Senators Anderson; Johnson, D.E.; Scheid and Dibble introduced--

S.F. No. 3: Referred to the Committee on Jobs, Energy and Community Development.

A bill for an act

relating to employment; increasing the minimum wage; amending Minnesota Statutes 2004, section 177.24, subdivision 1.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2004, section 177.24, subdivision 1, is amended to read:

Subdivision 1. [AMOUNT.] (a) For purposes of this subdivision, the terms defined in this paragraph have the meanings given them.

(1) "Large employer" means an enterprise whose annual gross volume of sales made or business done is not less than $500,000 (exclusive of excise taxes at the retail level that are separately stated) and covered by the Minnesota Fair Labor Standards Act, sections 177.21 to 177.35.

(2) "Small employer" means an enterprise whose annual gross volume of sales made or business done is less than $500,000 (exclusive of excise taxes at the retail level that are separately stated) and covered by the Minnesota Fair Labor Standards Act, sections 177.21 to 177.35.

(b) Except as otherwise provided in sections 177.21 to 177.35, every large employer must pay each employee wages at a rate of at least $5.15 an hour beginning September 1, 1997, at a rate of at least $5.90 an hour beginning July 1, 2005, and at a rate of at least $6.65 an hour beginning July 1, 2006. Every small employer must pay each employee at a rate of at least $4.90 an hour beginning January 1, 1998, at a rate of at least $5.65 an hour beginning July 1, 2005, and at a rate of at least $6.40 an hour beginning July 1, 2006.

(c) Notwithstanding paragraph (b), during the first 90 consecutive days of employment, an employer may pay an employee under the age of 20 years a wage of $4.25 an hour. No employer may take any action to displace any employee, including a partial displacement through a reduction in hours, wages, or employment benefits, in order to hire an employee at the wage authorized in this paragraph.

Sec. 2. [EFFECTIVE DATE.]

Section 1 is effective July 1, 2005.

Senator ..... moves to amend S.F. No. 3 as follows:

Page 2, line 5, after "(c)" insert:

"Notwithstanding paragraph (b), every large employer must pay each tipped employee at a rate of at least $5.15 an hour and every small employer must pay each tipped employee at the rate of at least $4.90 an hour. If a tipped employee does not earn sufficient tips during the employer's pay period to equal the difference between the above stated hourly rate of pay and the current minimum wage for nontipped employees, then the employer must pay that tipped employee an additional amount equal to the difference, bringing that employee's compensation to the current minimum wage rate.

(d)"

Page 2, after line 11, insert:

"Sec. 2. [REPEALER.]

Minnesota Statutes 2004, section 177.24, subdivision 2, is repealed."

Page 2, line 13, delete "Section 1 is" and insert "Sections 1 and 2 are"

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

Senator ..... moves to amend S.F. No. 3 as follows:

Page 1, line 24, delete "$5.90" and insert "$6.10"

Page 1, line 25, delete "$6.65" and insert "$7.00"

Page 2, line 3, delete "$5.65" and insert "$5.85"

Page 2, line 4, delete "$6.40" and insert "$6.75"

Page 2, line 7, strike "$4.25" and insert "$5.15"

Senator Anderson from the Committee on Jobs, Energy and Community Development, to which was referred

S.F. No. 3: A bill for an act relating to employment; increasing the minimum wage; amending Minnesota Statutes 2004, section 177.24, subdivision 1.

Reports the same back with the recommendation that the bill be amended as follows:

Page 1, line 24, delete "$5.90" and insert "$6.10"

Page 1, line 25, delete "$6.65" and insert "$7.00"

Page 2, line 3, delete "$5.65" and insert "$5.85"

Page 2, line 4, delete "$6.40" and insert "$6.75"

Page 2, line 7, strike "$4.25" and insert "$5.15"

And when so amended the bill do pass. Amendments adopted. Report adopted.

