

Raising the Minimum Wage: Good for Working Families, Good for Michigan's Economy

A modest increase in the state minimum wage would boost the incomes of nearly 1 million Michigan workers, allow them and their families to afford the basic necessities, raise many struggling households above the federal poverty line, and increase economic activity in the state. Indexing the minimum wage to inflation would protect its value from being eroded and prevent hard-working families from falling into poverty as costs of living increase over time.

At a time when Michigan is still struggling to regain its economic health after over a decade of decline, this is a simple measure that the Legislature can adopt to reduce the state's poverty rate, decrease reliance on state assistance, and boost local economies.

THE VALUE OF THE MINIMUM WAGE HAS DECLINED

When the prices of goods and services increase but wages stagnate, the budgets of many households – particularly low-income families – shrink and parents find themselves increasingly unable to provide their children even with basic necessities, such as food, clothes and shelter. This has been the case with the minimum wage since the early 1970s, when the purchasing power of the minimum wage began to decline after reaching a peak in 1968 (Figure 1). At that time the federal minimum wage was \$1.60, but was worth the equivalent of \$10.71 in 2013 dollars.

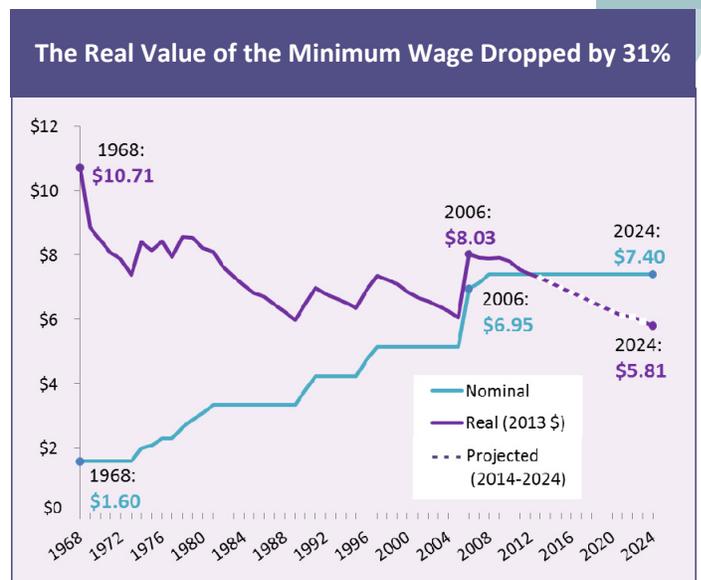
In this section of the report, both the federal and state minimum wages are used for the historical analysis. This is because, in general, the greater of the two wages automatically becomes the applicable minimum wage. In 1968, for example, the Michigan minimum wage was \$1.25, while the federal prevailing wage was \$1.60 –

which made the latter the applicable minimum wage in Michigan.

Since 1968, the real value of the minimum wage has dropped by 31%, despite nominal increases from the mid-1970s to 2008. If no steps are taken to increase and protect the value of the minimum wage, by 2024 its real value will be just \$5.81 in 2013 dollars, an additional drop of 15%.

For many low-income families, the diminishing real value of the minimum wage has meant having to raise their children in poverty. As Figure 2 illustrates, with a strong minimum wage in 1968, many low-income families were able to raise their children in relative economic security, since annual minimum wage earnings were enough to keep two- and three-person families above the poverty

FIGURE 1



Source: Fair Labor Standards Act and amendments
 Prepared by Michigan League for Public Policy.

FIGURE 2



Sources: Fair Labor Standards Act and amendments, and 2012 Census Bureau Poverty Thresholds
Prepared by Michigan League for Public Policy

threshold (\$16,057 for a family of two and \$18,769 for a family of three in 2013 dollars).

Unfortunately, this is no longer the case. The drop in the real value of the minimum wage has made it difficult for many families to avoid poverty. Since 1984, real annual minimum wage earnings have not been high enough to raise a two-person family above the poverty threshold – with the exception of a brief period from 2006 to 2010, when a combination of incremental nominal increases to \$7.40 per hour, and low rates of inflation kept the minimum wage from losing too much of its value.

