



NC Justice Center

Opportunity  
and Prosperity for All

# BTC Reports

Vol 12 No 2 • April 2006

THE NEWSLETTER OF THE NC BUDGET & TAX CENTER

North Carolina  
Budget & Tax  
Center

P.O. Box 28068  
Raleigh, NC  
27611-8068

EDITOR: **Elaine Mejia**  
919/856-2176  
elaine@ncjustice.org  
[www.ncjustice.org](http://www.ncjustice.org)

## TIME FOR A RAISE? Assessing the Impact of an Increase in North Carolina's Minimum Wage

BY JOHN QUINTERNO, RESEARCH ASSOCIATE

### Executive Summary

- Inflation has pushed the buying power of the minimum wage to its lowest level in 50 years. The current rate of \$5.15/hour buys less than did \$4.25/hour in 1995 or \$1.58 in 1968.
- Some 101,000 North Carolina workers would benefit directly if the state set its minimum wage at \$6.00/hour.
- Adult workers, not teenagers, would be the main beneficiaries of an increase. Three-fourths of directly affected workers are adults over the age of 20, and 51.8 percent are adults over the age of 25.
- A raise to \$6.00/hour would increase the annual income of a full-time, minimum wage worker by \$1,768. That sum would buy 6.6 months' worth of groceries for a low-wage family of three.
- Raising North Carolina's minimum wage would neither eliminate jobs nor harm small businesses. Credible academic evaluations of minimum wage increases consistently find no adverse impacts.

### Overview

*Inflation has reduced the buying power of the minimum wage by 20 percent since 1997. This decline places special burdens on low-wage workers and their families and undercuts a fundamental American belief in fair pay for hard work. In response, individuals across the state have called on the North Carolina General Assembly to raise the minimum wage. A proposed increase to \$6.00/hour would benefit directly 101,000 low-wage Tar Heels. This issue of BTC Reports discusses the arguments for raising the minimum wage; describes the workers who would benefit; and assesses the potential impact on employment and small businesses.*

## The Minimum Wage's Purpose

The 1938 Fair Labor Standards Act (FLSA) established a national minimum wage of \$0.25/hour. At its core, the minimum wage embodies the fundamental American belief in, as President Franklin Roosevelt said, "a fair day's pay for a fair day's work."<sup>1</sup>

The federal minimum wage applies to the employees of establishments with annual revenues of at least \$500,000, as well as the employees of smaller firms engaged in interstate commerce or the production of goods for interstate commerce. Public employees also are covered. Certain types of employees like apprentices are exempt from the wage, and workers who receive tips may receive a lower wage, provided that the combination of tips and wages equals the minimum.<sup>2</sup>

Individual states may establish a minimum wage for firms that fall outside of the FLSA's scope and set a wage floor higher than the federal one. An employee covered by both a state and federal minimum wage receives the higher rate.<sup>3</sup>

Over its 68-year existence, the minimum wage has served two purposes. First, the minimum wage addresses a market failure. Because low-wage workers typically labor for financial reasons, they possess little bargaining power. Minimum wage laws address this discrepancy by strengthening the ability of employees to negotiate wages in situations where one party wields disproportionate bargaining power. Second, the minimum wage boosts the earnings of low-wage workers and helps alleviate poverty.<sup>4</sup>

## The Erosion of the Minimum Wage

Because the federal minimum wage is not adjusted automatically for inflation, Congress periodically must raise the rate to preserve its buying power. By not increasing the minimum wage since 1997, Congress has permitted inflation to erode 20 percent of the wage's value. Adjusting for inflation, the federal minimum wage is at its

lowest level in 50 years. Today, \$5.15/hour buys less than did \$4.25/hour in 1995; \$3.10/hour in 1980; or \$1.58/hour in 1968 (Figure 1). If the minimum wage had retained its peak 1968 buying power, it would equal \$7.74/hour.<sup>5</sup>