....
(Committee Chair)

January 26, 2005..................
(Date of Committee recommendation)

Senate Counsel & Research

G-17 STATE CAPITOL
75 REV. DR. MARTIN LUTHER KING JR. BLVD.
ST. PAUL, MN 55155-1606
(651) 296-4791
FAX (651) 296-7747

JO ANNE ZOFF SELLNER
DIRECTOR

Senate
State of Minnesota

S.F. No. 3 - Increasing the Minimum Wage

Author: Senator Ellen R. Anderson

Prepared by: Chris Turner, Senate Research (651/296-4350) CT

Date: January 21, 2005

Section 1 increases minimum hourly wages in the following manner:

- For large employers (not less than $500,000 annual gross volume), from $5.15 to $5.90 beginning July 1, 2005, increasing to $6.65 July 1, 2006; and

- For small employers (less than $500,000 in annual gross sales), from $4.90 to $5.65 beginning July 1, 2005, increasing to $6.40 July 1, 2006.

Section 2 provides a July 1, 2005, effective date.

CT:vs

SF 003

2002 Minnesota State Survey Results

In the fall of 2002 JOBS NOW commissioned a series of questions on the minimum wage for the Minnesota State Survey. Here are the major findings:

- When asked if the current minimum wage of $5.15 is too high, about right, or too low, 81 percent of all Minnesotans say it is too low—a view shared by 69 percent of Republicans. Only 1 percent of respondents thinks the current minimum wage of $5.15 is too high.

- Less than 1 out of 10 Minnesotans (8.6 percent) know that the state's current minimum wage is only $5.15 per hour.

- Eighty percent of Minnesotans believe that the state's current minimum wage is higher than it actually is.

- When asked whether the minimum wage law should be changed to adjust for inflation, 84 percent of all Minnesotans favor changing the law. This view was shared by 77 percent of Republicans.

Source: JOBS NOW Commissioned Questions from "2002 Minnesota State Survey," Minnesota Center For Survey Research, University of Minnesota, pp. 30-31, Appendix B-2, B-3. MFS 2002 Crossstabs.

SF003

Fourteen States and the District of Columbia with Minimum Wage Laws Above the Current Federal Minimum Wage

*(As of January 1, 2005)**

State	Minimum Wage
Washington**	$7.35
Oregon**	$7.25
Alaska	$7.15
Connecticut	$7.10
Vermont	$7.00
California	$6.75
Massachusetts	$6.75
Rhode Island	$6.75
District of Columbia	$6.60
Illinois	$6.50
Maine	$6.35
Hawaii	$6.25
Delaware	$6.15
Florida**	$6.15
New York	$6.00
[Nevada***]	[$6.15]

* The following state increases go into effect on January 1, 2005: **Illinois** from $5.50 to $6.50; **Vermont** from $6.75 to $7.00; **Florida** from $5.15 to $6.15; **District of Colombia** from $6.15 to $6.60; **New York** from $5.15 to $6.15; **Washington** from $7.16 to $7.35; **Oregon** from 7.05 to $7.25. **Maine's** minimum wage increased went from $6.25 to $6.35 in October 2004.

** **Oregon** and **Washington** index their minimum wages to account for annual increases in the cost of living; **Florida's** minimum wage will also have annual cost of living increases starting in 2006.

***In November 2004 **Nevadans** voted to increase the minimum wage from $5.15 to $6.15, but must vote again in 2006 before the increase will take effect January 1, 2007.

Prepared by Carrie Thomas, JOBS NOW Coalition *January 6, 2005*

SF 003

May 11, 2004

New Research Further Discredits Theory That Raising the Minimum Wage Causes Job Loss

New reports from the Economic Policy Institute deal the final blow to the theory that increases in the minimum wage will cost low-wage workers their jobs.

In one report, "Employment and the Minimum Wage: Evidence From Recent State Labor Market Trends," EPI's Jeff Chapman concludes that a higher wage floor in Alaska, Washington, and Oregon have *not* caused weak labor markets or high unemployment in those states. He finds that:

- Alaska's job growth has been among the strongest in the country since the recession. Alaska's minimum wage is $7.15 per hour.
- Washington's weak labor market has been caused by a sharp decline in manufacturing, a high-paying industry largely unaffected by the minimum wage. Washington's minimum wage is $7.16 per hour.
- In Oregon, increases in the minimum wage have not coincided with increases in the unemployment rate. Oregon's minimum wage is $7.05 per hour.

