
Update on Minimum Wage Analysis: Selected Background Data and Observations on Work in Progress

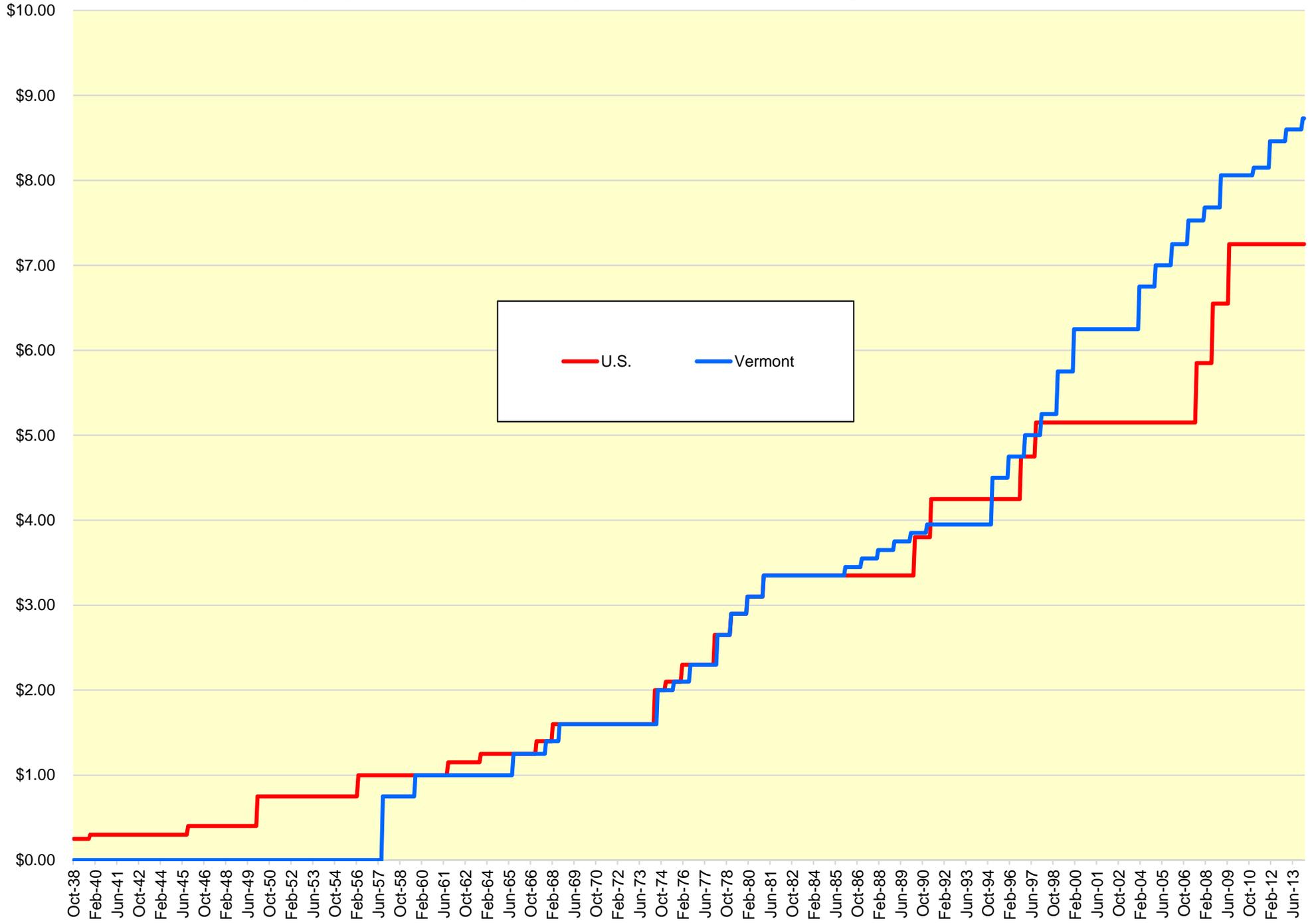
Prepared for the House Committee on
General, Housing and Military Affairs
State of Vermont

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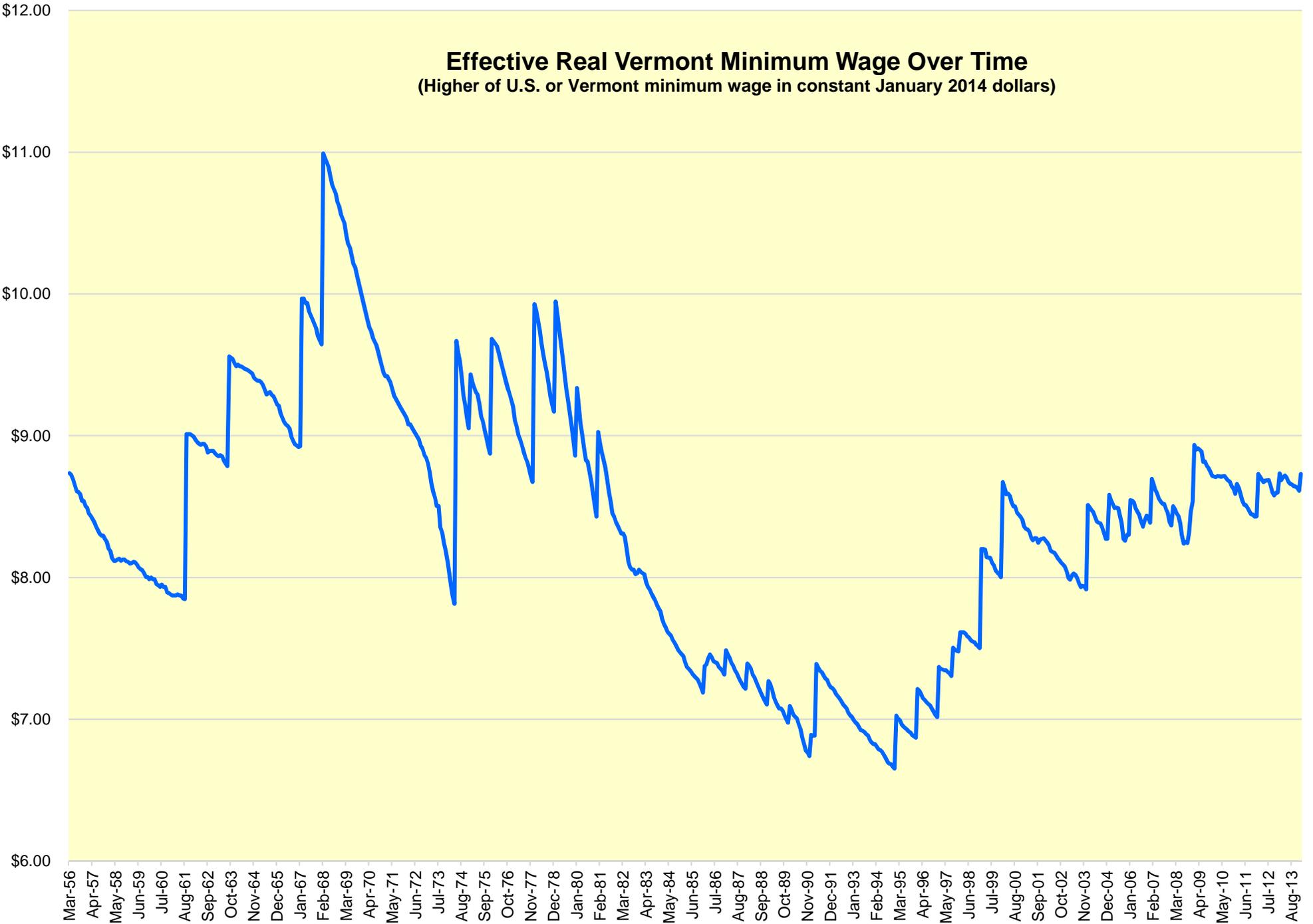
February 26, 2014