The decline in the wage's value has diminished its ability to boost the earnings of low-wage workers and alleviate poverty. The current minimum wage of \$5.15/hour is insufficient to lift some common family types above the federal poverty level. While the poverty level for a family with one parent and two children equals \$15,480/year, a full-time minimum wage worker earns \$10,712/year or 69 percent of the amount needed to escape poverty (Figure 2).<sup>6</sup> This also is just 35 percent of the amount needed for self-sufficiency, a threshold generally pegged at twice the poverty level.<sup>7</sup>

Low-wage families often fall short of the federal poverty level even after accounting for the value of the federal Earned Income Tax Credit (EITC). The EITC is "a refundable income tax credit available to families who work but generally earn less than 200 percent of the federal poverty level."<sup>8</sup> In a family

FIGURE 1

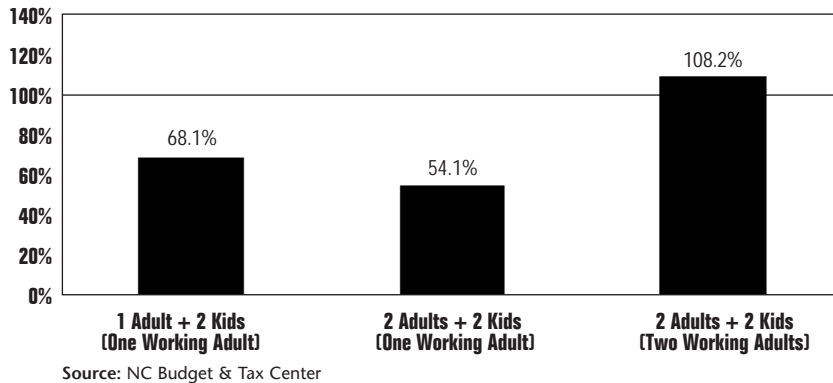
THE VALUE OF THE MINIMUM WAGE, 1950-2006		
Year	Nominal Value \$	2006 Value \$
1950	0.75	5.30
1955	0.75	4.76
1960	1.00	5.74
1965	1.25	6.76
1970	1.60	7.16
1975	2.10	6.91
1980	3.10	7.15
1985	3.35	5.96
1990	3.69	5.50
1995	4.25	5.56
2000	5.15	6.00
2006	5.15	5.15

Notes: 2006 value is computed using the CPI-RS. Because the minimum wage increased in 1990, the nominal value is a weighted average.

Source: Economic Policy Institute

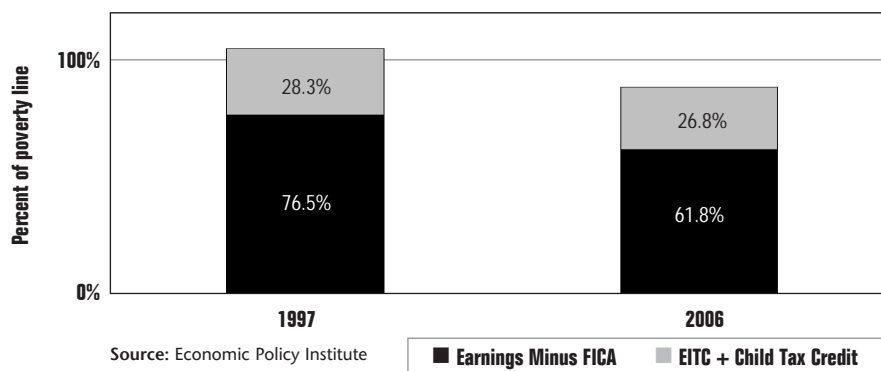
**FIGURE 2**

**ANNUAL EARNINGS FOR MINIMUM WAGE WORKERS AS A PERCENTAGE OF FEDERAL POVERTY LEVEL, SELECT FAMILY TYPES, 2005**



**FIGURE 3**

**MINIMUM WAGE WORK, THE EITC AND THE POVERTY LEVEL, THREE-PERSON FAMILY, 1997 VS. 2006**



of three, the combination of a minimum wage income and an EITC subsidy still places the family below the federal poverty level. In 2006, this combination equals 89 percent of the poverty level (Figure 3).<sup>9</sup>