Front-line (nonmanagerial) fast food workers are particularly affected by the diminishing value of the minimum wage, since they are generally compensated at or just above the minimum wage. These workers also receive few if any employment benefits and are more likely to work less than 40 hours due to management scheduling preferences. As a result, they are more likely to live in or near poverty and to rely on public assistance than other workers. A recent study found that the families of fast food workers are more than twice as likely (52%) to be enrolled in one or more safety net programs than the workforce as a whole (25%). In Michigan, the total cost of these workers’ participation in public assistance is \$251 million, which includes \$95 million in adult Medicaid, \$45 million in child Medicaid or Children’s Health Insurance Program, and \$50 million in food stamps.¹

WHO ARE THE MINIMUM-WAGE WORKERS?

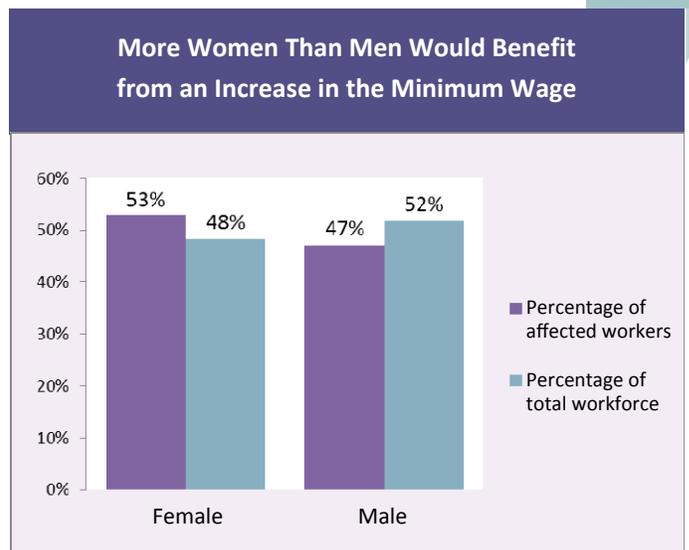
Contrary to common assumptions, a majority of the state’s workers who would benefit from an increase in the minimum wage are not suburban teenagers without family responsibilities. Rather, they are adults who work at least 20 hours per week and contribute a significant amount to their household’s total income. An overwhelming majority of these workers have at least a high school diploma, and a significant number of them are also parents.

The analysis in this section is based on a minimum wage increase to \$10.10 per hour, as proposed by U.S. Sen. Tom Harkin, D-IA, and U.S. Rep. George Miller, D-CA, in the Fair Minimum Wage Act of 2013. In Michigan, similar legislation has been proposed by state Sen. Bert Johnson (SB 203) and state Rep. Rashida Tlaib (HB 4554), which would raise the state’s minimum wage to a slightly lower rate of \$10 per hour by 2016, and which would be indexed to inflation thereafter.

Low-Wage Men and Women

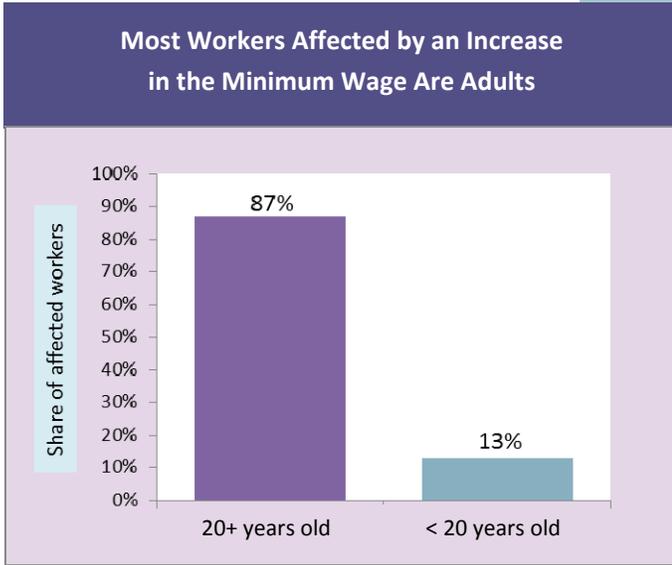
The state’s identifiable wage-earning workforce is composed of slightly more men (52%) than women (48%). Although raising the minimum wage would boost the incomes of 940,000 low-wage workers of both genders, more women (53%) than men (47%) in the state would benefit (Figure 3), including 345,000 women who would