U.S. (red) and Vermont (blue) Nominal Minimum Wage Rates Over Time



Effective Real Vermont Minimum Wage Over Time

(Higher of U.S. or Vermont minimum wage in constant January 2014 dollars)



Act 21 Research and Analysis for the Legislative Livable Income Study Committee

Part I: Executive Summary, November 2, 1999

Introduction

Act 21 specifies a wide range of research and analysis associated with the issue of a “livable wage” in Vermont and related State public policy options. These analytic and research goals are detailed in Act 21, Section 2, and have been amplified and expanded in Draft 2.0 of the “Livable Wage Committee Discussion Document” and verbal Committee instruction since July 16, 1999. This research and analysis has been conducted under the direction of the Legislative Livable Income Study Committee, Chaired by Representative Barbara Postman.

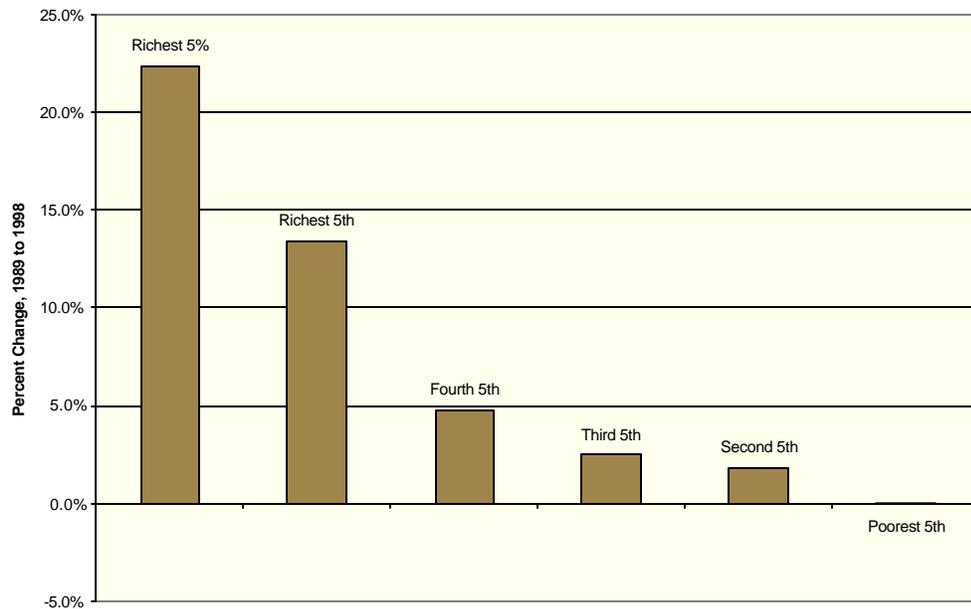
This report is organized into three sections: Part I) An executive summary containing primary findings and recommendations; Part II) A more detailed discussion of the 20 issues and related questions outlined in the research Scope of Work; and Part III) Appendices containing more technical material associated with source data, methodological and analytic output.

Background

The decade of the 1990s has witnessed unprecedented growth in aggregate U.S. income, wealth and prosperity. The economic expansion we are currently enjoying will soon be the longest in recorded U.S. economic history. These stellar aggregate measures of economic progress, however, mask a dramatic shift in the distribution of income and wealth over the past 20 years that has effectively excluded tens of millions of Americans from these gains.

Since about 1980 the distribution of income and wealth has become increasingly unequal and is now more so than at any time since World War II. The average income of the richest 5% of the population in 1981 was 14.7 times higher than that of the lowest 20% of the population. It is now 24.1 times higher. The U.S. Census Bureau recently reported that not until 1998 did real U.S. median household income exceed 1989 levels. Unfortunately, for the poorest 20% of the population, real average income as of 1998 was still below 1989 levels.

Growth in Real Household Income Since 1989



Source: U.S. Census Bureau

This stark divergence in income growth (*which excludes capital gains income*), is even more pronounced with respect to wealth. As of 1995, booming stock market values had pushed the share of total U.S. net worth owned by the wealthiest 1% of the population above 35% for the first time since the Federal Reserve Board began collecting comparable statistics in 1963. Statistics for 1998, which will be released soon, are likely to show an even greater concentration of wealth.

There are many possible causes of this polarization of economic fortunes, including economic globalization, public policy changes and technological change, none of which point toward a reversal of this trend anytime soon. This reality may pose important economic, social and political challenges to lawmakers in the years to come.

With wages and earnings of low income workers lagging well behind the economy as a whole, one pressing issue that has arisen is that low income workers are finding it increasingly difficult to earn a decent living, despite full time work. This issue is the focus of the Livable Income Study Committee and this analysis.

A Livable Income in Vermont

The Committee began its work with a definition of exactly what a “livable income” is in Vermont. A livable income is defined as an annual family income that is required to meet essential human needs, consistent with a decent standard of living.

Livable income levels differ for families, based on where they live, whether and how many children they have, whether they receive employer-assisted health care, and the number adults working in the family. With direction from the Livable Income Study Committee, “basic needs budgets” were constructed for 6 family configurations (which encompass more than 90% of all low income families in the state) for both rural and urban locations, with and without employer assisted health care.

These basic needs budgets are based on minimal costs for essential items such as food, housing, medical insurance, transportation, child care, clothing, telephone and a small provision for savings and personal expenditures. As detailed in Part II, Tables 1B-G, these budgets include no frills. For example, the USDA “moderate” food plan used in the budgets assumes a food allowance for a female, age 20 to 50, of \$38.10 *per week* - about the same as the \$37 *per day* maximum food allowance for Vermont legislators.

Unlike aggregate U.S. cost of living measures, such as the Consumer Price Index or various GDP deflators, the basic needs budgets used herein are specific to Vermont and based only on the costs of essential needs. They represent a standard of decency below which no working Vermont family should fall.

We estimate that about 60,000 Vermonters currently live in a family where at least one adult works full time and does not earn a livable income. This represents about 10% of all families in Vermont.

The Minimum Wage and a Livable Wage

A corollary to a livable income is an hourly wage rate that would generate a livable income, assuming full-time, year-round employment, without public assistance. This wage rate is referred to as a “livable wage.”

From an historical perspective, the first U.S. minimum wage, enacted in 1938, was originally envisioned as a livable wage. As Franklin Roosevelt stated, in urging passage of this legislation:

“No business which depends for its existence on paying less than living wages to its workers has any right to continue in this country. By living wages, I mean more than a bare subsistence level – I mean the wages of a decent living.”

