Center for American Progress Action Fund

It's Time To Raise The Minimum Wage: Maine

By Anna Chu

Right now, a parent working full time earning the minimum wage and raising two children is making poverty wages. She struggles to make ends meet and can barely afford basics such as school supplies for her children. But with a higher minimum wage, workers will have more money to spend on basic needs, money that will go back into the local economy, which in turn gives businesses more customers—helping them to hire more workers. It is time to put more money in the pockets of hardworking people in Maine and boost our economy.

Raising the minimum wage would increase wages for 121,000 workers in Maine by $153,746,000 if the minimum wage is raised to $10.10.[1] This wage increase would generate $97,321,000 of economic activity in Maine.[2]

Raising the minimum wage would increase wages for 121,000 workers in Maine by $153,746,000 if the minimum wage is raised to $10.10.

However, as it stands now, our economy is simply not working for everyone. The economic deck seems stacked in favor of those at the top at the expense of just about everyone else. This has never been more apparent than during this economic recovery, which has seen the stock market surge back, benefitting the wealthiest among us the most.[3] Those at the top—the richest 7 percent of Americans—actually saw their net worth rise, while the rest of us—93 percent of Americans—saw our net worth fall between 2009 and 2011.[4]

What we need is to build an economy that works for all, not just the wealthy few. Raising the minimum wage would be a critical step in ensuring that the economy is working for everyone. It will provide Americans who work hard a better opportunity to get ahead while giving the economy a needed shot in the arm. It is time to raise the minimum wage and kickstart a growing economy that will create more opportunities for those who work hard.

The widening income inequality gap is leaving everyday Americans behind, hurting our communities and economy

Over the past three decades, the income inequality gap has grown, hitting low- and middle-income American families hard. Rising costs and shrinking wages have made it more difficult for everyday Americans to realize the American Dream. And as hardworking Americans lost ground, so did the economy.

America's middle class and poor have lost tremendous ground over the past three decades. Between 1979 and 2007, the richest top 1 percent of American households saw their income grow by 200.5 percent.[5] In contrast, for the bottom 99 percent, the average income grew by just 18.9 percent.[6] Real wages for the typical American family, however, have been declining—a middle-class American family made more 24 years ago than a middle-class family made a year ago.[7]

Today, the income gap between the top 1 percent and everyone else is the highest it has been in nearly a century.[8] This lopsided growth is not just happening at the national level. In Maine, the top 1 percent grew by 149.4 percent, while the bottom 99 percent grew by only 30.2 percent.[9]

Just as the income inequality gap has widened, the federal minimum wage has failed to keep up with either inflation or worker productivity. Back in 1968, the federal minimum wage was $1.60 an hour. Today's minimum wage of $7.25 an hour is 31 percent lower than the value of the minimum wage in 1968.[10] If the minimum wage had kept up with inflation during the ensuing 46 years, it would be more than $10.50 an hour today.[11]

If the minimum wage had kept up with inflation during the ensuing 46 years, it would be more than $10.50 an hour today.

The minimum wage has also failed to keep up with productivity. Over the past few decades, worker productivity in the United States has risen dramatically, but the average American worker is not reaping the benefits. Instead, wages have grown at a tepid pace, and workers are getting a smaller and smaller piece of the pie. If the minimum wage had mirrored the increases in worker productivity, it would be well above $18 an hour.[12] In contrast to the stagnant minimum wage and earnings of workers, the pay for CEOs is about 273 times the pay of the average worker.[13]

This growing income inequality is not just hurting the American worker, rather it is hurting the American economy as a whole. When the incomes of everyday American families remain stagnant but their everyday expenses—the cost of living—keep going up, it means that they have less and less money to spend. This in turn leads to less demand and a vicious downward cycle in the economy.

A recent report by economists Barry Z. Cynamon and Steven M. Fazzari illustrates the harmful effect to the economy when income remains stagnant for the majority of American families.[14] Cynamon and Fazzari found that after the Great Recession, it was impossible for those in the 95th percentile of the income distribution to consume as they did prior to the economic downturn because of stagnant earnings.[15] This is problematic for the larger economy because these consumers represented about half of the country's economic activity.[16] Because these hardworking Americans could no longer spend as they once did, the nation's economic growth was shackled. Three recent papers published by the Center for American Progress also found that high levels of economic inequality may in fact be holding back growth.[17]

A survey conducted by the Associated Press, or AP, also revealed economists' concern that the growing income inequality gap is hurting the U.S. economy. The AP surveyed three dozen economists, and their key concern was that the pay of "low- and middle-income consumers who make up most of the population" was barely rising.[18] "Spending by wealthier Americans, given the weight of their dollars, does help drive the economy. But analysts say that the economy would be better able to sustain its growth if the riches were more evenly dispersed."[19]

As economic research shows, the growing income inequality gap has done significant harm to both the American people and the American economy. We cannot afford to continue down this self-destructive path, inflicting more harm on ourselves. Instead, we should seek out solutions that will rebuild the economy so that it works for everyone and not just the privileged few.

