

Common Sense Says ...

that the minimum wage in North Carolina must be raised immediately.

MINIMUM WAGE

Nine years of federally-enforced poverty wages

Earning the minimum wage in North Carolina for full-time work equates to a yearly income of \$10,712 before taxes, an amount that can hardly sustain one individual, let alone a family. More than 130,000 North Carolinians would benefit from a mere one-dollar increase in the state minimum wage.¹

September of 2005 marked the eighth year of federal inaction on the minimum wage. Since 1997, the real value of the \$5.15/hour minimum wage rate has eroded each year; after adjusting for inflation, it is now at its second-lowest level since 1955.² This represents only the second time since the inception of the minimum wage that such an incredible length of time has passed without an increase.

A United States minimum wage was originally established in 1938 under the Fair Labor Standards Act, which then-president Franklin D. Roosevelt championed by insisting, "Something has to be done about the elimination of child labor and long hours and starvation wages." Today, though child labor and overtime laws are still considered key labor rights issues, the cry that no working American should go hungry seems to have dissipated.

North Carolina ranks in the top-ten list of states with the greatest amount of income inequality between the top 20 percent of income earners and the bottom 20 percent.³ We also hold the crown for being the least unionized state in the nation, with only 3.2 percent of our workforce belonging to a union.⁴

Within the past fifteen years, North Carolina's economy has witnessed a series of dramatic shifts in the composition of its labor force. Between 1990 and 2000, the number of factory workers decreased by 27 percent, and the farming and forestry industries decreased by 51 percent. In this same period of time, the service industry saw an increase in employment of 44 percent.⁵ Four of the state's five fastest growing

occupations - retail salesperson, cashier, food prep/service worker, and waiter - are being paid an average hourly wage of less than \$8/hour.⁶ The fact of the matter is that North Carolinians have been hurt disproportionately by the federal government's unwillingness to set the minimum wage rate at a level which would actually guard against poverty.

Twenty states plus the District of Columbia have set minimum wage rates higher than the federal level. These states include examples from all over the United States including here in the Southeast with the cases of Florida and most recently, Arkansas. It is time for our state legislators to follow suit and immediately increase the minimum wage as one crucial step in the much broader fight for economic justice in North Carolina.

Combating the inaccuracies

Minimum-wage opponents have done a masterful job over the years at using fear-mongering tactics to promote a series of myths about the minimum wage. Most individuals who are against raising the minimum wage are against any sort of governmental interference in private industry to begin with. The same people who are arguing that \$5.15/hour is an adequate wage actually believe that we shouldn't be concerning ourselves with what "enough" is in the first place. Just as they did before the increase to \$5.15/hour in 1997, many pundits are predicting a veritable doomsday if the minimum wage rate is raised any higher. But just as they were wrong then, they are wrong now - each of these commonly propagated myths has been proven false through solid research.

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Jobs Will Be Lost

"Employers will not be able to afford to hire as many unskilled workers, and will respond by cutting back services or replacing workers with machinery." - Paul Kersey, The Heritage Foundation, in his 2004 testimony before the House of Representatives

Anti-minimum wage pundits have long used the tactic of framing minimum wage increases as a threat to working Americans. By insisting that higher wages automatically lead to less available jobs, minimum wage opponents are able to exploit the most basic fears of low-wage workers.

Contemporary research has consistently shown no correlation between increases in the minimum wage and subsequent job loss. A 1998 study by the Economic Policy Institute used four different tests applied to a large number of demographic groups whose wages are sensitive to the minimum wage and found that no systematic, significant job loss was associated with the 1996-1997 minimum wage increases. Not only were the estimated employment effects generally economically small and statistically insignificant, they were also almost as likely to be positive as negative.⁷

Some have argued that a minimum wage increase would hurt those who are most vulnerable by eliminating the job opportunities available to those who are attempting to make the transition from welfare to work. But according to a study by the Oregon Center for Public Policy, the minimum wage increases in Oregon that took place from 1996-1999 did not harm welfare recipients' opportunities to find work. In fact, a larger percentage of welfare recipients in the Adult and Family Services caseload in Oregon found jobs after the minimum wage increase than before it, rising steadily from 6.4 percent in 1996 to 10.6 percent in 2000.⁸

Small Businesses Will Suffer

"The living wage is a bad idea for North Carolina's future, and small-business owners across North Carolina are thankful our leaders in Raleigh today preserved thousands of jobs." – Gregg Thompson, National Federation of Independent Businesses upon the 2005 defeat of The Living Wage Act

On its face, the concern that small businesses might be disproportionately affected by minimum wage raises seems reasonable – after all, many small business owners are finding it increasingly difficult to stay afloat as corporations such as Wal-Mart continue to expand at alarming rates. However, no credible evidence has been found that a raise in the minimum wage would negatively impact small businesses.