There is no single livable wage for all Vermonters. Characteristics such as family size, geographic location, the presence of employer health benefits, etc., all affect how much a family must earn to provide basic needs. Livable wage rates currently run from a low of \$8.10/hour for two working adults with no children located in an urban area, with employer assisted health care, to a high of \$23.68/hour for a single working parent with two children in an urban area, with no employer assisted health care. A weighted “average” livable wage for Vermonters would probably be about \$12.00/hour.

A portion of this research and analysis examined the possibility of raising the Vermont minimum wage towards a level consistent with a minimum livable wage. Accordingly, we estimated a range of economic and fiscal impacts associated with hourly minimum wage increases to \$6.50, \$7.50 and \$8.50.

We find that a minimum wage increase to \$6.50 or \$7.00/hour, would probably have negligible, if any, negative aggregate economic consequences and could be an important component in advancing some of the lowest income workers towards a livable income. We also find, however, that Vermont’s use of the minimum wage to achieve anything close to an “average” livable wage has serious drawbacks that limit its efficacy in achieving the overall objective of a livable income for all working Vermonters.

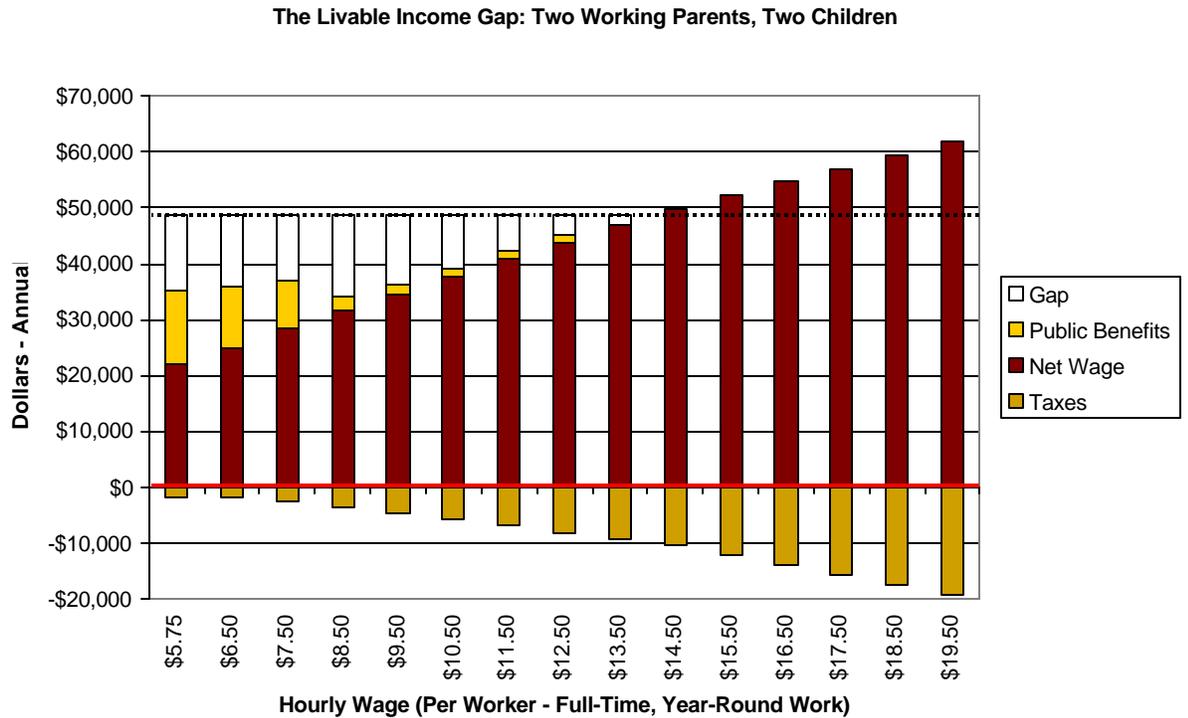
These drawbacks are associated with three important findings:

- 1) Earned income growth among the lowest income workers can result in precipitous state and federal public benefit reductions, substantially offsetting and in some cases completely negating gains in net family income. This may leave some low income families with little or no economic gain and can also result in economic costs to the state from the loss of inflexible federal transfer payments.
- 2) Federal (especially) and State income taxes consume a significant proportion of marginal income well below livable income levels. These high marginal tax rates in tandem with public benefit reductions sap work incentive and delay achievement of a livable income.
- 3) Minimum wage increases that even approach an average livable wage would result in significantly fewer jobs for low wage workers. A substantial increase in the relative cost of labor will result in a reduction in the amount of labor used. This occurs both from incremental reductions in hours and jobs within firms continuing or beginning operation in the State, and the elimination or relocation out-of-State of other firms. A state can mandate the minimum wage an employer must pay, but it cannot mandate the minimum number of workers an employer hires or the minimum number of hours they work. A small state such as Vermont cannot expect to sustain a pronounced variation with the U.S. minimum wage without counterproductive economic consequences.

These findings suggest the need for a range of coordinated policy actions associated with taxes, public benefits, Federal initiatives, economic development, health care, education and job training, and minimum employer standards to address the gap between existing income levels and livable incomes.

The Livable Income Gap

Some of the interactions associated with achieving a livable income are illustrated in the below chart. It is an example, based on a Vermont family consisting of two working adults and two children, of how some of the major components affecting net income, taxes, and public benefits interact at various wage levels and how they relate to a livable income.



The dotted black line marks the livable income level for this family configuration. The white gap at the top of the bars represents the gap between a livable income and actual income based on full time work for both parents at various wage levels. The lightly shaded (orange) section below the gap represents the cash value of all state and federal public benefits available at various wage levels. The dark (red) section represents earned income after taxes. The combination of after tax income and public benefits constitutes net income. The section shaded with diagonal lines represents income-based taxes (including social security and Medicare payments, expressed as a negative number). These do not include

excise taxes such as sales, gasoline or beverage taxes. Detailed charts similar to the above are contained in Part II of this report for various family configurations and public benefits components.

State governments can take action to close the livable income gap in three general ways:

- 1) Increase earned income through minimum wage legislation, high quality education, job training and focused economic development policies;
- 2) Decrease livable income thresholds by lowering or eliminating taxes until a livable income is achieved, and encouraging private benefits such as health care, child care and transportation assistance; and
- 3) Increase and simplify public benefits to Vermont workers in ways that preserve incentives to work, insure that benefits reach those in need, and relate to a livable income.

Other Findings and Recommendations

Other primary findings and recommendations for Committee discussion and review are summarized below. More complete analyses and discussion of these recommendations and the findings which led to them are contained in Part II of this report.