According to MIT, families in Portland, Maine, need $56,643 to meet minimum standards of living.

Start building an economy that works for all by raising the minimum wage

One of the key ways we can build an economy that works for everyone, and not just those at the top, would be to put more money in the pockets of workers. This would not only help those workers who would receive a wage increase, but it could also boost the economy.

Currently, a worker making the federal minimum wage of $7.25 an hour and raising two children is struggling to make ends meet. Assuming a minimum-wage employee works full time and takes no vacations, she or he will earn just $15,080 a year. This is $4,000 below the poverty line for a family of three.[20] While the minimum wage in Maine is higher at $7.50 an hour, that is still only $15,600 a year and is well below what families in Maine need to meet minimum standards of living. According to the Massachusetts Institute of Technology, or MIT, families in Portland, Maine, need $56,643 to meet minimum standards of living.[21] In Portland, the average cost of housing each month for a worker with two children is $1,109, while the average cost of food is $536.[22] The monthly minimum-wage income of $1,300 does not even cover these expenses.

The most discussed proposal now on the minimum wage is raising it from the current $7.25 an hour to $10.10 an hour. Raising the minimum wage from $7.25 to $10.10 would increase a minimum-wage worker's annual earnings to $19,777.[23] When workers' wages increase, they have more money to spend on things such as microwaves, school supplies, and even child care. This boost in demand for goods and services will help stimulate the economy and create opportunities for all Americans.[24] The extra money from increased earnings gets funneled back to both small and large businesses that would in turn need to hire more workers to keep up with the increased demand, reinforcing a virtuous cycle that will help build an economy that works everyone.

A study by the Economic Policy Institute, or EPI, examining the impact of raising the minimum wage to $10.10 found that it would benefit millions of American families. The proposal would not only directly raise wages of minimum-wage workers, but other workers making near the minimum wage would benefit from a ripple effect and see their wages rise as well.[25] In total, nearly 28 million workers would see their wages rise by $35 billion.[26] Overall, raising the minimum wage from $7.25 to $10.10 an hour would help generate $22 billion in economic activity.[27]

Workers from Maine would reap tremendous benefits as well; 121,000 workers in Maine would receive $153,746,000 in additional wages from increasing the minimum wage to $10.10 an hour. Of these workers, 57 percent are women. Raising the minimum wage would also help spur $97,321,000 in economic activity in Maine.

Of the 121,000 workers in Maine who would receive additional wages from increasing the minimum wage, 57 percent are women.

EPI is not alone in its assessment of the positive benefits of raising the minimum wage. Research from the Federal Reserve Bank of Chicago shows that a $1 minimum-wage hike increases household income by about $250 per quarter and spending by about $700 per quarter in the year following the increase.[28] Meanwhile, research from economists Pierre Cahuc and Philippe Michel show that raising the minimum wage could have a positive effect on economic growth by inducing more human capital development.[29]

In addition to putting more money in the pockets of workers and boosting demand in the economy, raising the minimum wage would save the government money—dollars that can be invested in communities. According to a groundbreaking report by economists Rachel West and Michael Reich, raising the minimum wage to $10.10 an hour would reduce government spending on nutrition support. Specifically, it would reduce government spending on Supplemental Nutrition Assistance Program, or SNAP, also known as food stamps, by $4.6 billion a year, or $46 billion over the next 10 years.[30] This means that each year, 15,234 people in Maine would no longer be dependent on food stamps if we raise the minimum wage to $10.10.[31] There would be $24.6 million in annual food stamp savings in Maine.[32]

Some detractors have seized onto the recent report from the Congressional Budget Office, or CBO, to argue that raising the minimum wage would be bad for business and for jobs. The CBO report found that raising the minimum wage could lead to 500,000 fewer jobs.[33] However, the CBO report is an outlier. CBO did not perform any original research, and instead went against the findings of the most recent and rigorous economic research, which found that raising the minimum wage has little to no effect on unemployment.[34] More than 600 economists, including seven Nobel laureates, signed a letter supporting an increase in the minimum wage, saying, "the weight of evidence now show[s] that increases in the minimum wage have had little or no negative effect on the employment of minimum-wage workers, even during times of weakness in the labor market."[35]