In the face of federal inaction, 19 states and the District of Columbia have raised their minimum wages. These states are home to roughly half of the nation's population. Wage floors in these states range from \$7.63/hour in Washington to \$5.70/hour in Wisconsin (set to rise to \$6.50/hour in June 2006). Additionally, Florida, Oregon and Washington annually adjust their minimum wages for inflation.<sup>10</sup>

**Who Would Benefit from a Minimum Wage Hike?**

North Carolina's minimum wage is linked to the federal rate, which is \$5.15/hour. Currently, state legislators are considering a proposal that would raise the state's minimum wage to \$6.00/hour. Such a raise would restore some of the wage's buying power and ability to alleviate poverty among low-wage workers.

An increase to \$6.00/hour would directly benefit 101,000 working Tar Heels – a number equivalent to 3 percent of the state's total workforce (Figure 4). Approximately half of these workers earn the minimum wage, the other half between the minimum and \$5.99/hour. Up to another 199,000 workers (those earning approximately \$6.00-\$7.00/hour) could experience a modest pay increase as the result of adjusted wage scales.<sup>11</sup>

The vast majority of minimum or near-minimum wage workers are adults, not teenagers. Three-fourths of directly affected workers are at least age 20, and 51.8 percent are older than age 25. Additionally, directly affected workers are overwhelmingly female, and, assuming the state mirrors the nation, disproportionately black and Hispanic.<sup>12</sup>

In terms of work effort, one-third of directly impacted individuals labor full-time, and 45 percent work between 20-34 hours a week. Employees earning less than \$6.00/hour also cluster in lower-wage industries and occupations. Roughly 40 percent are employed in the retail trade or leisure and hospitality industries, and 57 percent of directly impacted

**FIGURE 4**  
**CHARACTERISTICS OF NORTH CAROLINA WORKERS**  
**AFFECTED BY MINIMUM WAGE INCREASE TO \$6.00**

<b>A) DIRECTLY AFFECTED WORKERS</b>		
<b>Number of workers</b>		101,000
<b>Percent of workforce</b>		3.0%
<b>Gender</b>		
	Male	37.0%
	Female	63.0%
<b>Age</b>		
	Age 25 and older	51.8%
<b>Work hours</b>		
	20-34 hours per week	45.0%
	Full-time (35+ hrs.)	32.0%
<b>Industry</b>		
	Retail trade or leisure and hospitality	41.0%
<b>Occupation</b>		
	Sales or service	57.0%
<b>B) INDIRECTLY AFFECTED WORKERS</b>		
<b>Number of workers</b>	<i>These workers likely earn \$6.00-\$7.00/hour.</i>	199,000
<b>Percent of workforce</b>		6.0%

Source: EPI analysis of 2004 Current Population Survey data

**FIGURE 5**  
**ECONOMIC IMPACT OF AN \$0.85 INCREASE IN THE MINIMUM WAGE**  
**ON A THREE-PERSON FAMILY WITH A FULL-TIME WORKER**

	<b>CHANGE</b>	<b>\$ AMOUNT</b>
Hourly Increase	From \$5.15 to \$6.00	\$0.85
Yearly Increase	From \$10,712 to \$12,480	\$1,768
<b>Purchasing Power</b>	<b>Average Monthly Cost</b>	<b># of Additional Months</b>
Housing	\$561	3.2
Food	\$267	6.6
Child Care	\$437	4.0
Transportation	\$323	5.5
Taxes	\$409	4.3
Miscellaneous	\$257	6.9

"Average Monthly Cost" is derived from the 2005 NC Living Income Standard.