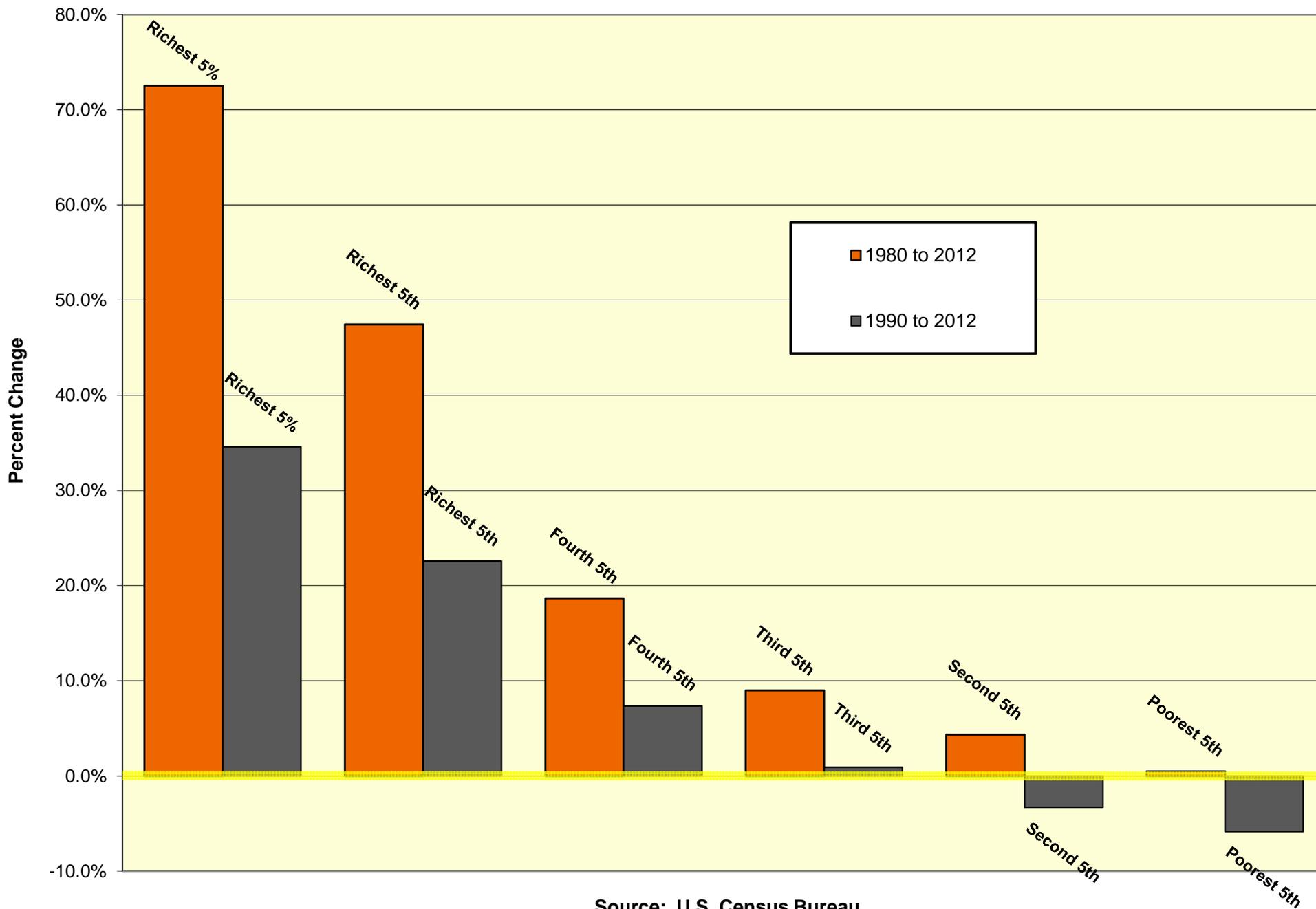
- Establish formal Vermont basic needs budgets and regularly update and expand these to include all family configurations. These budgets should be used to establish Vermont livable income levels and should inform tax, welfare and other policy considerations.
- Consider raising minimum State taxable income levels, consistent with livable income levels. State (and federal) income and other taxes should not act as a disincentive to work and should not take away earned income until a livable income has been achieved. Consider State excise tax credits for working families who do not earn a livable income. These tax levels should be adjusted each year in accordance with Vermont-specific basic needs budgets.
- Coordinate all public benefits programs, including ANFC, Medicaid, VHAP, Food Stamps, Dr. Dynasaur, Section 8 and other housing assistance, Child Care, Renter Rebates, Telephone Lifeline, EITC's, etc., so as to remove identified benefits "cliffs" and insure that work incentives are preserved as wages rise.
- Coordinate minimum wage increases with State policies to insure that a maximum amount of state and federal tax savings from higher taxes and lower transfer payments be returned to low wage workers and/or retained in the state. These

policies should address both potential reductions in Federal transfer payments and increased Federal income tax payments. They may include:

- Policy coordination with the Agency of Human Services and careful public benefits program modifications to insure that federal transfer payments are maximized;
 - Possible State coordination and/or employer assistance in maximizing the use of tax-free employer benefits such as health care, child care, and transportation assistance in lieu of taxable income; and,
 - Possible expansion of the State EITC as a mechanism for maintaining incentives to work.
-
- Establish a formal dialog with all Vermont Federal Congressional members and their staffs to convey the findings of this study and explore possible Federal pilot programs and Federal legislation to be coordinated with State policy changes. A great deal of the work disincentives and loss of net income from wage increases stem from existing Federal tax and welfare policies. State policies must be designed and coordinated in the context of these Federal policies. As a small state, Vermont citizens have exceptional access to their Congressional representatives and may be better positioned to experiment with Federal pilot programs since Federal impacts would be relatively small.
 - Develop and maintain essential statistical and analytic information necessary to regularly evaluate State minimum wage changes and related policy options. Regularly review and analyze income and wage distribution data within the State. This includes development and maintenance of an IRS-based Analytic Income Tax Database housed in the State Tax Department, additional DET survey data, and critical follow-up studies to measure various impacts of minimum wage increases and related policy actions in Vermont.
 - The real (inflation-adjusted) effective minimum wage for Vermonters has declined over the last 30 years from a high of about \$7.85 (in today's dollars) in 1968 to a low of about \$4.75 in 1994, to it's current level of \$5.75. While we do not unanimously recommend automatic minimum wage indexation, it is essential that minimum wage changes and exclusions be reviewed annually, in light of growth in basic needs budgets, local information on changing wage distributions, Federal changes in the minimum wage, other state minimum wage changes (especially in surrounding states), and analysis of relevant economic conditions.
 - Special attention should be given to policy issues affecting families with children. There are many human issues associated with this analysis that do not lend themselves to easy quantification and may take many years to be fully recognized. Many of these relate to the needs of workers with children. Such workers are often required to perform two jobs: one that earns sufficient income to survive and one of being a responsible parent. There are tremendous social and public costs to requiring parents to sacrifice the latter for the former. Public policy should pay particular attention to the time requirements associated with parenting and not ignore the real costs of parental neglect. Child care benefits should be adjusted to avoid rapid loss of benefits with income gains, and consideration should be given to more expansive tax credits for working families with children.

- Consider creation of a tiered minimum wage that allows application of some or all of the cash value of employer benefits against a stated minimum wage.
- Evaluate the relative effectiveness of various economic development and workforce training programs and coordinate these with wage and tax policies.
- The use of temporary, part-time and contract workers has significantly increased over the past 20 years. Most employment and labor laws, however, focus primarily on the interests of regular full-time workers. We recommend a thorough assessment of these laws to insure they adequately protect the large and growing number of nonstandard work arrangements, with specific attention to the extension of pro-rated benefits for part-time and temporary workers.