"No Longer Getting By: An Increase in the Minimum Wage is Long Overdue," makes the case for the need for the Fair Minimum Wage Act of 2004, now under consideration in Congress. EPI's analyses find no evidence that a minimum wage increase to $7.00 would force small businesses to hire fewer workers.

"The theory that job losses inevitably follow minimum wage increases has been tested and found wanting," said JOBS NOW policy director, Carrie Thomas. "Lawmakers at both the state and federal level have run out of excuses for failing to raise the minimum wage."

"Employment and the Minimum Wage" is available at:
http://www.epinet.org/content.cfm/briefingpapers_bp150

"No Longer Getting By" is available at:
http://www.epinet.org/content.cfm/briefingpapers_bp151

Questions? Contact Carrie Thomas
at 651-290-0240 or cthomas@jobsnowcoalition.org

SF003

The Case for a Substantial Minimum Wage Hike for Minnesota

Ann Markusen
Jennifer Ebert (Primary Contact)
Martina Cameron
Project on Regional and Industrial Economics
The Humphrey Institute of Public Affairs
University of Minnesota

March 2004

Over the past three decades, the real value of the minimum wage for Minnesotans has fallen precipitously, from more than $8.25 per hour to $5.15. For many workers with families to support, their earnings at minimum wage now leave them below the poverty line, even when working full-time. It discourages people, especially if they face work-related costs like childcare, from working.

The easiest, fairest, most dignified and cost-effective way to address the growing gap is to increase the minimum wage. Minnesota's minimum wage remains at $5.15 an hour, the national minimum wage floor, despite the fact that many other states with prosperous and comparable economies have raised theirs as high as $7.16. A minimum wage hike could be accomplished by a simple vote of the legislature, would cost the state nothing while increasing tax revenues. It would require negligible administrative costs, because it is applied universally without eligibility screening.

In this article, we present the case for a substantial minimum wage hike for Minnesota, to $7.00 an hour, an increase that would bring workers back to 60% of its past peak value and permit many to reach the basic needs budget. We address who would benefit, how the wage hike would be paid for and the overall impact on the Minnesota economy. We summarize recent minimum wage hikes in other states with economies comparable to Minnesota's, and we compare the minimum wage with the earned income tax credit as solutions for working poverty. We conclude with some thoughts on the political appeal of a minimum wage initiative.

A. The Minimum Wage as a Social Norm

The minimum wage was adopted by Congress to prevent market forces from driving the wages of the least skilled workers down below a level deemed fair. The minimum wage serves as a reference point for wages around it and thus plays an important role in determining the wages of the state's overall workforce, especially for workers with only a high school education and those living in rural areas. It operates as a labor market institution, not a poverty program. This norm has been undermined over the decades by inflation, requiring costly periodic national and state legislative campaigns to raise the minimum level, only partially successfully in restoring it to its long term value.

B. The Beneficiaries of a Minimum Wage Hike in Minnesota

Some 6% to 7% of Minnesota's workers earned a wage below $7.00 in 2001, and another 12% earned between $7.00 and $8.44. Workers in both groups would enjoy wage increases as a result of the proposed wage hike. Conservatively estimating the number of workers in these cohorts, we anticipate that at least 539,000 Minnesota workers, or 19%, would benefit from a minimum wage hike. So would an unknown number of workers in the informal sectors who are also receiving wages at or below these levels.

Who currently works at or below the minimum wage? Minnesota's minimum wage workers are more likely to be younger, less well-educated, non-white, female and students than are workers as a whole. Some 73% of minimum wage workers are 20 years and older (Table 1). The group of people most likely to be supporting children, those aged 25 to 54 years old, make up 41%.

Minimum wage workers are more likely to be female than male (63%), and they are less well educated, with 55% having a high school diploma or less. According to the Minnesota Department of Industry and Labor's *Minnesota Minimum-wage Report, 2002,* nearly half are employed in out-state Minnesota, which accounts for 38% of the total workforce.