A 1998 study by the Jerome Levy Economics

Institute at Bard College found that the 1997 increase from \$4.75 to \$5.15 did not affect hiring decisions at 93.8 percent of small businesses surveyed.⁹ When a second study was conducted a year later asking whether small businesses would be affected by an additional increase to \$6 an hour, 84% still maintained that the hike would have no impact.¹⁰

Further, a 2004 study by the Fiscal Policy Institute found that since 1997, small business employment growth in states with higher minimum wage rates has been at least as good as in those states that have maintained the \$5.15/hour minimum wage. These findings held for both the economic expansion phase of 1998-2000 and the subsequent recession of 2001-2003.¹¹

Only Teenagers Work Minimum Wage Jobs

"Most people making the minimum wage in North Carolina are not bread-winners but are high school or college students holding entry-level jobs." – Gregg Thompson, National Federation of Independent Businesses in a 2006 statement to the *Shelby Star*

Minimum wage opponents would have you believe that every worker earning the minimum wage is a burger-flipping sixteen-year-old working ten hours a week. Such is simply not the case; in North Carolina, three-fourths of the people who would benefit from a minimum wage increase are 20 or older and half are over 25. According to the Economic Policy Institute's latest research on the minimum wage, close to half of those who earn the minimum wage work full time and another third work between 20 and 34 hours per week. The average minimum wage worker brings home nearly fifty percent of his or her family's weekly earnings.¹²

The Working Poor Choose To Stay in Poverty

"Instead of depending on government for everything, including a pay raise, it would be better if workers seeking a better lot in life took the initiative to do the things that bring in better wages." – Jacksonville, North Carolina-based *Daily News* editorial from January, 2006

This is an example of the most twisted logic that is used by minimum wage critics to negate the need for an increase. Such arguments rely on the age-old fallacy that poor people choose to stay poor by purposefully avoiding opportunities that could improve their life situations. How is it then that so many of the nation's working poor hold down two or more jobs and still aren't able to make ends meet? It is

simply unreasonable to expect that they can easily acquire the time and resources to devote to higher education or advanced vocational training.

Some, including Reed Garfield, Senior Economist for the Joint Economic Committee, have even insisted that high school dropout rates will rise as a result of minimum wage increases. The logic here is that dollar wage increases at fast food restaurants and low-end retail stores will somehow be enough to entice would-be graduates to drop out and join the low-income workforce. Pure common sense and U.S. Census Bureau data both refute such a proclamation. None of the states which raised their minimum wage between 2000 and 2004 experienced an increase in high school dropout rates during that time period. In fact, all ten of the states with the highest dropout rates in 2004 have minimum wage rates set no higher than the federal level.¹³

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How other states are responding

Twenty states plus the District of Columbia have set minimum wage rates higher than the federal level, and it is past time for North Carolina to do so as well.

The minimum wage is unusual among federal policies in that its real value is not held constant over time. Since 1975, Social Security benefits have been adjusted for changes in the cost of living without any subsequent controversy. If these benefits were tied to the whims of congressional action and inaction, as is the minimum wage rate, the living standards of the elderly and disabled would suffer just as the living standards of low-wage workers have suffered. Such a policy would be seen as inhumane by the American public, and would surely not be tolerated.

Three states have made the decision to tie their minimum wage rates to the rate of inflation to keep pace with the rising cost of living. In 1998, voters in the state of Washington overwhelmingly passed a ballot initiative that linked the level of the state minimum wage to the inflation rate. In 2002, Oregon voters followed Washington's lead, followed by Florida in 2004.

SPOTLIGHT: FLORIDA

Florida is the most recent and exciting example of a true minimum wage victory in this country, boasting an unprecedented bipartisan victory. On a 2004 ballot initiative, 72% of Floridians voted to ensure that the wages of the lowest-paid workers will keep pace with the rising cost of living, by boosting the minimum wage one dollar to \$6.15 and "indexing" the minimum. By "indexing" Florida tied the future minimum wage to the Consumer Price Index-Urban Wage Earners and Clerical Workers, which is the measure that is used to annually adjust benefits to Social Security beneficiaries.