Source: Author's analysis; John Quintero and Elizabeth Jordan, "Failing Jobs, Falling Wages." Raleigh, NC: NC Budget & Tax Center, 2005.

workers hold sales or service occupations.<sup>13</sup>

Most affected workers in North Carolina are not young people living in affluent households. To the contrary, affected workers generally live in the state's lowest-wage households and earn a significant proportion of a household's weekly income. For example, an affected worker who lives in a family with children generates 52 percent of the family's earnings.<sup>14</sup> This means most of the gains from an increase would go to the state's poorest households. An estimated 63 percent of the gains flowing from a raise to \$6.00/hour would go to the bottom 40 percent of households, and 43 percent of the gains would go to the bottom fifth of households – those with average weekly earnings of \$255.<sup>15</sup>

Additionally, minimum and near-minimum wage workers are not as economically mobile as often assumed. Studies show that a high percentage of minimum wage workers indeed earn more than the minimum wage one year after being paid the minimum, but these results are skewed by the experiences of teenagers. A different picture emerges when the experiences of prime-age workers – adults between the ages of 25-54 – are considered. Nationally, one-third of adults earning the minimum wage still earn that

wage three years later, according to an analysis of U.S. Census Bureau data. Minimum wage workers who are female, foreign-born, non-unionized or unable to switch industries or occupations are most likely to get "stuck" at the minimum.<sup>16</sup>

## The Impact on Jobs and Businesses

While an increase to \$6.00/hour would not fully offset the decline in the minimum wage's value that has occurred since 1997, it nevertheless would have a meaningful impact. An increase would raise the annual income of a full-time minimum worker in a three-person family by 17 percent or \$1,768. This sum could buy 6.6 months' worth of groceries for a low-wage family of three. That same amount also could cover 4.0 months' of utility bills or 3.2 months' worth of rent (Figure 5).<sup>17</sup>

The benefits of a minimum wage increase would grow along with the size of the increase. A raise to \$6.15, for instance, would directly impact 139,000 Tar Heel workers and increase a full-time minimum wage worker's annual earning by \$2,080.<sup>18</sup> This is the equivalent of 7.8 months' worth of groceries for a low-wage family of three.<sup>19</sup> Similarly, a hike to \$7.25/hour would directly impact 217,000 North Carolinians. The resulting annual raise of \$4,368 would buy 16.4 months' worth of groceries. Even an increase of this magnitude, however, would fail to raise a three-person family above the poverty level.<sup>20</sup>

A central concern in debates over the minimum wage is whether or not increases cause employers to eliminate jobs. Critics claim that increases in the minimum wage inflate the cost of labor and force employers to shed positions. The alleged result: fewer jobs for low-wage workers. This theory, however, has been called into question by more sophisticated economic models of the low-wage labor market, along with rigorous, credible studies of wage increases.

Academic studies over the past ten years consistently have found that increases in the minimum wage do not destroy jobs. Nationally, the low-wage labor market experienced one of its most robust periods of growth following the 1997 increase in the minimum wage.<sup>21</sup> Studies of the 1991 national increase also found no measurable impacts on the low-wage labor market. Additionally, several evaluations of state-level minimum wage increases also have failed to document any adverse employment effects. Such research has led a variety of economists – including Nobel-laureates and the President's Council of Economic Advisors – to state publicly that modest minimum wage increases have little or no effect on employment.<sup>22</sup>

Similarly, research counters the argument that higher minimum wages drive up business costs. Sophisticated models of the low-wage labor market demonstrate that employers are able to pay employees less than they would in a truly competitive labor market owing to low-wage employees' relative lack of bargaining power. While this strategy may lower payroll costs, it likely translates into decreased productivity, higher turnover and increased recruitment, training and management costs. Paying higher wages, in contrast, increases productivity and reduces turnover and supervisory costs, resulting in savings that offset the additional wage payments.