Some critics contend that most minimum wage workers are students, teenagers and without dependents and thus not deserving. But many young people spend a considerable number of post-education years in jobs where they make within $1 of the minimum wage, and a surprising number of older workers rely on jobs paying at or near the minimum wage.[1] To dismiss some workers, because they are young or living with their parents or single, as unworthy of a minimum wage hike is akin to the now discredited notion that women should be paid lower wages than men for the same work because their earnings are "pin money" for their families. Since the current minimum wage for a full time worker is just above the poverty line for one person but inadequate to cover a basic needs budget, there is no reason to treat any worker as undeserving. Many sons and daughters in poor families are making substantial contributions to household income. Furthermore, young workers need an adequate wage to help them build independent lives, buy used cars to reach work, invest in homes and pursue educations to increase their lifetime earnings capability.

---

[1] Carrington, William J. and Bruce Fallick. 2001. "Do Some Workers have Minimum Wage Careers?" *Monthly Labor Review,* (May): 17-27.

C. By Occupation and Industry

By occupation, some 68% of Minnesota's minimum wage workers are concentrated in service, sales and administrative support roles. Food service workers, including cooks in restaurants and institutions, fast food cooks, food preparation workers, counter attendants, wait staff, bartenders, and dishwashers, account for 33% of Minnesota workers at or below the minimum wage but smaller shares of those in near minimum wage jobs. We estimate less than 15% of workers in occupations with a median wage of less than $8.75 an hour in Minnesota are in occupations where they make tips.

Minimum wage workers are not evenly distributed throughout Minnesota industries. Most of the state's industries pay at least 95% of their workers more than the minimum or near minimum wage. Minimum wage workers are quite concentrated in a few sectors, with service-producing industries accounting for 89% (Table 2). Within the service industries, eating and drinking places account for 31%. Retail trade accounts for another 10%. Health care, education, and social services account for another large group of minimum wage workers, 38.1%. Firms in these industries range from the largest in the nation – the Wal-Marts, Hyatts, and MacDonalds – to small mom-and-pop shops and franchises.

D. Who Will Bear the Cost of a Minimum Wage Hike?

A minimum wage hike would pump hundreds of millions of dollars into low-wage workers' paychecks each year. For most employers, the impact on total business costs and consumer prices would be small, since the lion's share of their costs consists of materials (food, gasoline, films, other consumer goods inputs), rent, utilities and taxes. Furthermore, since the increase would affect only those currently at substandard wages, the increase in the total wage bill in each industry would be modest, even for those with high shares of minimum wage workers. A study by the Center for Urban Economic Development a the University of Illinois at Chicago, *Raising and Maintaining the Value of the State Minimum Wage: An Economic Impact Study of Illinois,* estimates the impact of a recent $1.35 minimum wage hike in Illinois as highest for food and drinking establishments, where total payroll will rise 3.4% and total costs much less than that. For the state as a whole, the wage increment is less than 1% of current wages.

Although employers will in the first instance pay these higher payroll costs, the ultimate burden depends on employer responses to the minimum wage increase. Employers may raise prices for products and services, increase productivity, redistribute profits between workers and owners and/or lay off workers by downsizing or shifting work out of the state. Evidence from a large number of studies finds that most employers successfully pass on minimum wage hikes to consumers. Heavily impacted sectors are chiefly local serving, meaning that sales are highly localized and customers reside within the state. Thus a higher state minimum wage would affect all competitors equally and make it easy for them to raise prices accordingly. Such increases would be borne by consumers across the income spectrum and amount to a very small increase in product or service price.

E. Will a Higher Minimum Wage Cause Unemployment?

If employers cannot raise prices, improve productivity or pay for wage hikes out of excess profits, they are likely to lay off workers or relocate. However, relocation out of the state will be negligible, due to the nature of industries relying on minimum wage workers. To swallow the cost of moving out of state, an employer would have to 1) serve a customer base not closely tied to the state and 2) face a significant increase in operating costs as a result of the wage hike. As we have shown above, the industries with the largest exposure to low wages are those with a customer base tied to localities and markets within the state. Firms more apt to be independent of local demand, such as manufacturing, wholesaling and business services, have rather low exposure. Furthermore, unless a firm already has operations elsewhere to which to shift work, it is unlikely to make major capital expenditures to avoid a small increment in labor costs.