FIGURE 3



Source: Economic Policy Institute’s analysis of Sen. Tom Harkin and Rep. George Miller’s minimum wage proposal, using Current Population Survey Outgoing Rotation Group microdata

FIGURE 4



Source: Economic Policy Institute's analysis of Sen. Tom Harkin and Rep. George Miller's minimum wage proposal, using Current Population Survey Outgoing Rotation Group microdata
Prepared by Michigan League for Public Policy

be directly affected and an additional 151,000 who would be indirectly affected.

Directly affected workers are those who currently earn between the state's minimum wage, and the new minimum wage of \$10.10 per hour. Wages for these workers would rise when the new minimum wage rate exceeds their current wages. *Indirectly affected workers* are those who earn an hourly wage just above the *new* minimum wage – that is, a wage between the new minimum wage (\$10.10) and the new minimum wage *plus* \$2.70.

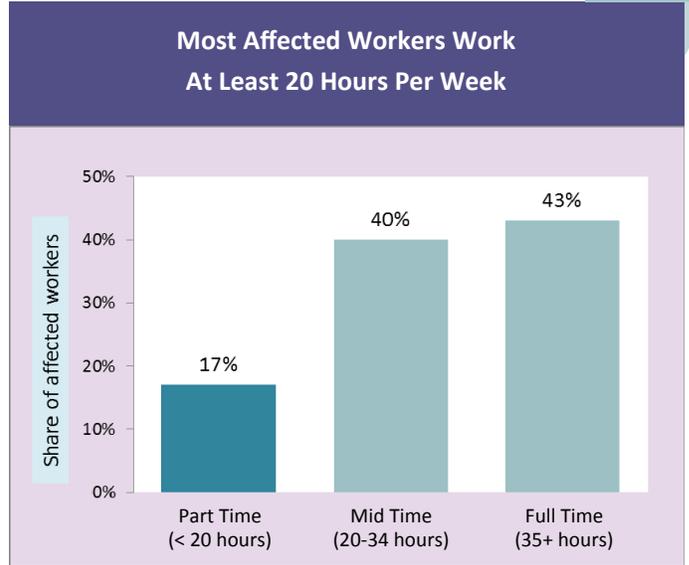
Raising the minimum wage to \$10.10 would boost men's nominal wages more than women's – \$2,400 on average in additional annual compensation for men, and \$2,100 additional for women, a difference of almost 13%.

Adults Who Work at Least 20 hours Per Week

Workers benefiting from an increase in the minimum wage are more likely to be older and have greater family responsibilities than commonly assumed. This contradicts minimum wage critics' claims that most workers earning these wages are middle-class teenagers who do not have families to support and who work for spending money.²

In Michigan, an overwhelming majority (87%) of workers who would be affected by an increase in the minimum wage are 20 years of age or older (Figure 4), including 542,000 who would be directly affected, and 277,000 who would be indirectly affected. A similar share (83%) also work at least 20 hours per week, with 40% working

