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As U.S. income gap persists, more states move to increase minimum wage



A May 30 protest outside the offices of New York Governor Andrew Cuomo by low-wage workers of the Coalition for a Real Minimum Wage.

By Alison Lake

WASHINGTON, D.C. – It's no secret that the United States has become a nation of economic extremes, where the gap between rich and poor has widened and the ability to satisfy basic needs has become more uncertain for lower-income groups.

Supporters of increasing the federal minimum wage believe an increase could accelerate consumption and revive the economy.

The income gap is visible, for example, in the Washington metropolitan region, which is relatively higher in both average income and cost of living than elsewhere in the United

States.

In the same neighborhoods populated by mansions, food banks are stretched to capacity and county housing services cannot meet the demand of those seeking a place to live.

It is surreal to live in an area where pricey Whole Foods markets occupy the same municipality as a homeless shelter. Those who can afford to buy takeout meals at Whole Foods and stock up on essentials there share the roads with families who exist for a month on the equivalent of a week's worth of groceries for the wealthier family. Too many Americans are forced to make financial choices between expenses, such as paying for medical care or using that money for household necessities.

Some other discrepancies in American society include the extremely high cost of child care for those parents who choose and/or need to put their children into day care. This double burden is a crippling problem for some families, especially for parents who might prefer to have the choice between using child care and staying home to provide their children more personal attention.

It's a big problem when a full-time job does not provide enough income to support the working individual and/or family. Some work two jobs and long hours and still barely make enough to pay for housing, food, gas and other essentials.

Food banks have not been able to meet increasing demand across the United States, and the reduction in federal food stamp allowance has sharpened the blow for families. Workers have protested that the minimum hourly wage of \$7.25 after taxes is not a livable wage. President

Barack Obama pressed to raise the hourly rate in stages to \$9 an hour in 2015 and index it to inflation.

After the nation suffered from a housing crisis, devaluation of investments and rising unemployment, it's getting harder and harder to save money for the future.

The gap in employment rates between America's highest and lowest-income families is at its widest in 10 years, meaning that unemployment is more likely to affect those living on less than \$20,000 per year, according to U.S. Census Bureau data from 2011-2013. This has been widely interpreted as an erosion of the middle class.

Between 2000 and 2012, wages were flat or declined for the entire bottom 60 percent of the wage distribution, despite nearly 25 percent growth in productivity during the period, according to an August [report](#) from the Economic Policy Institute in Washington, D.C.: "...an economy that does not provide shared prosperity is, by definition, a poorly performing one," wrote the report's authors Lawrence Mishel and Heidi Shierholz.

Mishel and Shierholz explained that the economic challenges of the middle class emerged from an extended period of flat wages. "The wage and benefit growth of the vast majority, including white-collar and blue-collar workers and those with and without a college degree, has stagnated, as the fruits of overall growth have accrued disproportionately to the richest households."

Corporate profits are at historic highs, according to this report, causing the top 1 percent to "capture" income growth.

Adam Hartung, CEO of Spark Partners in Chicago and Forbes.com blogger, told The Atlantic Post that as job demand exceeded supply, incomes (relative to inflation) have declined. "Ongoing cost reduction efforts have created a push to cut jobs, lower wages and push up profits short-term in the face of lower demand and lagging revenue growth, exacerbating growth problems and leading to a serious dampening of income growth."

"The result is the lowest standard of living in several decades, and a significant percentage of the population working for less than the 'living wage' as they take the only available jobs which pay a minimum wage so low nobody can live without government subsidies."

As a result, for many in the X generation, loosely defined as the post-Baby Boom generation born between 1961 and 1981, saving and investing money and planning for retirement seem to be unachievable concepts, particularly as we see our own parents struggle with less-than-expected retirement funds during their own golden years.

Economic uncertainty has become the norm.

Obama has pointed to industry sector growth and innovation as solutions to wage growth problems. Mishel and Heidi Shierholz disagree, stating that innovations in energy, technology and manufacturing "will not reestablish the broad-based wage growth and improved job quality needed to generate and sustain middle-class income growth. Nor will they, on their own, permit access to a rising middle class for those now left behind."