What about downsizing in place? The evidence is mixed but suggests little or no impact. Studies on individual industries find that even in the most vulnerable, e.g. fast food, industries, net employment effects are positive or at least neutral, rather than negative.[2] No evidence of state-wide employment loss or job growth slowdown for high risk industries has been found in

---

2 In a seminal study of the impact of a substantial 1992 minimum wage hike ($4.25 to $5.05) on franchise fast food establishments in New Jersey, Card and Krueger (1994, 1995) found positive rather than negative employment effects. Their findings were challenged by Neumark and Wascher (2000a), who compared New Jersey fast food establishments to those in Pennsylvania, a state that did not raise its minimum wage in the same period, finding higher employment growth in the latter. Their sample was, however, challenged by Card and Krueger (2000), who improved and re-calibrated their own model and found that the increase in question "probably had no effect on total employment in New Jersey's fast-food industry and possibly had a small positive effect" (p. 38).

response to individual states' adoption of higher minimum wages.[3] One study found a slight employment decline among teenagers following minimum wage hikes.[4] But this could result from target income behavior by young people, who work just enough hours to cover necessary costs. Paying higher wages to young people may actually increase the numbers of hours they devote to schoolwork.

The employment impact of a minimum wage hike could well be positive and significant. Most studies of employment changes following a minimum wage hike do not take into account multiplier or spatial effects. Several arguments can be made about how a minimum wage hike works its way through a regional economy, creating more jobs than studies to date have tracked, especially in poorer neighborhoods and rural areas.

First, there is the multiplier effect. A minimum wage hike to $7.00 in Minnesota would result in hundreds of millions of dollars in additional sales for Minnesota businesses. Lower income workers are more apt to spend higher shares of their wages rather than to save them, in what economists call "the marginal propensity to consume." When these increments are spent within

---

3 Baiman, Ron, Marc Doussard, Sharon Mastracci, Joe Persky, and Nik Theodore. 2003. Raising and Maintaining the Value of the State Minimum Wage: An Economic Impact Study of Illinois. Chicago: Center for Urban Economic Development, University of Illinois at Chicago, March. http://www.uic.edu/cuppauicued/. This study controls for other factors such as overall economic growth rates and average state wage rates, isolating the effect of changes in minimum wages.
4 Burkhauser, Richard, Kenneth Couch and David Wittenberg. 1996. "Who Gets What from Minimum Wage Hikes: A Re-estimation of Card and Krueger's Distributional Analysis in Myth and Measurement: The New Economics of the Minimum Wage." Industrial and Labor Relations Review. Vol. 49, No. 3: 547-552.. Their results differ from previous studies because of differing assumptions made about macro-economic performance.

the state, they generate sales for and create new jobs in other state businesses. They may do so quickly, circulating these dollars faster in the area economy. Historically, regional economists have found income multipliers to be in the range of 1.5 to 2.5 for a state the size of Minnesota. In other words, for every dollar earned from minimum wage hikes, $1.50 to $2.50 of total income will be generated in the state economy. Of course, if other consumers face higher prices and business owners' income is diminished, lower spending by these groups will act as a drag. However, the costs to latter are more apt to come out of savings rather than consumption. The net result is that the multiplier effect for low wage increases are likely to be higher than for other forms of economic stimulus or for the status quo, thus creating additional jobs in the economy.

Second, there is the spatial effect. Low-wage workers are more apt to spend their dollars locally than are higher wage workers. Large spending categories include food, rent, health care, financial services, used cars and public transportation, most of which will be purchased locally. Low-income workers, to the extent that they are concentrated in inner city neighborhoods and rural areas, are less apt to travel to suburban discount stores to shop, and they are less apt to travel and consume luxury goods that would result in large leakages out of the state economy. Neighborhood and small town food and retail stores and restaurants, in particular, would be likely to see sales increase as a result of a minimum wage hike, even though they may have raised their prices. If so, new jobs would be created. Given considerable class segregation by residence and region in Minnesota, a minimum wage increase is apt to concentrate job gains created through multiplier effects in poorer neighborhoods and rural areas.

F. Longer-term Benefits for The State's Economy

A minimum wage hike prompts short run gains, losses and behavioral adjustments for and by workers, employers and consumers. In the longer run, the dynamic path of a regional economy can be shaped by public policy and by choices made by its chief decision-makers: employers and workers. In an increasingly integrated world economy, companies can compete by pursuing a "high road," in which they invest in skills and technologies that will improve productivity. Or they can compete by striving to lower the cost of doing business by foregoing investments in human and physical capital and pursuing cheaper inputs and labor.

