

# ncjustice BRIEF

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## **Time for a Raise:** The impact of raising the minimum wage on North Carolina's working families and the economy

**President Obama's proposal** to raise the minimum wage to \$9.00 by 2015 has garnered a fair amount of attention across the country and here in North Carolina, where the current minimum wage is tied to the federal amount of \$7.25. The proposal came two weeks before the introduction of the Fair Minimum Wage Act of 2013<sup>1</sup> – which would increase the minimum wage to \$10.10 – and has spurred a long-overdue national conversation about the role of the minimum wage in getting the economy back on track. There is broad recognition that while the intended purpose of the minimum wage is to serve as a protection of living standards, a raise would also drive up consumer demand by putting money into the pockets of working families, thereby helping employers grow and create new jobs.

### **The majority of minimum-wage workers who would be impacted by a raise are adults whose families depend on their earnings to make ends meet.**

Raising the minimum wage to \$9.00 by 2015 would affect approximately 693,000 workers in North Carolina. An estimated 527,000 workers who make less than \$9.00 an hour would be directly affected. Another 166,000 workers whose wages are slightly above \$9.00 would indirectly benefit as their employers incrementally increase their wages to reflect the higher wage floor.

The vast majority of these workers are not teenage part-time workers. More than 80 percent are workers over 20 years of age, and almost half of those who would be directly affected by a minimum-wage increase work full-time. An estimated 526,000 children in North Carolina would have at least one affected parent.

In addition, the raise would disproportionately affect women, who comprise 61 percent of workers who would be directly affected. Increasing the minimum wage would benefit both minority and non-minority workers in North Carolina; the racial/ethnic breakdown of those who would be directly affected is 13.9 percent Hispanic, 31.2 percent black, and 49.9 percent white.<sup>2</sup>

### **The current minimum wage is not enough to meet basic needs, and the value of the minimum wage has eroded over the last four decades.**

A full-time minimum-wage worker earns approximately \$15,080 per year, which is about \$3,000 less than the 2012 poverty threshold for a family of three with two children. The Living Income Standard, a conservative market-based approach to measuring how much income a family in North Carolina actually needs to make ends meet, is \$41,920 per year for a family of one adult and two children.<sup>3</sup>

Additionally, over the last 40 years, the inflation-adjusted value of the minimum wage has eroded by nearly one-

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**FIGURE 1: Characteristics of workers who would be affected by increasing the minimum wage to \$9.00 (in thousands)**

	Est. Workforce*	Directly Affected**	Percentage of directly affected	Indirectly Affected***	TOTAL AFFECTED
<b>TOTAL</b>	<b>3,852</b>	<b>527</b>	<b>100.0%</b>	<b>166</b>	<b>693</b>
<b>Gender</b>					
Female	1,859	322	61.1%	76	398
Male	1,994	205	38.9%	90	295
<b>Age</b>					
20 +	3,719	430	81.6%	156	585
Under 20	133	97	18.4%	10	107
<b>Race</b>					
White	2,549	263	49.9%	92	355
Black	824	164	31.2%	35	200
Hispanic	283	73	13.9%	30	104
Asian or other race	197	26	5.0%	8	35
<b>Marital Status</b>					
Married parent	1,024	59	11.2%	23	82
Single parent	313	82	15.7%	25	107
Married, no kids	1,130	80	15.2%	36	116
Unmarried, no kids	1,385	305	58.0%	83	388
<b>Work hours</b>					
Part time (< 19h)	222	88	16.7%	12	100
Mid time (20-34)	498	182	34.5%	32	214
Full time (35+)	3,132	257	48.7%	122	379
<b>Education</b>					
Less than high school	340	125	23.7%	29	154
High School	1,057	187	35.6%	57	244
Some college	815	146	27.7%	47	193
AA degree	448	28	5.4%	16	45
Bachelor's or higher	1,192	40	7.6%	17	57
<b>Children with at least one affected parent</b>		<b>279</b>		<b>247</b>	<b>526</b>

SOURCE: EPI Analysis of President Obama's proposal using Current Population Survey, Outgoing Rotation Group microdata

\*Total estimated workers is estimated from the CPS respondents who were 16 years old or older, employed, and for whom either a valid hourly wage is reported or one can be imputed from weekly earnings and average weekly hours. Consequently, this estimate represents the identifiable wage-earning workforce and tends to understate the size of the full workforce.

\*\*Directly Affected workers will see their wages rise as the new minimum wage rate will exceed their current hourly pay.

