

Should Minimum Wage Standards Be Replaced with Living Wage Standards?

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The federal minimum wage for non-supervisory, non-farm private sector employees today is \$7.25/hour. The minimum wage was last up-dated in 2009.

Under the Federal Labor Standard (FLSA) several categories of workers are exempt from the federal minimum wage: farm workers, seasonal workers, newspaper deliverers, informal workers (baby-sitters), tipped employees (special rate applies to these workers). There is also a “youth minimum wage” program for those under the age of 20, currently set at \$4.25. Similarly, there is a minimum wage exemption for students and a minimum wage exemption for disabled workers. Non-profit organizations and educational institutions can also apply for special exemptions for certain workers.

Currently, 22 states and DC have minimum wage rates higher than the federal standard. Nineteen states, including Texas, have minimum wage rates that are the same as the federal minimum wage. Four states have minimum wage rates lower than the federal minimum wage and 5 states have no minimum wage rates, but are compelled to pay the federal rate. Highest state minimum wage rates: WA at \$9.32, OR at \$9.10, VT at \$8.73 and CN at \$8.70.

The proportion of hourly paid workers earning the prevailing federal minimum wage or less has declined from 5.2 percent in 2011 to 4.7 percent in 2012. This remains well below the figure of 13.4 percent in 1979, when data were first collected on a regular basis.

In May, President Obama called for an increase in the federal minimum wage to \$9/hour. More recently, he suggested a minimum wage of \$10.10/hour and indicated his intent to raise the minimum wage for federal employees to \$10/hour. Since then, the Fair Minimum Wage Act of 2013 has been introduced in both houses of Congress. It would:

- **Raise the federal minimum wage to \$10.10 per hour** by 2015 (three steps of \$0.95 each).
- **Adjust the minimum wage to keep pace with the rising cost of living** starting in 2016.
- **Raise the minimum wage for tipped workers** to 70% of the full minimum wage.

Nearly 21.3 million U.S. workers (or 16.4% of the workforce) would be directly affected by raising the minimum wage to \$10.10 by July 2015.

The primary arguments commonly offered against raising the minimum wage are:

- Employers would respond to higher wages by reducing employment, because they would be unable to afford higher wages.
- Employers would respond by raising prices.
- Workers with lesser skills, especially the young, would be less desirable employees at a higher wage rate.

A recent comprehensive study of the impact of minimum wage changes indicates no adverse employment effects: Arindrajit Dube, T. William Lester, and Michael Reich, “Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties,” *The Review of Economics and Statistics* November 2010, Vol. 92, No. 4: 945–964. A related paper concludes that raising the minimum wage does not affect youth employment: Sylvia A. Allegretto, Arindrajit Dube, And Michael Reich, *Do Minimum Wages Really Reduce Teen Employment? Accounting for Heterogeneity and Selectivity in State Panel Data*, University of California Berkeley Working Papers.

The purchasing power of the current minimum wage is 13 percent lower than at the end of the 1970s and 5.8% lower than it was in 2009 when the minimum wage was last increased. There are an estimated 6.1 million minimum wage (or below) workers in Texas (2012). Full-time minimum wage workers typically earn \$290/week or \$15,080 a year, which, if they are supporting a family, is below both state and federal poverty levels, thus qualifying them for public assistance. The Federal Poverty Level for a family of four is \$23,850.

Concerns about the rising cost of living and stagnant wages have enlarged the public discussion about the plight of the working poor in America, the shrinking middle class, and the growing income and wealth disparity between the wealthy and everyone else. Inequalities in the marketplace raise the question of fairness. The stagnation of wages for all classes of wage earners raises concerns about the long-term health of the economy, which depends on adequate consumer spending for growth.

Recent news stories have focused on how a minimum wage below the federal poverty level impacts all of us. Wage earners below the poverty level qualify for public assistance, which is paid for by taxpayers. Large companies can increase their profits by paying low wages, because they know that public assistance will make up some, if not all, of the deficiency in the income of their workers. They become a hidden beneficiary of public assistance programs. Two-thirds of all workers making the minimum wage or lower are employed by companies with 100 or more employees.

The growing public recognition that statutory minimum wage pay does not keep working people out of poverty has led some municipalities, local governments, institutions and businesses to propose “living wage” standards for even the least skilled workers. Living wages are generally defined as the minimum hourly wages needed for full-time working individuals and families to provide for their basic needs in relation to the actual cost of living in a specific local economic environment.

Over the past decade a number of living wage campaigns have produced a fair amount of legislation to raise minimum wages to living wages at local levels. In Suzanne Heller Cain's research published in “*How Living Wage Legislation Affects U.S. Poverty Rates*”, she summarizes her findings by saying, “I find evidence that living wage ordinances modestly reduce poverty rates where such ordinances are enacted. However, there is no evidence that state minimum wage laws do so. The difference in the impacts of the two types of legislation conceivably stems from a difference in the party responsible for bearing the burden of the cost” (*Journal of Labor*, September, 2008, Vol. 29, ppg. 205-218).

In 2008 the City of Austin set a living wage standard of \$11.00/hour for all city employees. Public policy studies of living wages in Austin indicate that a decent living wage for full-time workers today in the city should be at least \$17.00/hour or higher because of the cost of housing in the city. The attached chart gives estimates of how a “living wage” would be determined for Williamson County, Texas.

Beyond the living wage—The Economic Case for a Universal Basic Income

<http://www.economonitor.com/dolanecon/2014/01/03/the-economic-case-for-a-universal-basic-income/>