In the months before Floridians overwhelmingly voted to pass the ballot initiative, the Center for American Progress commissioned a study of the projected results of the minimum wage increase on Florida's economy, businesses, and workers. The 84 page report detailed the perceived effects of the proposed increase, and overwhelmingly found that benefits far outweighed costs.¹⁴

The study projected that the minimum wage increase would result in the average firm having to increase revenues by a mere 1/25 of 1 percent to be able to make up for the increased cost. In order to do so, a firm would need to raise prices by mere pennies – a representative retail clothing store would face a cost increase of 0.05 percent of its sales, which could be fully covered by raising the cost of a \$20 sweatshirt to \$20.01. Similarly, a hotel would have to raise the price of a room from \$100 to \$100.20 to cover its increased costs of 0.2 percent of sales.

Low-wage workers and their families, on the other hand, would enjoy very real increases of between \$500 and \$600 in their disposable incomes. The study predicted that the extra income afforded consumers would most likely translate into retail sales increases of approximately 3% within low-income areas, more than making up for any of the cost increases to retail firms.

Although it may be too soon to do a full analysis of the results of increases in Florida, if the first year has been any indication, then we should expect that the Center for American Progress' report will prove quite accurate. According to the latest statistics, the retail and restaurant industries, two of the groups most fearful of the increase, actually gained jobs after the hike. Retail employment is up 2.1% since September 2004 and restaurant employment is growing even faster with an increase of 5.2% in that same period.¹⁵

Analysis

The decline of the real value of the federal minimum wage over the last few decades has had a significant negative impact on the incomes and lives of low-wage workers and their families. Even when states have decided to step in where the federal government has failed, it has often been a case of too little too late. Many states, including North Carolina, are currently considering legislation to pass one-time increases to their minimum wages. Though a crucial first step, this is inherently a short-term solution to the very complex plight of the working poor in this country.

Indexing the minimum wage to inflation takes the subjectivity out of setting a minimum wage rate. In truth, the current rate of \$5.15/hour is meaningless – instead of reflecting an actual standard of living, it is a mere arbitrary figure. If arbitrary is indeed the name of the game, then why not choose a wage rate that would generate an income high enough to actually live off of? A minimum wage rate of \$10/hour may seem over the top, until you stop to think that working 40 hours a week, 52 weeks a year at such a wage would still only generate \$20,800 before taxes.

According to a March 2006 poll by Elon University, 79 percent of North Carolinians surveyed agreed or strongly agreed that the minimum wage should be raised. Support was consistent across seemingly all demographic categories, including political party, race, sex, and age. This shadows Florida's political reality at the dawn of its fight to raise the minimum wage rate; in November of 2003, a poll found overwhelming support among voters in a similar cross-demographic fashion.

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Recommendations

- A minimum wage increase to \$10/hour should be seen as the ultimate goal, as it would much more accurately reflect a minimum cost of living in this state.
- Should such a dramatic increase prove politically impossible, an immediate increase to at least \$7/hour is absolutely necessary.
- North Carolina's minimum wage must also be tied to inflation through indexing, in order to take into account the rising cost of living.

Common Sense says that the time for North Carolina to act is now. We cannot simply focus on the shortsighted solution of a one-time, one-dollar increase, but must pressure legislators to seriously consider following in Florida's footsteps by raising the minimum wage rate and immediately tying it to the cost of living. A meaningful and sustainable minimum wage policy requires that both actions be taken.

By Common Sense Foundation intern, Sarah Carucci

1 U.S. Bureau of Labor Statistics

2 "Unhappy Anniversary - Federal Minimum Wage Remains Unchanged", Economic Policy Institute and Center on Budget and Policy Priorities, 2005

3 "Pulling Apart: A State-by-State Analysis of Income Trends," Economic Policy Institute and Center on Budget Policy and Procedures and the Economic Policy Institute, 2002

4 U.S. Bureau of Labor Statistics

5 "The Changing North Carolina Economy: Forces, Prospects, Issues", Michael L. Walden, North Carolina State University

6 The Employment Security Commission of North Carolina

7 "Making Work Pay: The Impact of the 1996-1997 Minimum Wage Increase", Economic Policy Institute, 2006

8 "Oregon Minimum Wage Increases Boost Welfare-to-Work", Center on Budget and Policy Priorities, 1998

9 "Small Business and the Minimum Wage", The Levy Economics Institute of Bard College, 1998

10 "The Minimum Wage Can Be Raised", The Levy Economics Institute of Bard College, 1997

11 "State Minimum Wages and Employment in Small Businesses", Fiscal Policy Institute, 2004

12 "Minimum Wage Issue Guide", Economic Policy Institute, 2006

13 U.S. Census Bureau Data

14 "Economic Analysis of Florida Minimum Wage Proposal", Center for American Progress, 2004

15 Bureau of Labor Statistics