The impact of increased pay on employers is reflected in a study by the Fiscal Policy Institute, based in New York, of small businesses (fewer than 50 employees) in states with minimum wages higher than the federal level. The Institute found that states with higher wage floors outperformed other states in terms of small business creation, job growth, total annual payroll and average payroll per worker. These positive trends also applied to small retailers, a segment of the economy with many low-wage workers.<sup>23</sup>

Finally, critics of minimum wage increases claim that the costs associated with minimum wage increases are not justified by the supposed slight impact on poverty that increases have. Instead, runs the argument, wage increases push people deeper into poverty by

rendering them ineligible for public benefits. This argument is flawed in two ways. First, the value of the minimum wage has declined so much that a two-person family would still be eligible for food stamps, subsidized child care and Health Choice for Children even if the minimum wage rose by \$2.00/hour. Second, a wage increase actually can qualify a family for a larger EITC. In this way, a family benefits twice from a minimum wage increase: once from higher wages and again from a larger EITC subsidy.

## Conclusion

Congress' refusal to raise the minimum wage has pushed the wage's buying power to its lowest point since 1955. In response, North Carolina should consider joining the 19 other states that have set their wage floors above the federal one. A raise to \$6.00/hour would benefit directly 101,000 low-wage workers – the majority of whom are adults. At the same time, such a step would have a minimal impact on business and employment while sending a powerful message that, in North Carolina, hard work pays.

- 1 Jonathan Grossman, "Fair Labor Standards Act of 1938: Maximum Struggle for a Minimum Wage." Official web site of the U.S. Department of Labor. Available at <http://www.dol.gov/asp/programs/history/flsa1938.htm>
- 2 "Questions and Answers about the Minimum Wage." Official web site of the U.S. Department of Labor. Available at <http://www.dol.gov/esa/minwage/q-a.htm>
- 3 *Ibid.*
- 4 Jeff Chapman and Michael Ettlinger, "The Who and Why of the Minimum Wage." Washington, DC: Economic Policy Institute, August 6, 2004, p. 3.
- 5 Calculation by Economic Policy Institute.
- 6 Poverty threshold is from 2005. Full-time, year-round employment equals 2,80 hours/year.
- 7 Author's calculations.
- 8 Alan Berube and Thacher Tiffany, "The 'State' of Low-Wage Workers: How the EITC Benefits Urban and Rural Communities in the 50 States." Washington, DC: The Brookings Institution Center on Urban and Metropolitan Policy, February 2004, p. 2.
- 9 Calculation by Economic Policy Institute.
- 10 Economic Policy Institute, "Minimum Wage Issue Guide." Updated January 2006.
- 11 All descriptive data on North Carolina workers who would be affected by an increase to \$6.00/hour come from an Economic Policy Institute analysis of the 2004 Current Population Survey.
- 12 *Ibid.*
- 13 *Ibid.*
- 14 Estimate prepared by Economic Policy Institute.
- 15 *Ibid.*
- 16 Heather Boushey, "No Way Out: How Prime-Age Workers Get Trapped in Minimum Wage Jobs." Washington, DC: Center for Economic and Policy Research, May 2005.
- 17 Author's calculations based on the 2005 North Carolina Living Income Standard for a family of three (two children, one adult). See John Quintero and Elizabeth Jordan, "Failing Jobs, Falling Wages." Raleigh, NC: NC Budget and Tax Center, 2005.
- 18 Calculation by Economic Policy Institute.
- 19 See note 17.
- 20 *Ibid.*
- 21 See, for example, David Card and Alan Krueger, *Myth and Measurement: The New Economics of the Minimum Wage*. Princeton, NJ: Princeton University Press, 1995.
- 22 See, for example, "Economic Report of the President." Washington, DC: US General Printing Office, February 1999, pp. 111-112.
- 23 "States with Minimum Wages Above the Federal Level Have Had Faster Small Business and Retail Job Growth." New York, NY: Fiscal Policy Institute, March 30, 2006.

---

## North Carolina Justice Center

P.O. Box 28068 ■ Raleigh, NC 27611-8068  
919/856-2176 ■ [elaine@ncjustice.org](mailto:elaine@ncjustice.org)

NONPROFIT ORG. US Postage PAID Raleigh, North Carolina Permit No. 1424
--