Real world evidence also shows that raising the minimum wage does not negatively impact jobs. An examination of states that have raised the minimum wage during high periods of unemployment also shows that more than half of those states saw the unemployment rate actually decrease over the next 12 months.[36] Additionally, the state of Washington, which has the highest minimum wage in the nation, has been beating the nation in job creation.[37] Washington's poverty rate has trailed the U.S. poverty rate for at least seven years.[38]

In sum, raising the minimum wage would yield tremendous benefits for both workers and for the economy. It would put more money in the pockets of workers, allowing them to spend it in their communities and increase demand in the overall economy. Specifically, in Maine, raising the minimum wage would boost the economy by giving 121,000 workers a wage hike of $153,746,000 and help generate $97,321,000 in economic activity.[39]

There is broad support for raising the minimum wage

Given the economic benefits of raising the minimum wage, it is not surprising that support for increasing the minimum wage has been growing across the country. Moreover, the support is not limited to workers and liberals, but spans from the broader public to conservative civic and business leaders.

Poll after poll shows that more than 70 percent of American voters strongly support raising the minimum wage to $10.10 an hour.[40] This includes 75 percent of independents, 48 percent of Republicans, and 75 percent of women.[41]

Support for raising the minimum wage extends beyond the general public to conservatives and business leaders as well. Conservative talk show host Bill O'Reilly has been urging conservative lawmakers to raise the minimum wage, saying that "The Republican Party should really wise up and stop opposing raising the minimum wage. It should be $10 bucks an hour. If an adult American is willing to work $10 is fair."[42] Another unlikely supporter is billionaire Peter Thiel, co-founder of PayPal and a big donor to conservative causes. In discussing a California ballot initiative on the minimum wage, Thiel remarked:

In theory, I'm against it, because people should have the freedom to contract at whatever wage they'd like to have. But in practice, I think the alternative to higher minimum wage is that people simply end up going on welfare. And so, given how low the minimum wage is—and how generous the welfare benefits are—you have a marginal tax rate that's on the order of 100 percent, and people are actually trapped in this sort of welfare state. So I actually think that it's a very out of the box idea—but it's something one should consider seriously, given all the other distorted incentives that exist.[43]

Business owners are realizing the value of raising the minimum wage as well. Officials at the big-box retailer Costco realize that raising the minimum wage would help reduce employee turnover and increase employee productivity, commitment, and loyalty, which in turn is good for the bottom line. As Costco Senior Vice President Jeff Long said:

Good wages are good business. We keep our overhead low while still paying a starting wage of $11 an hour. Our employees are a big reason why our sales per square foot is almost double that of our nearest competitor. Instead of minimizing wages, we know it's a lot more profitable for the long term to minimize employee turnover and maximize productivity and commitment, product value, customer service and company reputation.[44]

More recently, clothing and accessories retailer GAP announced that it was raising its minimum wage to $10 an hour. According to GAP Chairman and CEO Glenn Murphy, raising the minimum wage was not a political issue. "Our decision to invest in frontline employees will directly support our business, and is one that we expect to deliver a return many times over," Murphy explained.[45] He said that increasing the minimum wage would help GAP "attract and retain great talent" and improve customers' experience.[46]

Small businesses are also on board with raising the minimum wage. According to a poll conducted by the Small Business Majority, nearly 60 percent of small-business owners support raising the minimum wage to $10.10.[47] In fact, 82 percent of small-business owners already pay their employees more than the minimum wage.[48] Business owners in Maine have also signed onto public statements voicing their support for increasing the minimum wage, including Bryant Hall, the owner of The Cool Spot in Belfast, and Jim Wellehan, the owner and CEO of Lamey-Wellehan Shoes in Auburn.[49]

Conclusion

For too long, the conservative trickle-down approach to the economy—the idea that everyone will benefit if those at the top reaped exponential rewards—dominated the policy agenda. But years of trickle-down policies have led to a widening income gap, hurting both American workers and the economy. Trickle-down policies have not worked for our economy because it has everything backwards. Our economy does not grow from the top down. It grows from the middle out. Middle-class consumers are the ones who buy what small and large businesses are selling.