FIGURE 5



Source: Economic Policy Institute's analysis of Sen. Tom Harkin and Rep. George Miller's minimum wage proposal, using Current Population Survey Outgoing Rotation Group microdata
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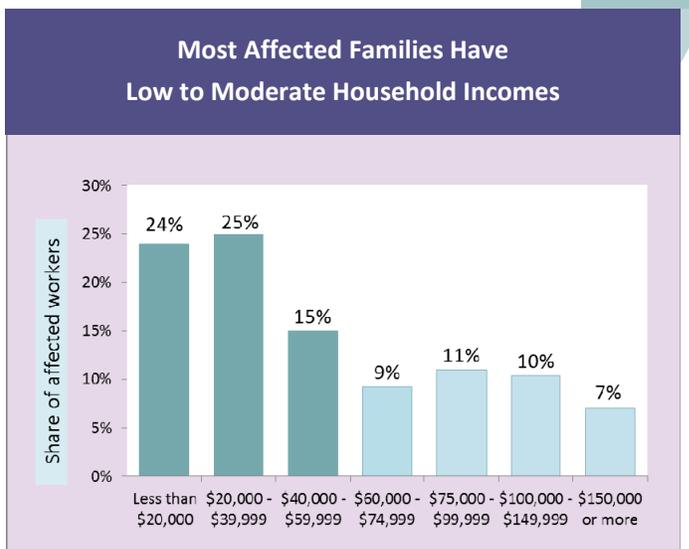
between 20 and 34 weekly hours, and another 43% working full-time (Figure 5).

It is worth noting that, whether minimum wage workers are adults or teens, part time or full time, they all contribute to the economy and deserve to be paid a fair wage.

Low- and Moderate-Income Parents

A significant number of children (15% of the total child population in Michigan) depend on the earnings of their low-wage parents. Low-wage parents account for 20% of

FIGURE 6



Source: Economic Policy Institute's analysis of Sen. Tom Harkin and Rep. George Miller's minimum wage proposal, using Current Population Survey Outgoing Rotation Group microdata
Prepared by Michigan League for Public Policy
*Numbers may not add up due to rounding.

the workers who would be affected by a raise in the minimum wage. These parents contribute, on average, 59% of their families' annual income.

The incomes of families who would benefit from an increase in the minimum wage are generally low or moderate (Figure 6). A strong plurality of these families (64%) have *household incomes* of less than \$60,000, including 24% whose total household income is less than \$20,000, and 25% whose income is between \$20,000 and \$40,000.

If the minimum wage is raised to \$10.10 per hour, the wages of affected parents would increase by \$2,500 annually, on average. A raise in the minimum wage would not only help many families escape or avoid poverty, but could also significantly boost their children's academic performance and future adult earnings. A 2011 study suggests that for every \$1,000 (in 2001 dollars) in additional annual income, there is a modest, but statistically significant, increase in young children's academic achievement.³ In fact, in a related study, researchers found that an additional \$3,000 in household income (in 2005 dollars) during a child's early years was shown to increase a child's academic performance by the equivalent of two extra months of school.⁴

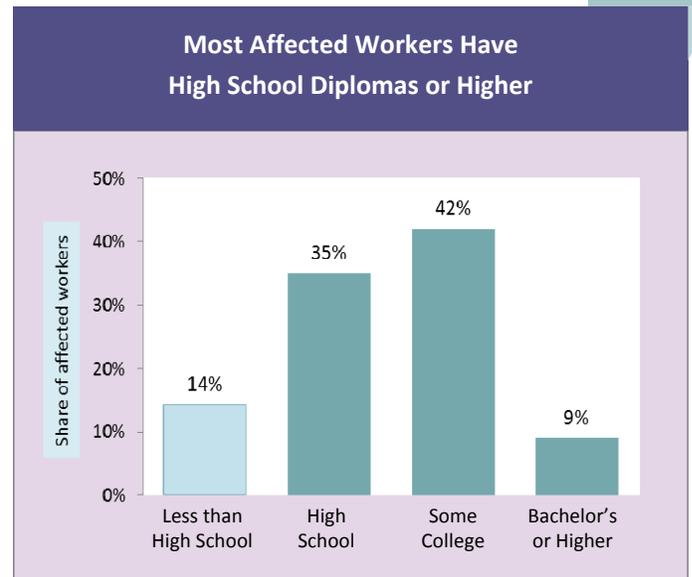
Workers with at Least a High School Diploma

In Michigan, the overwhelming majority of affected low-wage workers have at least a high school diploma (Figure 7). Of the workers who would benefit from a raise in the minimum wage, 86% have graduated high school. Of these, 35% have only a high school diploma, 42% have attended college but have not earned a degree or have only earned an associate's degree, and 9% have earned a bachelor's degree or higher.

