

March 7, 2005

## Increasing the Minimum Wage: An Issue of Children's Well-Being



*Increasing the minimum wage to \$7.25 an hour would lift the earnings of millions of low-income workers and help them better support their families.*

America's workers are paying continuously rising costs for goods and services, yet those who earn very low wages have gone eight years with no action by Congress to raise the minimum wage and help them meet those costs. For too many working families a full-time job does not provide enough money to support a family. Raising the minimum wage would increase families' ability to pay for critical basics such as child care, housing, food and medicine. This increased purchasing power would in turn put more money back into struggling local economies.

The annual income of an individual working full-time, with two children, at the \$5.15 an hour minimum wage leaves them \$4,500 below the poverty level. An increase in the minimum wage to \$7.25 would benefit many of the 9.7 million children who live in households where at least one worker earns between the current minimum wage and \$7.25 per hour.<sup>1</sup> Furthermore, 1.2 million of these children live in households where two or more workers earned less than the proposed minimum wage.<sup>2</sup>

Because the minimum wage is not indexed for inflation, its purchasing power has eroded over time. The eight years since the last increase represents the second longest period over which Congress has failed to increase the minimum wage. As a result of the stagnating minimum wage, a full-time minimum wage paycheck – which would have kept a family of three above the poverty threshold during most of the 1960s and 1970s – provides an annual income that is only 70 percent of the poverty line in 2004. Many of the 13 million American children living in poverty would benefit from such an increase. The current earnings of a single parent working full-time at minimum wage covers only 40 percent of the estimated cost of raising two children. This is down from 48 percent in 1997 when the minimum wage was last raised (see table). If the minimum wage were raised to \$7.25 per hour, it would cover 56 percent of the costs of raising two children, a significant improvement for working families.

According to an unpublished analysis by the Economic Policy Institute, in more than one out of three (36.4 percent) families with a worker who would benefit from the proposed increase and at least one child, that worker is the family's sole wage earner.<sup>3</sup> This increase would help our neediest citizens most, as the 40 percent of households with the lowest weekly earnings would receive almost 60 percent of the benefits from the increase, even though these households received an average of only \$1 of every \$6 of total earnings in 2004.<sup>4</sup>

It is clear that an increase in the minimum wage to at least \$7.25 per hour is long overdue and desperately needed by millions of America's families.

---

<sup>1</sup> CDF analysis of 2004 Current Population Survey data. This number, and others in this report based on CDF analysis, comes from a simple count of workers with estimated earnings between the \$5.15 and \$7.24 per hour in 2004, the most recent year for which data are available.

<sup>2</sup> *Ibid.*

<sup>3</sup> Unpublished Economic Policy Institute analysis of 2004 Current Population Survey data.

<sup>4</sup> *Ibid.*

---

## Ten Reasons to Increase the Minimum Wage

1. *\$5.15 an hour is not a livable wage.*

An individual working full-time at the current minimum wage only makes \$10,712 per year—over \$4,500 below the 2004 poverty line for a family of three. Working full-time every week of the year, the current minimum wage covers only 40 percent of the estimated cost of raising two children in 2005, down from 48 percent in 1997 when the minimum wage was last raised. The purchasing power of the minimum wage has been eroded, leaving low-income families struggling to stay afloat, as the income gap continues to widen. If the minimum wage were raised to \$7.25 per hour, it would cover 56 percent of the estimated cost of raising two children, a significant improvement for a single parent (see attached document).

2. *It is projected that over 7.3 million workers would benefit directly from a raise under the proposed increase in the federal minimum wage. Of these 5.3 million are adults (aged 20 or older) and 1.8 million are parents raising children under 18 years of age.*<sup>5</sup>

Contrary to a common perception, minimum wage jobs are not reserved for teens. In fact, more than seven of ten minimum wage workers are adults, and many are the key breadwinners in their families. Recent research shows that moderate increases in the minimum wage can help boost the earnings of many working poor families—including families leaving welfare for work—without resulting in a loss of job opportunities.

3. *Inadequate income hurts children.*

Children with a parent working full time at minimum wage still live below the poverty line. More than half of poor Americans (55 percent) experience serious deprivation such as lack of food, utility shutoffs, crowded or substandard housing, or lack of a stove or refrigerator.<sup>6</sup> Recent years have brought fresh evidence both of the high human and economic toll of allowing children to grow up poor—and of the high payoff to ending child poverty. Poor children are at least twice as likely as non-poor children to suffer stunted growth or lead poisoning, or to be kept back in school. Poor children score significantly lower on reading, math and vocabulary tests when compared with otherwise-similar non-poor children. Nearly one in eight children in the United States lives in a household with at least one minimum wage worker; suggesting that an increase in the minimum wage would help to reduce child poverty.