For decades now, the American middle class has been hamstrung by stagnant wages. At the same time, too many Americans are working hard at a full-time job for poverty wages. It is time to finally put money back in the pockets of workers and create more consumers to help fuel the economy. It is time to raise the minimum wage and rebuild the American economy so that it works for everyone.

About the author

Anna Chu is the Policy Director for the ThinkProgress War Room at the Center for American Progress Action Fund. She brings experience serving as the policy director for the Democratic Senatorial Campaign Committee during the successful 2012 cycle that saw Democrats adding two seats to their majority in the Senate. As policy director, Anna oversaw and managed all policy issues for the committee and Democratic Senate candidates. Prior to working at the Democratic Senatorial Campaign Committee, Anna served as the policy advisor for the House Democratic Caucus. She previously served as a federal law clerk and worked as an associate at Paul Hastings. Anna graduated from the University of California, Berkeley, and has a law degree from the University of Southern California.

Endnotes

1 David Cooper, Raising the Federal Minimum Wage to $10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost" (Washington: Economic Policy Institute, 2013), available at http://www.epi.org/publication/raising-federal-minimum-wage-to-1010/.

2 Ibid.

3 Alec Tyson, Economic recovery favors the more-affluent who owns stocks," Pew Research Center, May 31, 2013, available at http://www.pewresearch.org/fact-tank/2013/05/31/stocks-and-the-recovery-majority-of-americans-not-invested-in-the-market/.

4 Ibid.

5 Estelle Sommelier and Mark Price, "The Increasingly Unequal States of America" (Washington: Economic Policy Institute, 2014), available at http://www.epi.org/publication/unequal-states/.

6 Ibid.

7 Neil Irwin, "The typical American family makes less than it did in 1989," The Washington Post Wonkblog, September 17, 2013, available at http://www.washingtonpost.com/blogs/wonkblog/wp/2013/09/17/the-typical-american-family-makes-less-than-it-did-in-1989/.

8 Connie Stewart, "Income gap between rich and poor is biggest in a century," *Los Angeles Times*, September 11, 2013, available at http://www.latimes.com/nation/nation-now/la-na-nn-income-inequality-20130910,0,5392493.story#axzz2vl8czksg.

9 Sommelier and Price, "The Increasingly Unequal States of America."

10 David Madland and Karla Walter, "Top 6 Policies to Help the Middle Class that Won't Cost Taxpayers a Penny," Center for American Progress, April 24, 2013, available at http://www.americanprogress.org/issues/labor/news/2013/04/24/61295/top-6-policies-to-help-the-middle-class-that-wont-cost-taxpayers-a-penny/.

11 Raise the Minimum Wage, "Real Value of the Federal Minimum Wage," available at http://www.raisetheminimumwage.com/facts/entry/amount-with-inflation/ (last accessed March 2014).

12 Cooper, "Raising the Federal Minimum Wage to $10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost."

13 Lydia Depillis, "Congrats, CEOs! You're making 273 times the pay of the average worker," The Washington Post Wonkblog, June 26, 2013, available at http://www.washingtonpost.com/blogs/wonkblog/wp/2013/06/26/congrats-ceos-youre-making-273-times-the-pay-of-the-average-worker/.

14 Barry Z. Cynamon and Steven M. Fazzari, "Inequality, the Great Recession, and Slow Recovery" (2014), available at pages.wustl.edu/files/pages/imce/fazz/cyn-fazz_consinequ_130113.pdf.

15 Ibid.

16 Michael A. Fletcher, "Income inequality hurts economic growth, researchers say," *The Washington Post*, January 24, 2014, available at http://www.washingtonpost.com/business/economy/income-inequality-hurts-economic-growth-researchers-say/2014/01/24/cb6e02a0-83b0-11e3-9dd4-e7278db80d86_story.html.

17 Ben Olinsky and Asher Mayerson, "Trickle-Down Economics and Broken Promises" (Washington: Center for American Progress, 2013), available at http://www.americanprogress.org/issues/economy/report/2013/12/04/80381/trickle-down-economics-and-broken-promises/.

18 Christopher S. Rugaber, "Income Inequality Is Hurting The Economy, 3 Dozen Economists Say," Huffington Post, December 17, 2013, available at http://www.huffingtonpost.com/2013/12/17/income-inequality-economy_n_4460725.html.

19 Ibid.

20 Families USA, "Federal Poverty Guidelines," available at http://familiesusa.org/product/federal-poverty-guidelines (last accessed March 2014).