A high road strategy for a state favors economic development incentives that encourage skill acquisition through education and training, entrepreneurship - the start-up and financing of new companies with employment growth prospects, investments in machinery, equipment and research and development in more mature sectors, and better production, management and business practices, all of which contribute to a superior product and service mix and higher productivity.

Would a hike in the minimum wage contribute to a high road strategy? Yes. It would encourage firms to pursue productivity-enhancing strategies and workers to invest in human capital through schooling and other training options. Minnesota has operated in recent decades as a "high road" economy, able to withstand the exodus of low wage manufacturing jobs by replacing them with high-wage manufacturing and service sectors that compete well nationally and internationally. It is admirably high-tech for its size, both in manufacturing and services, and belongs in the class of states, including other high minimum wage states likes Massachusetts, Connecticut, New Jersey, Washington, Oregon and parts of California, that have successfully been able to add jobs and maintain high real incomes.[5]

G. Precedents in Comparable States

Minnesota's minimum wage has remained at the federal level since the last increase in 1997 while 12 states and the District of Columbia have raised theirs well above that (Table 3). Three states, Washington, Oregon and Illinois, provide good comparisons with Minnesota in modest cost of living, relatively strong, diversified economies and pursuit of "high road" growth strategies. Each has recently raised the minimum wage to $6.50 or above, either through legislative action or popular vote. The City of San Francisco recently adopted an $8.00 an hour minimum wage.

An increase to $7.00 in Minnesota, 36%, would not be out of line with increases elsewhere. State increases have ranged from 25% to 35% and are phased in over at most two years. In 1996, California added a minimum wage hike onto the federal increase for a joint increase of 35% over the period 1996–98. Washington's hike amounted to 30% over the period 1999–2001. Oregon's minimum wage increased 27% between 1997 and 1999 and another 6% in 2003. Illinois raised its minimum wage 26% in one fell swoop.

[5] Markusen, Ann and Greg Schrock. 2003. "Regional Job Growth through an Occupational Lens." Working Paper #256, Project on Regional and Industrial Economics, the Humphrey Institute, University of Minnesota, September.

H. The Minimum Wage compared with the Earned Income Tax Credit

The minimum wage and the working family tax credit (WFTC), Minnesota's version of earned income tax credit (EITC) are two powerful tools that the state can use for improving the standard of living for poor families and individual workers. Both have the advantage of requiring minimal enforcement, screening or administrative costs compared with other poverty programs. The WFTC is more closely targeted to family poverty alleviation than is the minimum wage. Some 44% of families eligible for the EITC nationally live below the poverty level, while only 19% of the benefits of a minimum wage increase go to workers below the poverty line.[6]

Two points can be made however, regarding the disadvantages of the WFTC and the inadvisability of relying upon it as the major means of raising living standards. First, the take-up rate for the WFTC is somewhere around 80%, good for a welfare program but still leaving substantial numbers of people behind. Few people receive it in a timely fashion, because they do not withhold through the year. Many are embarrassed to reveal to their employers their eligibility. Furthermore, on average, 5% of the WFTC is used to pay for preparing complicated tax forms. In contrast, the minimum wage is easy to implement, and the full value goes to the worker as it is earned throughout the year.

[6] Turner, Mark D. and Burt S. Barnow. 2003. "Living Wage and Earned Income Tax Credit: A Comparative Analysis." The Employment Policies Institute, www.EPIonline.org. January; Burkhauser, Richard, Kenneth Couch and David Wittenberg. 2000. "A Reassessment of the New Economics of the Minimum Wage Literature with Monthly Data from the Current Population Survey." *Journal of Labor Economics,* Vol. 18, No. 4.

Second, if the WFTC is increasingly resorted to as a low wage supplement, the public sector will bear the cost. The WFTC is a tax expenditure - not a direct appropriation but spending in the form of foregone taxes. It is, in short, a welfare program. This means that the state governments must either spend less on something else or raise taxes. In contrast, an increase in the minimum wage, as discussed above, is paid for by higher prices, induced productivity gains and lower business profits. If the real minimum wage continues to lose value due to inflation and the WFTC has to take up the slack, taxpayers and citizens will have to shoulder a larger share of the burden. Over time, the WFTC would grow in size as a supplement to the increasingly low salaries of workers at minimum-wage-paying businesses and is thus an unreasonable subsidy to these businesses and their consumers.