4. *Increasing the minimum wage to \$7.25 an hour would increase the purchasing power of more than 7.3 million workers.*<sup>7</sup>

Low-income families are more likely to spend additional income in the local economy than are wealthy families. An increase in the minimum wage would help millions of workers to afford

---

<sup>5</sup> Unpublished Economic Policy Institute Analysis of 2004 Current Population Survey data

<sup>6</sup> Federman, M., et al. (1996). “What does it mean to be poor in America? *Monthly Labor Review*, 119, 3-17. Cited in Sherman, Arloc. (1997). *Poverty Matters: The Cost of Child Poverty in America*. Page.3.

<sup>7</sup> Unpublished Economic Policy Institute analysis of 2004 Current Population Survey data. An additional 8.2 million workers earning between \$7.25 and \$8.25 are likely to benefit from a raise due to “spill-over effects” of the increase.

critical items like medicine, food and clothing for their families. If a single mother with two children were to get a raise from \$5.15 to \$7.25 per hour, she would have an additional \$364 every month to pay for her family's basic needs. This additional income could cover the cost of:

- Almost one full month of child care for both children;
- 90 percent of the family's food bill every month;
- Half of monthly housing costs; or
- Almost 6 months of health care coverage for two children.

5. *An increase in the minimum wage will not increase joblessness.*

Opponents of increases in the minimum wage continue to raise the specter of higher unemployment as a result of such an increase. However, numerous empirical studies have found that modest increases in the minimum wage have little or no effect on levels of employment.<sup>8</sup> One study measured the impact of a minimum wage increase in New Jersey on fast food workers in the early 1990s and found that employment actually increased, and that the increased hourly wage costs for employers may have been offset by higher levels of productivity and savings due to lower turnover rates. According to Alan Binder, an economist who formerly served on the Federal Reserve Board and the Council of Economic Advisors, "Evidence casting doubt on the theory that the minimum wage reduces employment is not limited to the Card-Krueger study. About 20 different studies by two dozen authors have produced similar results."<sup>9</sup>

6. *As the minimum wage stagnates, America's income gap is growing.*

According to Census Bureau figures for 2003, the most recent year for which such data are available), the richest one-fifth of households made 11.2 as much in median income as the poorest one-fifth. This is the widest income gap on record, and the results can be clearly seen. At the same time, hourly workers' average wages rose by 26 cents, or 1.7 percent, while CEO salaries realized an increase from 1990 to 2003 of 313 percent.<sup>10</sup> If the minimum wage had increased as quickly as CEO pay since 1990, it would be \$15.71 per hour (in 2003), more than three times the current minimum wage of \$5.15 an hour.<sup>11</sup> The overall gains in the national economy revealed by strong GDP and productivity growth have not been shared by most workers, whose real earnings are in decline.<sup>12</sup>

According to a recent study, between 1989 and 2001 the credit card debt of very low-income families (earning less than \$10,000 per year) increased at a staggering rate of 184 percent.<sup>13</sup> The study attributes this dramatic rise in debt to structural economic factors including stagnant

---

<sup>8</sup> Card, David and Alan Krueger. *Myth and Measurement: The New Economics of the Minimum Wage*, Princeton, NJ: Princeton University Press, 1995.

<sup>9</sup> *New York Times*, May 23, 1995. Cited in, "The Minimum Wage: It ain't what it used to be," Campaign for a Fair Minimum Wage. Available at <http://www.adaction.org/mwbook.html> (downloaded March 3, 2004).

<sup>10</sup> "Recovery Trickles Down Very Slowly," *Washington Post*, January 16, 2004.

<sup>11</sup> *Ratio of CEO Pay to Average Worker Pay Reaches 301 in 2003 United for a Fair Economy* April 14, 2004

<sup>12</sup> Allegretto, Sylvia, Jared Bernstein, and Isaac Shapiro. "The Lukewarm 2004 Labor Market: Despite Some Signs of Improvement, Wages Fell, Job Growth Lagged, and Unemployment Spells Remained Long", Economic Policy Institute and Center on Budget and Policy Priorities, February, 2005.