21 Dr. Amy K. Glasmeier and the Massachusetts Institute of Technology, "Poverty in America: Living Wage Calculator," available at livingwage.mit.edu (last accessed March 2014).

22 Ibid.

23 Based on author's calculations, assuming full-time employment annual without time off.

24 T. William Lester, David Madland, and Jackie Odum, "Raising the Minimum Wage Would Help, Not Hurt, Our Economy," Center for American Progress Action Fund, December 3, 2013, available at http://www.americanprogressaction.org/issues/labor/news/2013/12/03/80222/raising-the-minimum-wage-would-help-not-hurt-our-economy/.

25 Cooper, "Raising the Federal Minimum Wage to $10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost."

26 Ibid.

27 Ibid.

28 Daniel Aaronson, Sumit Agarwal, and Eric French, "The Spending and Debt Responses to Minimum Wage Increases." Working Paper 2007-23 (Federal Reserve Bank of Chicago, 2011), available at www.chicagofed.org/digital_assets/publications/working_papers/2007/wp2007_23.pdf.

29 Pierre Cahuc and Philippe Michel, "Minimum Wage, Unemployment and Growth," *European Economic Review* 40 (7) (1996), available at http://ideas.repec.org/p/fth/pariem/92.35.html.

30 Rachel West and Michael Reich, "The Effects of Minimum Wages on SNAP Enrollments and Expenditures" (Washington: Center for American Progress, 2014), available at http://www.americanprogress.org/issues/economy/report/2014/03/05/85158/the-effects-of-minimum-wages-on-snap-enrollments-and-expenditures/.

31 Ibid.

32 Ibid.

33 Congressional Budget Office, "The Effects of a Minimum-Wage Increase on Employment and Family Income**"** (2014), available at http://www.cbo.gov/publication/44995.

34 T. William Lester, David Madland, and Nick Bunker, "An Increased Minimum Wage is Good Policy Even During Hard Times," Center for American Progress Action Fund, June 7, 2011, available at http://www.americanprogressaction.org/issues/labor/news/2011/06/07/9747/an-increased-minimum-wage-is-good-policy-even-during-hard-times/.

35 Economic Policy Institute, "Over 600 Economists Sign Letter in Support of $10.10 Minimum Wage," available at http://www.epi.org/minimum-wage-statement/ (last accessed March 2014).

36 Lester, Madland, and Odum, "Raising the Minimum Wage Would help, Not Hurt, Our Economy."

37 Victoria Stilwell, Peter Robison, and William Selway, "Highest Minimum-Wage State Washington Beats U.S. in Job Creation," Bloomberg Businessweek, March 8, 2014, available at http://www.businessweek.com/news/2014-03-05/washington-shows-highest-minimum-wage-state-beats-u-dot-s-dot-with-jobs.

38 Ibid.

39 Cooper, "Raising the Federal Minimum Wage to $10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost."

40 Sarah Dutton and others, "Poll: Americans split on Obama approval," CBS News, January 23, 2014, available at http://www.cbsnews.com/news/poll-americans-split-on-obama-approval/.

41 Ibid.

42 Bill O'Reilly, "Bill O'Reilly: President Obama and his favorite students," Fox News, January 29, 2014, available at http://www.foxnews.com/on-air/oreilly/2014/01/30/bill-oreilly-president-obama-and-his-favorite-students.

43 Bryce Covert, "Billionaire Republican Donor Supports a $12 Minimum Wage," ThinkProgress, February 24, 2014, available at http://thinkprogress.org/economy/2014/02/24/3323361/peter-thiel-minimum-wage/.

44 Will Ashworth, "Costco is More Than Low Prices," Investor Place, October 11, 2012, available at http://investorplace.com/2012/10/costco-is-more-than-low-prices/#.UyB6GoVavWE.

45 Aviva Shen, "Why Gap is Raising Its Minimum Wage to $10," ThinkProgress, February 19, 2014, available at http://thinkprogress.org/economy/2014/02/19/3306841/gap-raising-minimum-wage-10/.

46 Ibid.

47 Small Business Majority, "Opinion Poll: Small Businesses Support Increasing the Minimum Wage to $10.10" (2014), available at http://www.smallbusinessmajority.org/small-business-research/minimum-wage/small-business-support-increasing-minimum-wage.php.

48 Ibid.

49 Business For a Fair Minimum Wage, "Business for a Fair Minimum Wage Federal Signatories List In Formation," available at http://www.businessforafairminimumwage.org/Federal/Signatories-Current (last accessed March 2014).