Only 14% of minimum wage workers have less than a high school education.

JOB CREATION AND OTHER BENEFITS OF RAISING THE MINIMUM WAGE

It may seem intuitive to assume that raising the minimum wage would have a negative effect on jobs. However, a number of well-regarded studies suggest that raising the minimum wage has little to no negative employment effect, overall.⁵ In fact, raising the minimum wage would result in positive outcomes for the state, such as the



Source: Economic Policy Institute's analysis of Sen. Tom Harkin and Rep. George Miller's minimum wage proposal, using Current Population Survey Outgoing Rotation Group microdata
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creation of thousands of full-time jobs,⁶ modest but significant increased earnings for low-income workers, and increased economic activity in the state.

According to one study – which analyzed restaurant employment data for every economic quarter between 1990 and 2006 for 1,381 counties in the country – an increase in the minimum wage did not lead to employment losses and did not have a large impact on hours. They did find, however, that raising the minimum wage had a positive impact on earnings.⁷ Subsequent studies corroborate these findings, including one that found no statistically significant negative effects on employment or hours.

Another study suggests an explanation for the lack of negative employment effects: Employers view layoffs and cuts in work hours as costly and counter-productive measures, and are more likely to cope with minimum wage policy changes through a wider range of “channels of adjustment” than commonly assumed. These channels of adjustment include lower overhead costs due to reduced turnover (employers expect higher levels of worker loyalty when wages increase); requiring higher productivity and performance standards (such as being on time) from employees; increased marketing to expand sales; lower or delayed pay increases for workers at the higher end of the pay scale; and modest adjustments in the price of products or services sold.⁸

If the minimum wage were to be raised to \$10.10 per hour by July 1, 2016 and indexed to inflation, as proposed by U.S. Sen. Harkin and Rep. Miller, Michigan’s unemployment rate could decrease moderately. At 8.4% in December 2013, Michigan’s unemployment rate is significantly higher than the national average (6.7%) and the fourth highest among the 50 states – with only Rhode Island (9.1%), Nevada (8.8%), and Illinois (8.6%) reporting higher unemployment rates.⁹ If implemented, the higher minimum wage would create an estimated 3,300 full-time jobs in the state, according to the Economic Policy Institute.¹⁰ At a time of continuing high unemployment and a sluggish recovery, even a modest job increase should be welcomed.

The higher minimum wage would also increase the wages of 940,000 Michigan workers, either directly (641,000) or indirectly (299,000).¹¹ Each of these workers would see their annual incomes increase modestly by an average of \$2,256 – for a total of over \$1.4 billion per year in additional earnings for all affected workers.¹² Much of this additional income would likely be spent locally, increasing the state’s economic activity by almost \$886 million over three years.¹³

CONCLUSION

Michigan’s recovery would be helped not only by strong job growth, but also by boosting the wages of its lowest paid workers. Raising the minimum wage to \$10.10 per hour would help nearly 1 million low-wage workers, increasing their individual annual wages by \$2,256 on average, and \$1.4 billion collectively. Moreover, this higher minimum wage would have a stimulative effect on the state’s economy, increasing its economic activity by almost \$886 million. This policy change would not destroy low-wage jobs, as commonly feared, but could create approximately 3,300 full-time jobs.

A nominal increase alone, however, would not prevent inflation from eroding the value of the minimum wage over time. From a peak in 1968, the purchasing power of the minimum wage has

declined by 31%, despite nominal wage increases. This could have been prevented if the minimum wage had been indexed to inflation, which would have triggered automatic annual adjustments to reflect higher costs of living.

Support for an increase in the minimum wage that is tied to inflation should be part of a package of policies aimed at restoring the economic health of the state. A boost in the earnings of the state’s lowest-paid workers would not only increase economic activity in the state due to an increase in the spending power of nearly 1 million Michiganders, but would also benefit the children of low-wage parents, who would do better in school and earn higher wages as adults.