\*\*\*Indirectly affected workers have a wage rate just above the new minimum wage (between the new minimum wage and the new minimum wage plus the dollar amount of the increase in the previous year's minimum wage). They will receive a raise as employer pay scales are adjusted upward to reflect the new minimum wage.

third.<sup>4</sup> While food and energy costs continue to increase, the purchasing power of the minimum wage has decreased dramatically.<sup>5</sup> Even since the last time the federal minimum wage was raised in 2009, the wage of \$7.25 has lost approximately 7 percent of its value.<sup>6</sup> Ten states have indexed their minimum wages, and the President's proposal also calls for indexing the minimum wage to inflation.<sup>7</sup> Here in North Carolina, HB 115, introduced by Representative Adams in February, calls for automatically adjusting the state's minimum wage upon increases in the cost of living.

**Raising the minimum wage would help address the steep decline in job quality, a factor in the expansion of income inequality.**

In addition to unequal growth in earnings at the top of the income distribution, the failure to provide lower-income workers a fair wage has contributed to growing income inequality.<sup>8</sup> The economic recovery from the

**FIGURE 2: Characteristics of workers who would be affected by increasing the minimum wage to \$10.10 (in thousands)**

	Est. Workforce*	Directly Affected**	Percentage of directly affected	Indirectly Affected***	TOTAL AFFECTED
<b>TOTAL</b>	<b>3,852</b>	<b>761</b>	<b>100%</b>	<b>280</b>	<b>1,041</b>
<b>Gender</b>					
Female	1,859	429	56%	142	571
Male	1,994	332	44%	137	470
<b>Age</b>					
20 +	3,719	653	86%	274	927
Under 20	133	109	14%	6	114
<b>Race</b>					
White	2,549	398	52%	167	564
Black	824	214	28%	68	283
Hispanic	283	113	15%	33	146
Asian or other race	197	36	5%	11	47
<b>Marital Status</b>					
Married parent	1,024	97	13%	53	151
Single parent	313	110	14%	28	138
Married, no kids	1,130	129	17%	75	204
Unmarried, no kids	1,385	425	56%	124	549
<b>Work hours</b>					
part time (< 19h)	222	101	13%	23	124
mid time (20-34)	498	229	30%	57	287
full time (35+)	3,132	431	57%	200	630
<b>Education</b>					
Less than high school	340	164	22%	41	205
High School	1,057	266	35%	102	368
Some college	815	218	29%	71	289
AA degree	448	53	7%	31	84
Bachelor's or higher	1,192	62	8%	34	96
<b>Children with at least one affected parent</b>		<b>381</b>		<b>166</b>	<b>547</b>

SOURCE: EPI Analysis of President Obama's proposal using Current Population Survey, Outgoing Rotation Group microdata

\*Total estimated workers is estimated from the CPS respondents who were 16 years old or older, employed, and for whom either a valid hourly wage is reported or one can be imputed from weekly earnings and average weekly hours. Consequently, this estimate represents the identifiable wage-earning workforce and tends to understate the size of the full workforce.

\*\*Directly Affected workers will see their wages rise as the new minimum wage rate will exceed their current hourly pay.

\*\*\*Indirectly affected workers have a wage rate just above the new minimum wage (between the new minimum wage and the new minimum wage plus the dollar amount of the increase in the previous year's minimum wage). They will receive a raise as employer pay scales are adjusted upward to reflect the new minimum wage.

Great Recession has brought an unprecedented productivity gap, in which rising worker productivity is not matched with higher wages. This productivity gap, in turn, has contributed to the rise of a two-tier labor market, in which former middle-income earners increasingly find themselves working low-wage jobs in growing sectors such as food preparation and home health. Many of these jobs pay less than \$10 per hour, and they are the jobs expected to have some of the highest growth rates in North Carolina over the next ten years.<sup>9</sup>

**Economic research shows that raising the minimum wage boosts earnings without causing job losses.**

Over the last 20 years, a large body of research has looked at employment levels before and after minimum-wage increases in states, counties, and metropolitan areas and has shown that raises in the minimum wage failed to lead to job losses, even during times of high unemployment.<sup>10</sup> For instance, a 2010 study comparing

**FIGURE 2: Estimated effects of the federal minimum wage increase proposals in North Carolina**

	Increasing the federal minimum wage to \$9.00	Increasing the federal minimum wage to \$10.10
Increased wages for directly and indirectly affected*	\$781,560,000	\$2,061,333,000
GDP Impact**	\$494,728,000	\$1,304,824,000
Jobs Impact - Full-time employment (Job-years)***	4,300	5,300

SOURCE: EPI Analysis of President Obama's and the 2012 Harkin/Miller proposal using Current Population Survey, Outgoing Rotation

\*Increased wages: Annual amount of increased wages for directly and indirectly affected workers, assuming they work 52 weeks a year.