Growth In Real Household Income, By Income Class 1980 to 2012 (Orange) and 1990 to 2012 (Grey)



Source: U.S. Census Bureau

Vermont Profile of Lower Wage Jobs and Workers

Low Wage Jobs in 2012

86,373 estimated number of jobs under \$12.50
29% of all jobs in Vermont

40,598 estimated number of jobs under \$10.00
14% of all jobs in Vermont

Top 6 Industries with Jobs Under \$12.50

- 25% Retail Trade
 - 19% Accommodations & Food Service
 - 17% Health Care & Social Assistance
 - 9% Educational Services
 - 7% Manufacturing
 - 5% Admin and Waste
- 82%** of all jobs under \$12.50/hr.

Top 6 Industries with Jobs Under \$10.00

- 31% Retail Trade
 - 26% Accommodations & Food Service
 - 11% Health Care & Social Assistance
 - 8% Educational Services
 - 4% Admin and Waste
 - 5% Manufacturing
- 85%** of all jobs under \$10.00/hr.

Gender Shares Under \$12.50

45% Male
55% Female

Gender Shares Under \$10.00

44% Male
56% Female

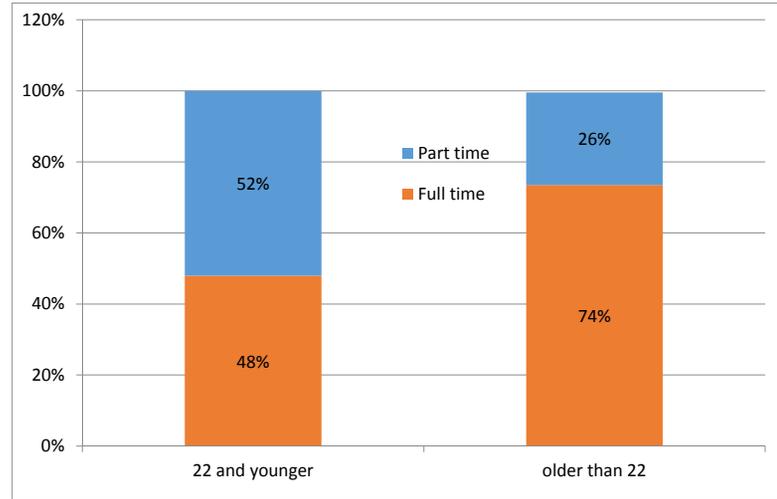
Low Wage Job Distribution

- 19% Minimum Wage - \$8.99
- 28% \$9.00 - \$9.99
- 22% \$10.00 - \$10.99
- 22% \$11.00 - \$11.99
- 9% \$12.00 - \$12.49

100% of all jobs paying less than \$12.50

For Workers Earning Less than \$12.50,

48% of Age 22 and Younger Workers are Full Time
74% of Workers Older than 22 are Full Time



Of All Workers Earning Less than \$10.00,

53% of earn more than 1/2 of family income

47% are in families with income below \$30,000
13% are in families with income \$30,000-\$40,000
60% are in families with income below \$40,000

19% are under the age of 22
80% are older than 22
59% are older than 30

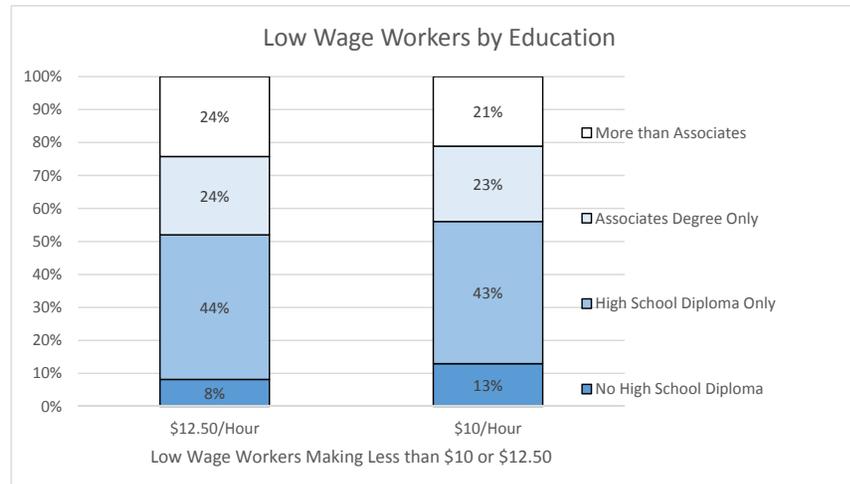
Of All Workers Earning Less than \$12.50,

56% of earn more than 1/2 of family income

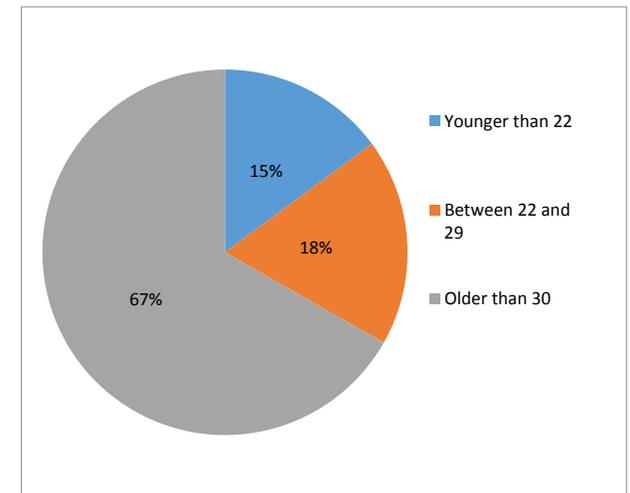
48% are in families with income below \$30,000
10% are in families with income \$30,000-\$40,000
58% are in families with income below \$40,000