Basic Needs Wages

Hard work should be fairly compensated. No one who works full time, year-long, should remain in poverty. Unfortunately, at just \$7.40 per hour, the Michigan minimum wage does not raise families above the poverty line. In fact, an hourly wage of \$9.02 (in 2013 dollars) would be required for a household of three, *not to rise above, but to just meet* the federal poverty threshold. For a household of two, this hourly wage would be \$7.72 per hour.

Stronger hourly wages are needed to allow families to live and raise their children in an economically secure environment. The basic needs wages, below, illustrate the annual and hourly incomes for households of various sizes in Michigan that are needed to meet all basic expenses without assistance from the government or nonprofits. This benchmark should be used to determine the extent to which the current minimum wage is adequate to meet a family’s basic needs.

FIGURE 8

Family Type	Number of Children Under Age 6	Basic Needs Wage	
		HOURLY	ANNUAL
Single person	0	\$10.37	\$21,570
Single-parent family	2	\$21.23	\$44,164
Two-parent family (both working)	2	\$12.58 each	\$26,165 each
Two-parent family (one working)	2	\$12.85	\$26,720

Source: Michigan League for Public Policy, February 2014

ENDNOTES

1. Sylvia Allegretto, Marc Doussard, Dave Graham-Squire, Ken Jacobs, Dan Thompson and Jeremy Thompson, *Fast Food, Poverty Wages: The Public Cost of Low-Wage Jobs in the Fast-Food Industry*, UC Berkeley Labor Center, October 15, 2013.
2. See for example, James Sherk, *Who Earns the Minimum Wage? Suburban Teenagers, Not Single Parents*, The Heritage Foundation, February 28, 2013. <http://www.heritage.org/research/reports/2013/02/who-earns-the-minimum-wage-suburban-teenagers-not-single-parents>.
3. Chuck Marr, Jimmy Charite and Chye-Ching Huang, *Earned Income Tax Credit Promotes Work, Encourages Children's Success at School, Research Finds*, Center on Budget and Policy Priorities, April 9, 2013. <http://www.cbpp.org/cms/?fa=view&id=3793>.
4. Ibid.
5. John Schmitt, *Why Does the Minimum Wage Have No Discernible Effect on Employment?* Center for Economic and Policy Research, February 2013.
6. David Cooper, *Supplementary Data: State-by-State Characteristics of Workers Who Would Be Affected by Increasing the Federal Minimum Wage to \$10.10 by July 2016*, <http://s2.epi.org/files/2013/minimum-wage-state-tables.pdf>, Economic Policy Institute, December 19, 2013.
7. Arindrajit Dube, T. William Lester and Michael Reich, "Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties," *The Review of Economics and Statistics*, vol. 92, no. 4, pp. 945-964, <http://www.irle.berkeley.edu/workingpapers/157-07.pdf>.
8. Barry Hirsch, Bruce Kaufman and Tatyana Zelenka, *Minimum Wage Channels of Adjustment*, IZA Discussion Paper no. 6132, Institute for the Study of Labor, November 2011, http://www2.gsu.edu/~ecobth/IZA_HKZ_MinWageCoA_dp6132.pdf.
9. Bureau of Labor Statistics, *Regional and State Employment and Unemployment Summary*, December 2013, <http://www.bls.gov/news.release/laus.nr0.htm>, accessed February 6, 2013.
10. Economic Policy Institute, op. cit.
11. A *directly affected worker* is one who is earning the current minimum wage, and would therefore see his or her hourly wage increase as the minimum wage increases to \$10.10. An *indirectly affected worker* is one who earns slightly above the proposed new federal minimum wage, and who would therefore see an increase in his or her hourly wage as employers adjust their pay scales to reflect the higher minimum wage.
12. Economic Policy Institute, op. cit.
13. David Cooper, *Raising the Federal Minimum Wage to \$10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost*, Economic Policy Institute, December 19, 2013.