In fact, the WFTC and the minimum wage are not so much alternatives as complements for raising standards of living. A full-time, year-round single minimum wage worker is boosted above the poverty level by the WFTC, but a full-time minimum wage worker supporting several family members lives below the poverty line even after taking into account the effects of the EITC and WFTC (see Table 4). Neither makes it anywhere near the basic needs budget. Low-income families are best served by a combination of the WFTC and a minimum wage adjusted for inflation. The WFTC loses its effectiveness over time if the minimum wage is not adjusted to account for inflation.

I. The Politics of the Minimum Wage

A minimum wage increase is primarily a strategy for combating growing income inequality and improving the economic well-being of the working poor and working class Minnesotans, two groups who have experienced the greatest wage erosion over the past twenty years. Some 48% of the benefits of a higher minimum wage go to working families whose income is between one and three times the poverty line,[7] thus enabling many of them to reach the Jobs Now basic needs budget. Since these households and individuals are more apt than the poor to hold full-time, full-year jobs, the impact for them is magnified. These are working Minnesotans widely reported to be politically disaffected. A minimum wage campaign would help bring them back into the political arena. Minimum wage hikes have enjoyed strong bi-partisan support in Minnesota in the past.

Politically, there are good reasons to pursue growth and justice through a higher minimum wage. As Timothy Bartik of the Upjohn Institute for Employment Research puts it:

> Focusing on the poor may not be the best political strategy for reducing poverty. A focus on the poor may elicit less support from the many non-poor who believe themselves immune from poverty. Focusing on the poor's problems may imply that the solutions to poverty come from the poor changing their character and skills.
>
> A political strategy to reduce poverty may be more successful if it focuses on institutional or social conditions that affect the well-being of many lower-middle class and working class groups, not just the poor. Wage rates are one such issue.[8]

---

[7] Burkhauser, Richard, Kenneth Couch and David Wittenberg. 1996. "Who Gets What from Minimum Wage Hikes: A Re-estimation of Card and Krueger's Distributional Analysis in *Myth and Measurement: The New Economics of the Minimum Wage*." *Industrial and Labor Relations Review*. Vol. 49, No. 3: 547-552.

[8] Bartik, Timothy. 2002. "Thinking about Local Living Wage Requirements." Staff Working Paper No. 02-76. Kalamazoo, MI: W. E. Upjohn Institute for Employment Research, March.

In addition, since the largest shares of workers affected are in relatively young age cohorts, an increase in the minimum wage, especially given a highly publicized public debate about it, will help to bring younger workers, whose voting participation and civic engagement are low, into the political arena.

The Case for a Substantial Minimum Wage Hike for Minnesota

Author Biography and End Comments

Ann Markusen

Ann is Director of the Project on Regional and Industrial Economics and a Professor at the University of Minnesota's Humphrey Institute of Public Affairs. Her teaching and research focuses on occupational approaches to regional development and on the arts, high tech and defense activities as regional economic stimulants.

Jennifer Ebert

Jennifer is a research assistant and graduate student at the Humphrey Institute of Public Affairs. She is pursuing a Master of Public Policy with a concentration in Community and Economic Development.

Martina Cameron

Martina is a research assistant and graduate student at the Humphrey Institute of Public Affairs. She is pursuing a Master of Public Policy with a concentration in Community and Economic Development.

This research was conducted at the request of Growth & Justice and Jobs Now, with consultation with Joel Kramer, of Growth & Justice, and Kris Jacobs and her co-workers of Jobs Now. Our research is supported by a grant from the Center for Urban and Regional Affairs, University of Minnesota, and by in-kind faculty and staff salary support from the Humphrey Institute of Public Affairs. We would like to thank Timothy Bartik, Jared Bernstein, Jeff Chapman, Don Fraser, Jeff Johnson, Mustapha Hammida, Don Hirasuna, Matt Kane, Joel Kramer, Kris Jacobs, Larry Jacobs, Steve Lanning, Robert Lynch, David Neumark, Eric Parker, Joe Persky, Robert Pollin, Kevin Ristau, Art Rolnick, Greg Schrock, Charles Sheketoff, Nik Theodore, Carrie Thomas, Jeff Thompson, Marilyn Watkins, Jeanette Wicks-Lim for helpful feedback and criticism.