15% are under the age of 22
85% are older than 22
67% are older than 30

Educational Attainment of Low Wage Workers



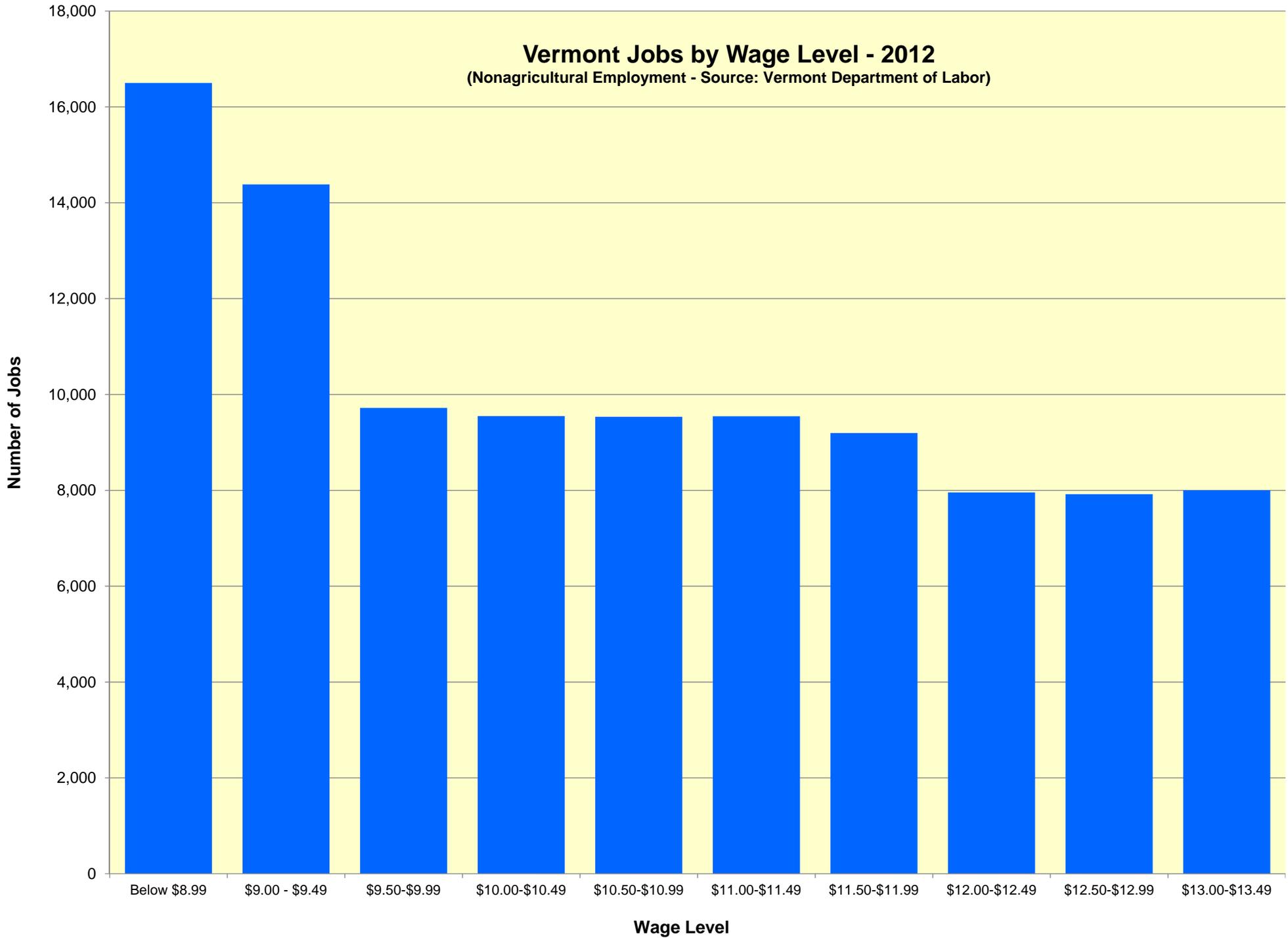
Age of Workers Earning Less than \$12.50



Sources: Vermont Department of Labor - 2012 data; Pooled Adjusted 2011-2013 CPS Microdata for Vermont; Vermont Joint Fiscal Office

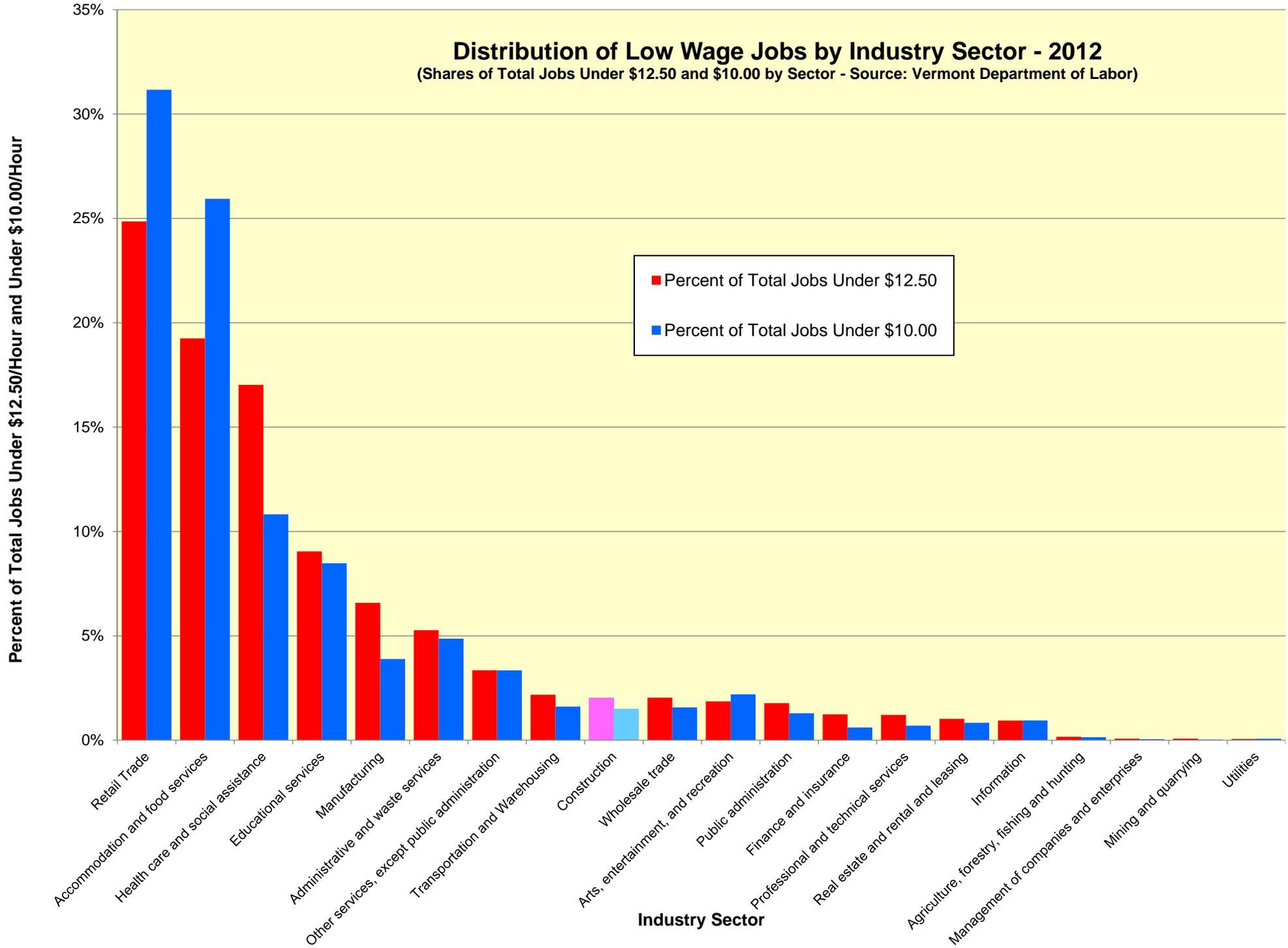
Vermont Jobs by Wage Level - 2012

(Nonagricultural Employment - Source: Vermont Department of Labor)



Distribution of Low Wage Jobs by Industry Sector - 2012

(Shares of Total Jobs Under \$12.50 and \$10.00 by Sector - Source: Vermont Department of Labor)