<sup>13</sup> "Draut, Tamara and Javier Silva. "Borrowing to Make Ends Meet: The Growth of Credit Card Debt in the '90s", *Demos, A Network for Ideas & Action*, September, 2003, page, 10.

growth in real income among low and moderate income families in the face of exploding housing and healthcare costs.<sup>14</sup>

7. *The number of poor children living with a full-time year-round worker is shockingly high.*

In 2003 more than 4.3 million workers lived in families with children and total incomes below the four-person federal poverty level even though the head of the family worked. In 1.5 million of these families, incomes were this low even though the head of the family worked full time year-round.<sup>15</sup> The prevalence of low hourly wages and the inability to secure steady full-time employment explains why seven out of ten poor children in 2003 lived in families where someone worked for at least part of the year. Almost one in three poor children lived in families where someone worked full-time year-round—a figure that has increased by 75 percent since 1991.

A study of the nation's food banks in 2001 found that almost one-third of emergency food clients' households had jobs as their main source of income. The proportion of soup kitchen clients who were employed increased from 19 percent in 1997 to 28 percent in 2001.<sup>16</sup> Similarly, the percent of food pantry clients who had jobs increased from 21 percent to 25 percent in this same time period. A 2003 report showed that 59 percent of those requesting emergency food assistance were either children or their parents. Survey cities reported 39 percent of adults requesting emergency food assistance were employed.<sup>17</sup>

8. *When a family's income is not adequate to meet its basic needs, parents face impossible choices.*

Many parents work a 40-hour week but do not earn enough to pay for their families' basic necessities. According to the Family Economic Self-Sufficiency Project, low-income parents may need to alternate paying bills every other month, risk bad credit, utility cutoffs or eviction, forgo needed health care, move into substandard housing, compromise on the quality of child care, or skip meals so their children will be able to eat.

9. *An increase in the minimum wage would benefit the most disadvantaged workers and families.*

A 1998 Economic Policy Institute (EPI) study found that households in the bottom 20 percent of the income spectrum (earning an average of \$15,728 per year), who in total earned only 5 percent of the nation's aggregate family income, received 35 percent of the total benefits of the last increase in the minimum wage.<sup>18</sup>

According to EPI analyses of 2004 data, the lowest 40 percent of households would receive almost 60 percent of the increase in earnings if the minimum wage were increased to \$7.25 per hour.<sup>19</sup> Moreover, almost 61 percent of the projected beneficiaries of an increase in the

---

<sup>14</sup> *Ibid.*, page 12.

<sup>15</sup> U.S. Census Bureau, Detailed Poverty Tables for 2003, "Table POV23. Poverty Status, Work Experience, and Family Earnings for People 16 Years and Over." Available at [http://ferret.bls.census.gov/macro/032004/pov/new23\\_100\\_01.htm](http://ferret.bls.census.gov/macro/032004/pov/new23_100_01.htm)

<sup>16</sup> Myoung Kim, Jim Ohls, Rhoda Cohen, *Hunger in America 2001 National Report Prepared for America's Second Harvest* Final Report (Princeton, NJ: Mathematica Policy Research, October 2001). Available at <http://www.mathematica-mpr.com> (downloaded February 6, 2002)

<sup>17</sup> <http://www.frac.org/html/news/mayors121803.htm>

<sup>18</sup> Bernstein, Jared and John Schmitt. "Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase," *Economic Policy Institute*, 1998. Available at [http://www.epinet.org/content.cfm/studies\\_stmwp](http://www.epinet.org/content.cfm/studies_stmwp).

<sup>19</sup> Unpublished Economic Policy Institute analysis of 2004 Current Population Survey data.

minimum wage would be women, while less than half of the total workforce is female, thus helping to close the pay gap between women and men.<sup>20</sup> Additionally, the increase would be particularly helpful to low-income African American and Latino workers, who would make up 15.3 and 19.7 percent of the direct beneficiaries.

*10. Americans support an increase in the minimum wage.*

There is strong public support for helping low-income workers to meet their families' needs and advance economically according to a W.K. Kellogg Foundation poll and a survey conducted by Jobs for the Future (JFF).<sup>21</sup> The poll found broad support for the idea that work should pay enough to support a family. In the JFF survey, 94 percent of Americans agree that "as a country, we should make sure that people who work full-time should be able to earn enough to keep their families out of poverty." Some 77 percent in the Kellogg poll agreed that government should help families that leave welfare for work but remain poor.

**For more information on the minimum wage, contact Deborah Cutler-Ortiz Director of the Family Income Division at the Childrens Defense Fund - (202) 662-3645**

---

<sup>20</sup> *Ibid.*

<sup>21</sup> The W.K. Kellogg Foundation poll results are available at [www.jff.org/programs/cluster3/projects/careeradvstrat.html](http://www.jff.org/programs/cluster3/projects/careeradvstrat.html).