Perhaps it is too late for the X generation to catch up. Will most of us be working to support ourselves until old age?

Some believe the present minimum wage is not a negative factor for America's poorest workers. "Most minimum-wage workers are members of families with an average income of \$42,500, well above the poverty line for a family of four. Only 4 percent of the full-time, minimum-wage workers are single parents, who normally also receive benefits such as the earned income tax credit and food stamps," wrote Richard W. Rahn of the Cato Institute.

The primary economic argument against a minimum wage increase is that higher minimum wages reduce employment opportunities. Assistant professor of economics Dr. Monica Deza at University of Texas at Dallas told The Atlantic Post that a large increase in the minimum wage "may not be in the worker's best interest because there will be a higher probability of losing your jobs." It could also affect employers, "which may eventually need to downsize or even shut down in response to these higher costs."

On the other hand, Deza noted, "Sometimes a small increase in minimum wage is beneficial to the employer/firm. With a higher wage, more people will be willing to take a job and so the firm will only be searching for a small time." Deza also believes a higher minimum wage will lower employment turnover and allow employers to train their employees better. Very low wages, on the other hand, "could provide an incentive for employees to just call in sick or not show up or quit unexpectedly since it won't have much of an effect on their lifestyle."

"No economy can grow without rising incomes," said Hartung of Spark Partners. "Rising incomes cannot occur without innovation and new products creating demand, growing revenues and profits. As revenues grow employers can hire more employees, and job growth feeds higher incomes. It is a virtuous circle based upon new products/services driving a growing economy and higher incomes that begets even more growth."

Hartung also commented on the effect of an increased minimum wage on businesses. "As their costs go up, business leaders would be forced to either go out of business or invest in businesses with higher margins to cover the costs," Hartung said. "The second option would spur economic growth."

It is true that an increased minimum wage would hurt the margins of retail and fast food companies, many of which have objected to a higher wage and rely heavily on low-wage workers. But, "by paying more to their workers they will have more to spend, and as low-income families they will spend it, which will drive up demand for products and, as said above, spur us back to a growing economy.

Others are concerned that a higher minimum wage will translate into fewer jobs.

Peter McHenry, professor of economics at College of William and Mary, told The Atlantic Post that the current minimum wage is not causing social or economic problems, but that increases would cause employment losses. McHenry said an increase "might hurt the very people the policy is meant to help (earning \$7.25 per hour is likely preferable to unemployment for many people).

Raising the minimum wage "does no good for the many people in poverty who are not working," McHenry noted. According to McHenry and 2011 numbers from the nationally-representative Survey of Income and Program Participation, one-third of minimum-wage earners in the U.S. are 20 years old or younger. About half live in households with annual earnings greater than \$40,000.

One wonders if the present minimum wage has any negative effect on consumption and overall national wealth or if that gap is compensated by the consumption of wealthy people. The present minimum wage is probably affecting consumption, said Usha Haley, Professor of Management & Director of the Robbins Center for Global Business and Strategy at West Virginia University.

“A jump from \$7.25 to \$9.00 seems huge, but actually is lower than the inflation-adjusted minimum wage, using 2012 dollars, of the United States in the 1960s.” Haley told The Atlantic Post.

The United States is currently among the nations with the lowest minimum wage in the OECD developed countries’ club, Haley said. Australia has the highest of \$15.75. Luxembourg, France, Ireland, Belgium, the Netherlands, New Zealand, Canada, the United Kingdom and Japan all have higher minimum wages than the United States, with Japan narrowly beating the new proposed minimum wage with \$9.16 per hour.

Twenty-one states and Washington, D.C. have increased the lowest legal hourly wage above the \$7.25 set by Congress, and other states are considering increases. Senate and House members hoped to raise the minimum wage to \$10.10 to match the earning power of the minimum wage in the 1960s, accounting for inflation. According to [RaisetheMinimumWage.com](#) of the National Employment Law Project, today’s federal minimum wage would be \$10.74 if it had kept up with inflation over the past 40 years.

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