Industry Incidence of Low Wage Jobs - 2012

(Percent of All Jobs in Each Sector that are Under \$12.50 and \$10.00 - Source: Vermont Department of Labor)

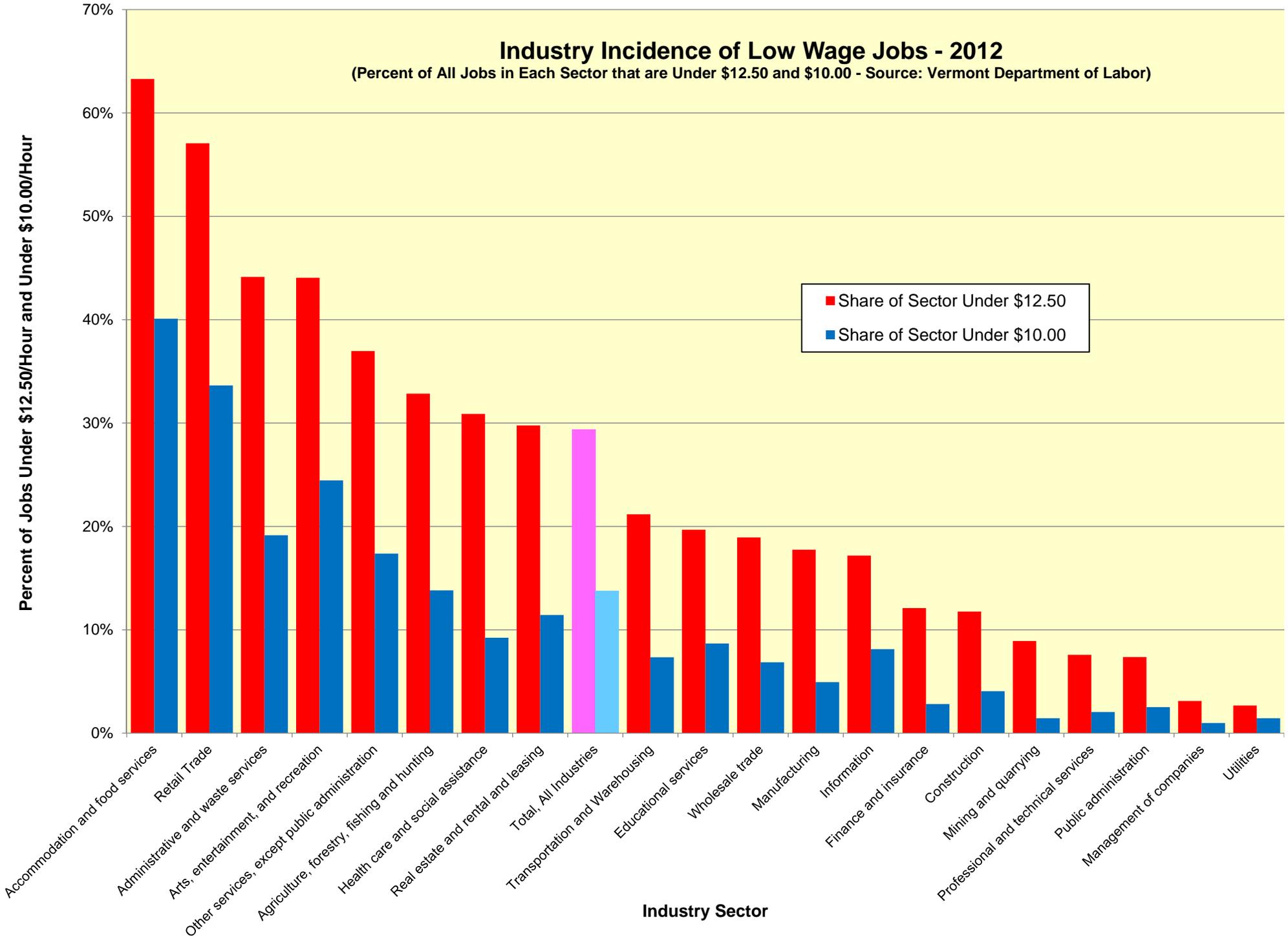
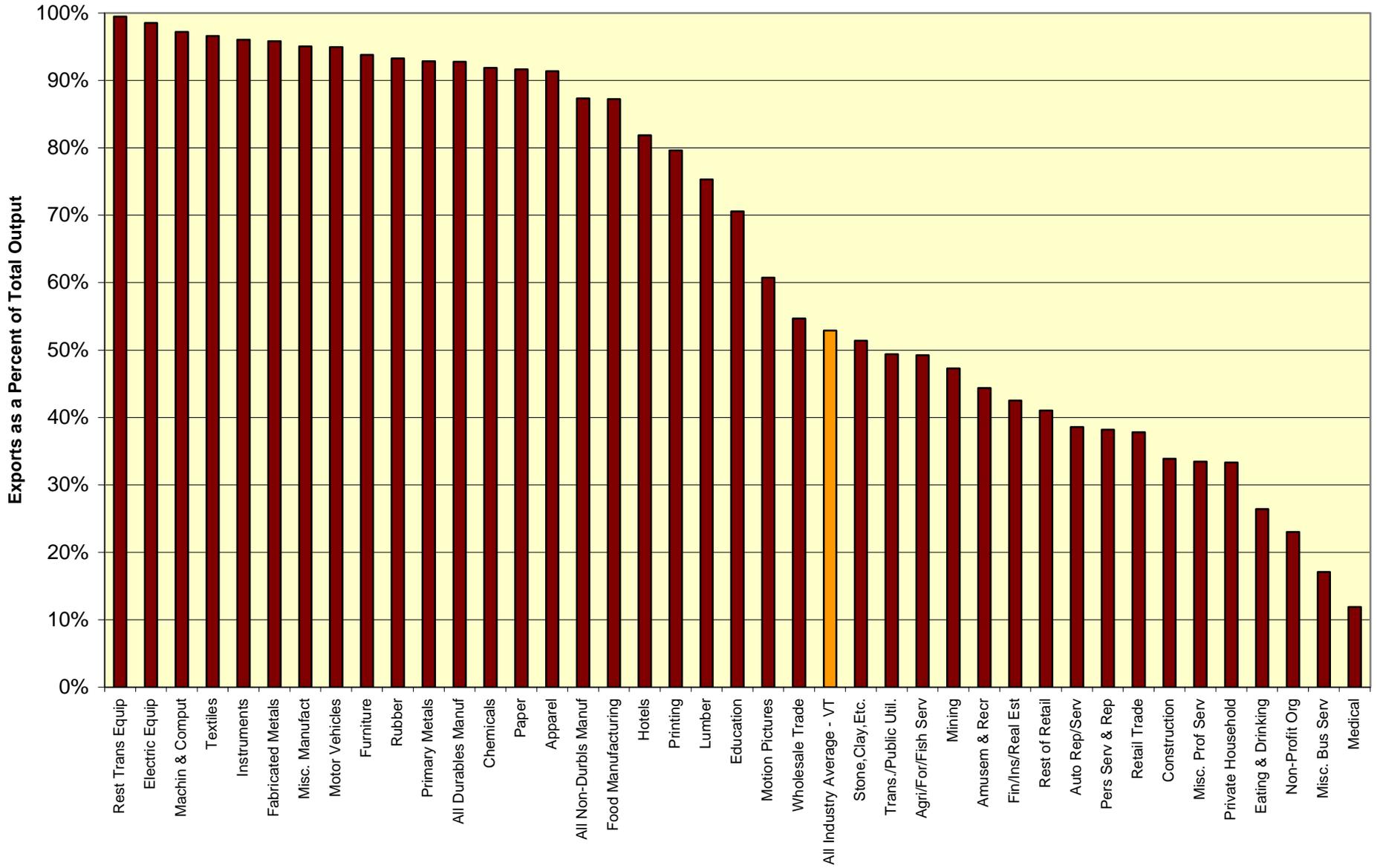
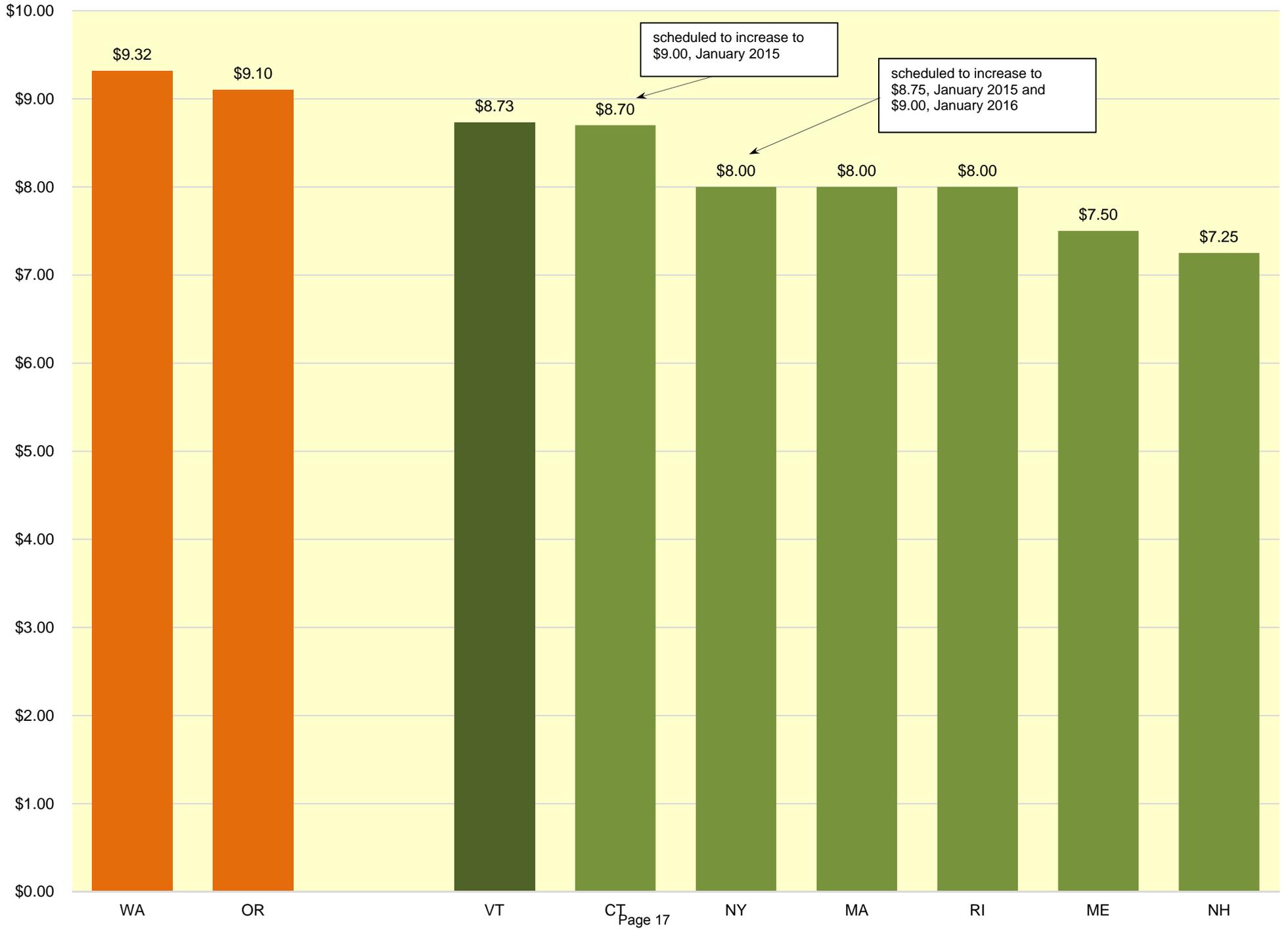


