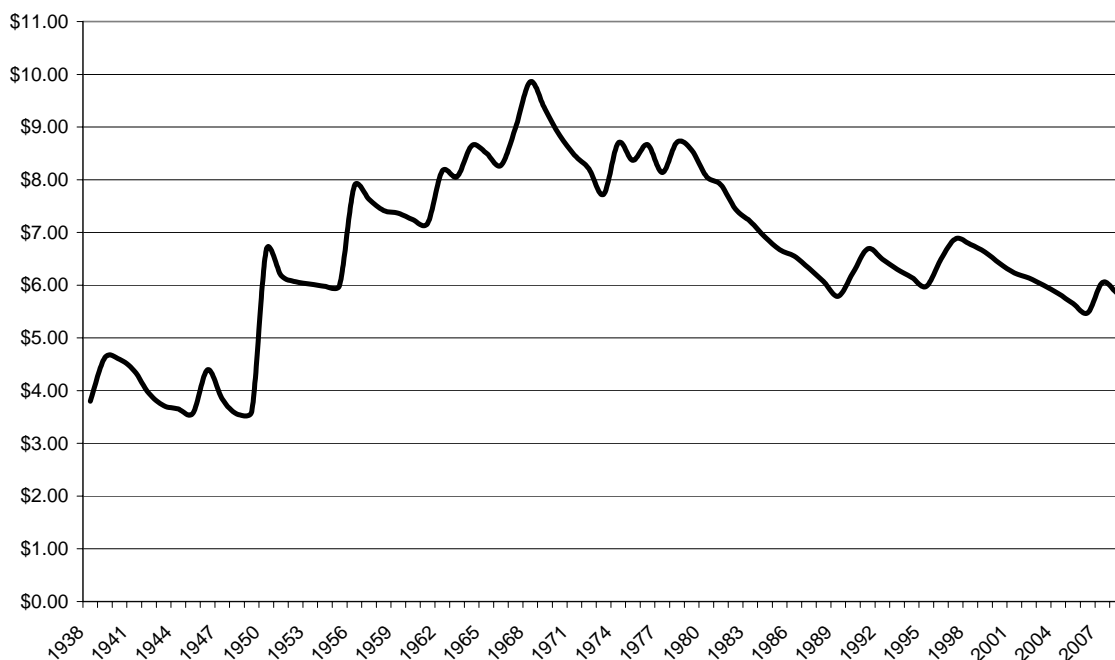
*"Remember that almost every dime of these [minimum wage] workers' pay goes directly to local businesses for food, gas and clothing."*

-- Dan Gardner, commissioner of Oregon Bureau of Labor and Industries, 2007.

### Summary

- Recent minimum wage raises are too little, too late.
- The minimum wage is a poverty wage instead of an anti-poverty wage.
- \$10 in 2010 will make up ground lost in minimum wage buying power since 1968.
- \$10 in 2010 will bring us closer to the goal of the "minimum standard of living necessary for health, efficiency and general well-being of workers," articulated by the Fair Labor Standards Act, which established the minimum wage 70 years ago.
- \$10 in 2010 will strengthen the eroded foundation under our families, communities and economy.
- A job should keep you out of poverty, not keep you in it.

Real Value of Minimum Wage 1938 - 1st Half 2008  
\$2008



### ■ **Recent minimum wage raises are too little, too late.**

The decade between the federal minimum wage increase to \$5.15 an hour on Sept. 1, 1997 and the July 24, 2007 increase to \$5.85 was the longest period in history without a raise.

- Gas prices more than doubled from \$1.23 to \$2.97 a gallon in the same period. Now gas is more than \$4 a gallon.
- Family health insurance, which cost half a year's minimum wage income in 1998, costs more than the total annual minimum wage today.

Recent minimum wage raises are so little, so late that even with the minimum wage increase on July 24, 2008 to \$6.55, workers will still make less than they did in 1997, adjusting for the increased cost of living.<sup>1</sup>

- The 1997 minimum wage is worth \$6.88 in 2008 dollars.

The next (and last) scheduled raise to \$7.25 on July 24, 2009 will leave workers about where they were in 1997, and far behind the minimum wage of 1968.

