

# FISCAL POLICY NOTES

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## **Setting the Record Straight: An Increase in New York's Minimum Wage Will Help Those Who Need It**

The Fiscal Policy Institute (FPI) has extensively studied the minimum wage issue and has released three reports on this subject this year along with estimates of the number of workers who would benefit from an increase for each of New York's 62 counties. Some critics have recently sought to deflect attention from the need to raise the minimum wage by saying that an increase will fail to achieve the goal of "alleviating poverty among the working poor." This issue of *Fiscal Policy Notes* draws on FPI's earlier research (available on FPI's website, [www.fiscalpolicy.org](http://www.fiscalpolicy.org)) and is being released to "set the record straight" on that point.

### **Highlights**

- There are an estimated 740,000 workers in New York who make between \$5.15 and \$7.09 an hour and who would directly benefit from an increase in the minimum wage to \$7.10. This is nearly 10% of the total workforce.
- Most (58%) of the benefit of increasing the minimum wage will go to workers in low-income families. This increased income is critical in New York where families need to earn at least two-to-three times the federal poverty threshold to meet basic family needs for housing, food, child care, transportation, and health care.
- The earnings of minimum wage workers provide over half (55%) of total family wage earnings for families with children and minimum wage workers. More than two out of every five (42%) families with children and a minimum wage worker rely solely on the earnings from minimum wage employment.
- Over three-fifths (62.5%) of minimum wage workers are women with one in seven of the total (i.e., about 100,000) a single mother with children.
- A minimum wage increase will help improve the functioning of the New York economy since a state minimum wage that serves as a more effective floor under the labor market should encourage more efficient business practices and level the competitive playing field for businesses already paying better wages.
- By raising its minimum wage, New York will join 12 other states (and the District of Columbia) that have a minimum wage above the \$5.15 an hour federal minimum. Total employment (as well as the number of small businesses and employment in small businesses) grew faster in recent years in the states with minimum wages above the federal level than in states requiring only the federal minimum. This suggests that raising the minimum wage in New York will not hinder employment growth or harm small employers.

## **Does increasing the minimum wage help the working poor?**

Critics argue that increasing the New York state minimum wage will not do much to help the "working poor" since most minimum wage workers are not in families living below the federal poverty line.<sup>1</sup> This argument uses a very limited definition of the "working poor" (the federal poverty level) and ignores the fact that many families with incomes above the federal poverty line, particularly in parts of the country with higher costs of living, are still clearly "low income" and struggle to make ends meet. This perspective also ignores the fact that the wages of minimum wage workers, whether those workers are the main earners in a family or a second earner, are essential to the well being of hundreds of thousands of low-income New York families.

## **Most of the minimum increase would go to low-income families**

In fact, minimum wage workers in the 40 percent of New York households with the lowest earnings (whose average weekly earnings are only \$414) would receive 58% of the increased earnings from a boost in the state's minimum wage to \$7.10 an hour. This share of the gain is particularly striking compared to the 15% share of total earnings that is currently received by these low-income households. For minimum wage workers in low-income households, an increase in the minimum wage makes a big difference.

## **Minimum wage earnings are vital for tens of thousands of New York families**

The earnings of minimum wage workers provide over half (55%) of total family wage earnings for families with children and minimum wage workers. More than two out of every five (42%) families with children and a minimum wage worker rely solely on the earnings from minimum wage employment. For families with children with a minimum wage worker, the earnings of a minimum wage worker provide *all* of the earnings in 42% of the cases. Over three-fifths (62.5%) of minimum wage workers are women with one in seven of the total (i.e., about 100,000) a single mother with children.

Even in families with incomes more than twice the federal poverty level<sup>2</sup> (not necessarily a lot as discussed in the next paragraph), minimum wage workers in these families contribute on average 40% of family income.

## **New York families need higher earnings than the federal poverty level to meet basic needs**

Some critics of raising the minimum wage downplay its importance by suggesting that many minimum wage workers have family incomes above the federal poverty threshold as if the federal poverty level reflected an adequate living standard. There's a big difference, however, between being above the official "poverty" threshold and having sufficient income to take adequate care of one's family. It has been widely recognized that the federal poverty threshold falls far short of the income required to meet basic family needs.<sup>3</sup> As part of a nation-wide research effort, a series of "Self-Sufficiency Standards" have been developed for each of the counties in New York State. These standards reflect the income level necessary for families of

different sizes in each of the state's 62 counties to meet basic family needs for housing, child care, food, transportation, health care and taxes *without public or private subsidy*.<sup>4</sup> For example, for a single parent with two children, the self-sufficiency income levels for 2000 for the major upstate metro areas (Albany, Buffalo and Rochester) were over two times the 2003 federal poverty level, three times the federal poverty level in New York City (excluding Lower Manhattan) and over three-and-a-half times the poverty level for Long Island.<sup>5</sup>