CHART 5A
Relative External Competitive Sensitivity of Selected Vermont Economic Sectors



Sources: Bureau of Economic Analysis, Regional Economic Models, Inc.

Vermont's Minimum Wage is Currently the 3rd Highest in the U.S. and the Highest in New England



Notes on Benefit Cliffs, Work Incentives and the Minimum Wage

To maintain incentives to work, for every additional dollar earned there should be a gain in net income. Currently, Vermont workers receiving public assistance may face a decrease in net income as a result of earning an additional dollar because of the combination of increased taxes and reduced public benefits. This holds true if the additional dollar earned is due to a promotion, more hours worked, or an increase in the minimum wage.

Although these disincentives vary significantly by family type and wage level, the following chart is illustrative of the change in net income of a single parent with a preschool child as earnings increase. The various colors represent the different types of public assistance and tax credits that supplement net earnings. For reference, the dotted black line represents a “Livable Income” as determined by the Legislative Joint Fiscal Office and the dashed black line represents the net income needed to meet necessities for a working household of this size, including food, shelter, clothing, health care, and transportation to work - also referred to as “Work Subsistence.” In addition to demonstrating the complexity of making ends meet, the chart illustrates two structural problems:

1. **Benefit cliffs:** there are earnings thresholds that represent disincentives to work because benefit recipients will experience a large decrease in benefits that will result in a decrease in net income.
2. **Work incentive:** for benefit recipients, the point at which work will actually begin to positively affect net income is so far off that it doesn't seem like a realistic possibility. The loss of benefits and increased taxation associated with foreseeable income gains works as a disincentive rather than an incentive.

Assuming the single parent in the chart has no income other than earnings, at \$8.60/hour (minimum wage in 2013) the total earnings would have been \$17,888 per year. If the minimum wage had increased to \$10/hour the total earnings would have been \$20,800—an increase of \$2,912 in earnings—but net income would have increased only by \$700.

In order for an increase in the minimum wage to improve the financial situation of wage workers and their families, the schedule of benefits must be redesigned so that an increase in earnings results in a reasonable increase in net income. A working group within the Agency of Human Services concluded that, for work incentives to be effective, the household should see at least a 30-cent increase in net income for every additional dollar earned.

Some of the benefit payments that are “lost” to low-wage workers as a result of an increase in the minimum wage are federal, and some are state. The state payments could theoretically be redirected to help create an optimal benefit schedule that provides continuous work incentives at all wage levels.

(Based on Current Law as of 2013)

Earnings and Net Income: Single Parent With One Child