### ■ **Workers have taken many steps backward for every step forward since 1968.**

It would take a \$9.86 minimum wage in mid-year 2008 to match the buying power of the minimum wage in 1968—40 years ago.

- In 2008 dollars, the 1968 hourly minimum wage of \$9.86 adds up to \$20,509 a year.
- The July 24, 2008 hourly minimum wage of \$6.55 adds up to \$13,624 a full-time year.
- The July 24, 2009 minimum wage of \$7.25 comes to \$15,080 a year.

The two longest periods without a minimum wage increase both occurred in recent decades (between the raises on Jan. 1, 1981 and Apr. 1, 1990 and between those on Sept. 1, 1997 and July 24, 2007). To make matters worse, the minimum wage increases after the record-breaking periods without a raise were small compared to prior increases over shorter time spans.

It is immoral that the minimum wage is worth less now than it was in 1968, the year Dr. Martin Luther King Jr. was killed in Memphis while fighting for living wages for sanitation workers.

### ■ **The minimum wage does not provide a minimally adequate living standard.**

The federal minimum wage was enacted in 1938 through the Fair Labor Standards Act, designed to eliminate "labor conditions detrimental to the maintenance of the minimum standard of living necessary for health, efficiency and general well-being of workers."

When set too low, the minimum wage does the opposite of what the Fair Labor Standards Act intended by reinforcing detrimental labor conditions.

People working full time should not be forced to choose between paying the rent and buying food, paying for childcare or seeing the doctor, putting oil in the furnace or gas in the car.

Workers have been turning increasingly to overwhelmed food banks and homeless shelters.

- The 2006 Conference of Mayors Hunger and Homelessness Survey found that 37% of adults requesting emergency food assistance were employed, as were 13% of the homeless.

It is immoral that workers earning minimum wage, who care for children, the ill and the elderly, struggle to care for themselves and their families.

## ■ The minimum wage is now a poverty wage instead of an anti-poverty wage.

Poverty rates are higher now than in the 1970s, thanks in part to the eroded value of the minimum wage.

Contrary to stereotype, the typical minimum wage worker is an adult over age 20. Most have high school degrees or beyond. They are healthcare aides who can't afford sick days, and childcare workers, retail clerks and security guards. They are young adults trying to work their way through college on wages that have fallen far behind the rising cost of tuition, housing, food and fees.

## ■ A low minimum wage institutionalizes an increasingly low-wage workforce.

The minimum wage sets the wage floor. If the minimum wage had stayed above \$9, it would have put upward pressure rather than downward pressure on the average worker wage.

If the minimum wage had stayed above the \$9.86 value it had in 1968, Wal-Mart and McDonald's, our nation's largest employers, couldn't routinely pay wages much lower.

- Wal-Mart's wages would be closer to Costco, which pays starting wages of \$11 an hour plus much better benefits. Costco CEO Jim Sinegal has long asserted, *"Paying your employees well is not only the right thing to do, but it makes for good business."*
- McDonald's wages would be more like In-N-Out Burger, which has a starting wage of \$10 an hour and has long ranked first or second nationwide among fast food chains in overall excellence.

Most of the ten occupations projected by the Bureau of Labor Statistics to have the largest employment growth during 2006-2016, such as retail salespersons, fast food workers, home health aides and janitors, have disproportionate numbers of minimum wage workers. Raising the minimum wage is essential to them, their families and our economy.

## ■ Workers have not gotten "A fair day's pay for a fair day's work."

"As the productivity of workers increases, one would expect worker compensation to experience similar gains," a 2001 U.S. Department of Labor report observed. Increasingly, though, since the 1970s, the gains have gone to owners and top executives.

- Between 1947 and 1973, worker productivity rose 104% and the minimum wage rose 101%, adjusted for inflation. The middle class grew.
- Between 1973 and 2007, productivity rose 83% and the minimum wage fell 22%, adjusted for inflation. Average worker wages fell 10%, domestic corporate profits rose 219%, and profits in the disproportionately low-wage retail industry jumped 346%. The middle class shrunk.

Contrary to myth, higher education does not protect workers from falling real wages.