Please note: All tables were created in excel. They are located in the separate file titled "Minimum Wage Brief Tables".

Table 1. Characteristics of Minimum and Near-Minimum Wage Workers in Minnesota, 2002

	Percentage earning at or below $5.15	Percentage earning between $5.15 and $6.15
Number in Workforce	56,000	61,000
Percent of Workforce	2.3	2.6
Gender		
Male	37.5	39.3
Female	62.5	62.3
Age		
16 - 19	26.8	41.0
20 and older	73.2	60.7
Marital Status		
Married	32.1	24.6
Other	66.1	75.4

Source: Anderson, David, David Berry and Haeil Jung. 2003. *Minnesota Minimum-wage Report, 2002*. Minnesota Department of Labor and Industry, Research and Statistics, April. http://www.doli.state.mn.us/pdf/2002minwage.pdf

Table 2. Minimum Wage Workers by Industry in Minnesota, 2002

Industry	% employees at or below $5.15/hour	as % of all workers at or below $5.15/hour
Eating and drinking places	13.5	30.5
Agriculture	5.1	3.2
Social services	4.9	6.6
Other services	3.3	20.3
Other retail trade	2.1	10.4
Educational services	1.8	6.8
Finance, Insurance, and real estate	1.3	4.1
Health services	1.0	4.5
Transportation, communication and utilities	1.0	2.9
Construction	1.0	2.3
Wholesale trade	0.9	1.7
Public Administration	0.9	1.3
Mining	0.9	0.1
Manufacturing	0.7	5.3

Source: Anderson, David, David Berry and Haeil Jung. 2003. *Minnesota Minimum-wage Report, 2002*. Minnesota Department of Labor and Industry, Research and Statistics, April. http://www.doli.state.mn.us/pdf/2002minwage.pdf

Table 3. States with Minimum Wages Above the Federal Wage

State	Minimum Wage ($), 2003	Cost of Living Index, 2002
Delaware	6.15	*
Alaska	7.15	128
California	6.75	131
Connecticut	6.90	126
District of Columbia	6.15	138
Hawaii	6.25	155
Illinois	6.50	101
Maine	6.25	*
Massachusetts	6.75	127
Oregon	6.90	107
Rhode Island	6.15	*
Vermont	6.25	*
Washington	7.01	102
Minnesota	5.15	103

Source: U.S. Department of Labor, Missouri Economic Research and Information Center
* Not available

Table 4: Family Income Levels with by Minimum Wage with EITC, 2001 ($)

	Gross Earnings	Federal EITC	25% State EITC	Net Income	Jobs Now Basic Needs	Federal Poverty Line
Single Worker						
Half-time minimum wage	5,350	364	91	5,805	23,640	8,590
Full-time minimum wage	10,700	54	14	10,768	23,640	8,590
Family of three, 1 child						
Half-time minimum wage	5,350	1,819	455	7,624	27,828	14,100
Full-time minimum wage	10,700	2,428	607	13,735	27,828	14,100
Family of four, 2 children						
Half-time minimum wage	5,350	2,140	535	8,025	34,152	18,100
Full-time minimum wage	10,700	4,008	1,002	15,710	34,152	18,100

Sources:

Jobs Now Coalition. 2003. "The Cost of Living in Minnesota Wage and Budget Calculator." http://www.jobsnowcoalition.org

Johnson, Nicholas. 2001. "A Hand Up: How State Earned Income Tax Credits Helped Working Families Escape Poverty in 2001." Center on Budget and Policy Priorities. http://www.cbpp.org/12-27-01sfp.pdf

U.S. Department of Health and Human Services. "The 2001 HHS Poverty Guidelines." http://aspe.hhs.gov/poverty/01poverty.htm

Colorado Fiscal Policy Institute. 2002. "Colorado Earned Income Tax Credit." http://www.cclponline.org/cfpi/eitc2002.pdf