\*\*GDP and job stimulus figures utilize a national model to estimate the GDP impact of workers' increased earnings. Thus the total state stimulus may be lower than this amount because workers in each state will not necessarily spend all of their increased earnings in-state. However, we can assume that most of the increased earnings will be spent in-state, and thus most of the jobs created will be in-state. Figures are 3-year totals.

\*\*\*The increased economic activity from these additional wages adds not just jobs but also hours for people who already have jobs (work hours for people with jobs also dropped in the downturn). Full-time employment takes that into account, by essentially taking the number of total hours added (including both hours from new jobs and more hours for people who already have jobs) and dividing by 40, to get full-time-equivalent jobs added. Jobs numbers are job-years following the third-year increase. Figures assume full-time employment requires \$115,000 in additional GDP.

employment differences across U.S. counties with varying minimum-wage levels over a 16-year period found “strong earnings effects and no employment effects of minimum wage increases.”<sup>11</sup>

In fact, raising the minimum wage can be a tool for economic growth. Economists recognize that low-wage workers are more likely than other income groups to spend earnings immediately on basic needs and services. An increase in the minimum wage augments low-income earners’ spending power and increases consumer demand, a significant factor in new hiring.<sup>12</sup> In North Carolina, the estimated impact on the state’s Gross Domestic Product of a minimum-wage increase to \$9.00 is \$495 million with an estimated 4,300 new jobs created.<sup>13</sup>

## Conclusion

The existing proposals to raise the minimum wage and index the wage are a step in the right direction, both for working families and for North Carolina’s struggling economy. Restoring the value of the minimum wage provides the lowest-paid workers with a much-needed raise while increasing the consumer spending on which economic growth depends.

1 Senator Tom Harkin and Rep. George Miller’s proposal was formalized as S. 460, which proposes increasing the minimum wage in three increments of \$0.95 and indexing the wage to inflation. In addition, the tipped minimum wage would be raised to 70% of the general minimum wage.

2 EPI Analysis of a federal increase to \$9.00/hour. An increase to \$10.10 by July 1, 2015 would directly affect 761,000 North Carolina workers and indirectly affect 280,000, for a total number of 1,041,000 workers. Cooper, David and Doug Hall, March 2013. “Raising the Federal Minimum Wage to \$10.10 would Give Working Families, and the Overall Economy, a Much-Needed Boost,” Economic Policy Institute.

3 Sirota, Alexandra, 2011. “Making Ends Meets After the Great Recession: The 2010 Living Income Standard for North Carolina,” North Carolina Justice Center. U.S. Census Bureau, preliminary estimate of weighted average poverty thresholds for 2012.

4 NELP, 2012. “New Minimum Wage Bills Would Accelerate Recovery and Improve Job Quality.”

5 Ibid.

6 EPI calculation using the CPI-U-RS.

7 See “Fact Sheet: The President’s Plan to Reward Work by Raising the Minimum Wage” accessed at <http://www.whitehouse.gov/the-press-office/2013/02/13/fact-sheet-president-s-plan-reward-work-raising-minimum-wage>

8 Mishel, Lawrence and Natalie Sabadish, 2012. “CEO Pay and the Top 1%: How Executive Compensation and Financial-Sector Pay have Fueled Income Inequality,” Economic Policy Institute.

9 Freyer, Allan, 2012. “BTC Brief: Working Hard for an Economy That’s Hardly Working,” North Carolina Budget and Tax Center. See also National Employment Law Project, 2012. “The Low-Wage Recovery and Growing Inequality” and Schmitt, Johan and Janelle Jones, 2012. “Where Have all the Good Jobs Gone?” Center for Economic and Policy Research.

10 For a review of the research since 1990, see Schmitt, John, 2013. “Why Does the Minimum Wage Have No Discernible Effect on Employment?” Center for Economic and Policy Research.

11 Dube, Arindrajit, T. William Lester, and Michael Reich, 2010. “Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties” The Review of Economics and Statistics.

12 Hall, Doug and David Cooper, 2012. “How Raising the Minimum Wage Would Help Working Families and Give the Economy a Boost,” Economic Policy Institute.

13 EPI Analysis of 2012 Current Population Survey, Outgoing Rotation Group.