- The inflation-adjusted wages of recent college graduates were lower in 2007 than in 2001.

## ■ A low minimum wage reinforces a growing gap between haves and have-nots.

There has been a massive shift of income from the bottom and middle to the top. The richest 1% of Americans increased their share of the nation's income to a higher level than any year since 1928—the eve of the Great Depression.

CEOs at big corporations now make more in a couple hours than minimum wage workers make in a year—not counting CEO perks and benefits.

- In 1980, the average CEO at a big corporation made as much as 97 minimum wage workers.
- In 1997, the average CEO made as much as 728 minimum wage workers.
- In 2007, CEOs made as much as 1,131 minimum wage workers.

It is immoral that some are paid so little their children go without necessities—while others are paid so much their grandchildren will live in luxury without having to work at all.

### ■ Raising the minimum wage helps business and stimulates the economy.

Minimum wage workers don't put their raises into predatory lending, commodity speculation or offshore tax havens. They recycle their needed raises back into local businesses and the economy through increased spending. American consumer spending amounts to 70% of economic activity (gross domestic product).

Minimum wage increases are stimulus for an economy tanking from the mortgage meltdown that has cascaded into the worst financial crisis since the Depression, sharply higher oil prices, extreme inequality, unsustainable debt, and fraud and speculation, which are crowding out productive investment. An economy built on rising debt and falling real wages is a house of cards.

Studies by the Fiscal Policy Institute, Institute for Research on Labor and Employment, and others add to the growing body of research, which shows that minimum wage raises do not increase unemployment. States that raised their minimum wages above the longtime \$5.15 federal level experienced better employment and small business trends than states that did not.

Eight of the "Sure Payroll Top Ten States for Small Businesses" in 2008 have had state minimum wages above the federal level. They include Washington, California and Oregon, three of the four states with the highest minimums (\$8.07, \$8 and \$7.95 respectively).

In the months leading up to the 2007 passage of congressional legislation to increase the minimum wage above \$5.15, more than 800 business owners, executives and venture capitalists—including the CEOs of Costco, the U.S. Women's Chamber of Commerce, and **small business owners from every state**—signed a statement in support of raising the minimum wage, saying "*We cannot build a strong 21st century economy when more and more hardworking Americans struggle to make ends meet.*" See [www.BusinessforaFairMinimumWage.org](http://www.BusinessforaFairMinimumWage.org).

Higher wages benefit business by increasing consumer purchasing power, reducing costly employee turnover, raising productivity, and improving product quality and company reputation. They reinforce long-term business success.

### ■ A minimum wage of \$10 in 2010 is needed for a minimum standard of living.

Original proposals for the Fair Labor Standards Act "Provided for a commission that would set the minimum wage after a public hearing and consideration of cost-of-living estimates provided by the Bureau of Labor Statistics (BLS). By this procedure, the wage would have been updated according to changes in the standard of living and inflation. The version of the FLSA that became law, however, left action on future increases to Congress and the president."<sup>2</sup> Today there is a great gap between the minimum wage and a minimum living standard.

In 2001, the *Raise the Floor* book and Ms. Foundation Raise the Floor project called for an \$8 federal minimum wage based on a carefully researched *national average minimum needs budget* for a single adult (including housing, healthcare, food and other necessities, and taxes

and tax credits). *Raise the Floor* research showed such a minimum wage would be not only affordable but also beneficial to business. A companion poll in 2002 found that 77 percent of likely voters favored increasing the minimum wage to \$8 an hour. \$8 in 2001 is worth \$9.68 in 2008 dollars.<sup>3</sup>

The official poverty measure has become so out of touch with reality that research shows you need about double the official poverty threshold to get a more realistic measure of what people actually need to afford necessities.<sup>4</sup>

The minimum wage should be raised to \$10 in 2010 (a full-time annual wage income of \$20,800). Future increases should reflect the updated cost of an adequate minimum living standard. We should not repeat the error of the poverty measure and lock in an eroded minimum wage by indexing it to inflation from an inadequate base level. Adjusting for inflation means the minimum wage goes up as inflation goes up. It's like running in place instead of falling backwards. But it's not moving forward—sharing the gains of higher productivity and economic progress. It's not “A fair day's pay for a fair day's work.” It does not strengthen the floor under our economy and society.