<b>A Higher Minimum Wage Helps Those Who Need It</b>	
New York workers who would get a raise	740,000
Share of minimum wage increase to lowest income families	58%
Portion of family earnings for families with children from minimum wage workers	55%
Share of minimum wage families with children relying solely on wages of minimum wage workers	42%
Number of single mothers earning the minimum wage	100,000

### **The minimum wage sets a floor under wages**

While the minimum wage is critical to increasing the well being of low-income families that has never been its sole purpose. When the Fair Labor Standards Act first established the federal minimum wage in 1938, the intent clearly was to establish a wage floor that would prevent unfair and potentially ruinous competition among businesses by driving down wage levels. Establishing a floor under wages protects the least skilled worker against being paid a wage so low that survival is not possible, and it protects businesses from unfair competition based on intolerably low wages. For this reason, raising the minimum wage will also improve the functioning of the state economy.

### **Raising New York's minimum wage should not adversely affect job growth or small businesses**

Some critics of the minimum wage still contend that an increase in the minimum wage will reduce employment and that it will particularly hurt small businesses that are often labor intensive. However, from the Fiscal Policy Institute's recent study of these issues, it is clear that in the states that have a higher minimum wage than the federal minimum (there are now 12 such states plus the District of Columbia), job growth has not faltered as a result. From January 1998 to January 2004, total employment increased by 6.2% in the higher minimum wage states compared to 4.1% for the other states where the federal minimum wage prevailed. And for small businesses, those with fewer than 50 employees, the number of businesses, employment and the size of the total payroll grew faster in the higher minimum wage states than in the states where the federal minimum prevailed.<sup>6</sup> The 1999 Economic Report of the President concluded that

studies of the 1996 and 1997 federal minimum wage increases found that there were no adverse employment effects. Given this record, it is hard to argue that, in the aggregate, all New York businesses, or all small businesses, will be adversely affected by a modest increase in the minimum wage.

**Conclusion: Raising the minimum wage in New York will help working families and improve the state's economy**

An increase to \$7.10 an hour in New York's minimum wage will help tens of thousands of working families and will improve the functioning of the state's economy by establishing a more meaningful wage floor. New York will join 12 other states, including many of its neighbors that already have a minimum wage above the \$5.15 an hour federal level.

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<sup>1</sup> For example, see Richard V. Burkhauser and Joseph J. Sabia, "Why Raising the Minimum Wage is a Poor Way to Help New York's Working Poor," Cornell University Department of Policy Analysis and Management, June 2004.

<sup>2</sup> The federal poverty level for a 3-person family (a single parent with two children) was \$14,824 in 2003; for a 4-person family (two adults and two children), the poverty level was \$18,660.

<sup>3</sup> A 1995 National Academy of Sciences study concluded that the methodology used by the Census Bureau to determine the poverty threshold was out-dated and did not reflect the changes that have occurred in household income, consumption and expenditure patterns since the methodology was first used in the early 1960s. More over, the current method does not take into account regional costs of living differences, a fact that is critically important to New York given its high cost of living. Constance F. Citro and Robert T. Michaels, ed., Measuring Poverty, A New Agenda, Washington, D.C.: National Academy Press, 1995.

<sup>4</sup> Diana Pearce with Jennifer Brooks, The Self-Sufficiency Standard for New York, New York State Self-Sufficiency Standard Steering Committee, September 2000.

<sup>5</sup> The self-sufficiency levels for a 3-person family (one adult, one infant and one school age child) for 2000 were: Albany MSA (\$30,888), Buffalo MSA (\$32,112), Rochester (\$32,964), and Long Island (\$53,328). Within New York City, self-sufficiency levels were compiled for each borough and for both Upper and Lower Manhattan. Three-person self-sufficiency levels ranged from \$43,932 for the Bronx to \$48,396 for Upper Manhattan (Lower Manhattan was substantially higher at \$74,664).

<sup>6</sup> See FPI, "State Minimum Wages and Employment in Small Businesses", April 20, 2004.

(<http://www.fiscalspolicy.org/minimumwageandsmallbusiness.pdf>)

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