■ **A minimum wage of \$10 in 2010 would be about half the average worker wage.**

During the 1950s and 60s, the minimum wage averaged around half the average worker wage. The minimum wage was 53% of the average worker wage in 1968. Before the increase from \$5.15 to \$5.85 in July 2007, the minimum wage had eroded to a record low 30% of the average hourly wage.

- The preliminary June 2008 average hourly wage was \$17.98. Minimum wage would be \$9.53 if were 53% of the June average hourly wage.

Average wages would be higher now if the minimum wage had reinforced the linkage between wage and productivity growth instead of undermined it.

■ **A \$10 minimum wage is not high compared with other major economies.**

The U.S. is the only industrialized country in the OECD (Organization for Economic Cooperation and Development) where the wages of minimum wage workers have not at least kept pace with inflation since 1997. Ireland, Britain and Australia are among the countries with minimum wages over \$11 an hour.

- The British Department of Trade and Industry says, “The national minimum wage is an important cornerstone of Government strategy aimed at providing employees with decent minimum standards and fairness in the workplace... It helps business by ensuring companies will be able to compete on the basis of quality of the goods and services they provide and not on low prices based predominantly on low rates of pay.”

■ **\$10 in 2010 brings us closer to the day when all workers are paid a living wage.**

We can't have a strong economy built on a widening gap between the top and bottom any more than we can have a strong apartment building with an ever more luxurious penthouse at the top and a sinking foundation below.

---

<sup>1</sup> Figures are adjusted for inflation using the Consumer Price Index, CPI-U, published by the U.S. Bureau of Labor Statistics. Full-year 2007 or half-year 2008 data are used as appropriate. Hourly wages are annualized by multiplying by 2080 (40 hours x 52 weeks).

---

<sup>2</sup> Michael Ettlinger, Economic Policy Institute, *Securing the Wage Floor*, October 12, 2006.

<sup>3</sup> Holly Sklar, Laryssa Mykyta and Susan Wefald, *Raise the Floor: Wages and Policies That Work For All of Us* (Ms. Foundation for Women/South End Press, 2001). January 2002 national poll of likely voters by Lake, Snell, Perry and Associates for the Ms. Foundation for Women. *Raise the Floor* developed national minimum needs budgets ranging from one-person households to two-adult, two-child households. More recent basic needs budget reports and online calculators generally start at two-person households or cover specific localities but not national estimates.

<sup>4</sup> For example, according to the Economic Policy Institute's online Basic Family Budget Calculator, the national median basic needs budget (including taxes and tax credits) for a one-parent, one-child family was \$27,948 in 2004 while the Census Bureau's 2004 poverty threshold for a one-parent, one-child family was \$12,971. The poverty thresholds were originally developed in the 1960s by taking the price of a nutritionally inadequate lowest-cost food plan meant for "temporary or emergency use when funds are low" and multiplying by three—based on a 1955 survey finding that food cost about a third of a family budget. Now food is a much smaller share of family budgets while other necessities cost more so the basic formula does not cover the cost of healthcare, housing and other basic expenses. The Census Bureau has released preliminary 2007 poverty thresholds (the 2008 HHS Poverty Guidelines reflect price changes through 2007 and approximate the Census Bureau 2007 thresholds finalized in August 2008). The one-person threshold is \$10,587 (about half the annualized figure of \$20,134 at \$9.68 an hour). Numerous living wage campaigns have based their rates on the family-of-four Census Bureau poverty threshold. The 2007 poverty threshold of \$21,201 for a family of four comes to \$10.19 an hour.

In response to growing concern over the official poverty measure, the Congress initiated an in-depth review undertaken by the National Research Council of the National Academy of Sciences (NAS) resulting in *Measuring Poverty: A New Approach* (1995). Recent developments include New York City's creation of an alternative poverty measure based on the NAS approach and the draft Measuring American Poverty Act developed by Rep Jim McDermott, chair of the House Committee on Ways and Means Subcommittee on Income Security and Family Support.