

MEMO

TO: Members, Senate Committee on Veterans, Homeland Security, Military Affairs,
Small Business and Government Reform
FROM: Kristin Settle, Institute for Wisconsin's Future
DATE: April 6, 2005
RE: SB 147

Good morning. My name is Kristin Settle, and I am the Working Families Project Coordinator at the Institute for Wisconsin's Future. My work at IWF focuses on the needs and concerns of low-wage workers.

In this purpose, I strongly advocate for this committee to reject SB 147. Allowing municipalities to increase the minimum wage will benefit both Wisconsin families and the state itself for the following reasons:

1) Families are not able to be self-sufficient

As you know, the current minimum wage is \$5.15, unchanged since 1997. At the current federal rate, a person working 40 hours per week, without sick time and vacation benefits, earns \$10,712 per year *before* taxes.

If minimum wage increases had kept pace with inflation, Wisconsin workers would be earning \$8.70 per hour, totaling \$18,096 per year. Local ordinances in the state call for a modest increase to \$6.50, totaling \$13,520 per year for a full time worker. This is still \$1,700 less than the poverty line for a family of three in 2005, set at \$15,317. Having worked as an aide in this building with many of you, I know that it is hard to make ends meet on a state salary, which is still significantly more.

Since Congress has failed to act for the past 8 years, the job of creating a living wage in America has been left to the localities and the states.

2) The EITC is not enough

The EITC and minimum wage are designed to work in tandem to raise a family's income. The effectiveness of the EITC in raising the incomes of the working poor above the poverty line therefore depends, in part, on regular increases in the minimum wage. This is because the EITC and the poverty threshold both rise each year to reflect increases in the cost of living, however; the federal minimum wage does not.

If the minimum wage were increased to \$6.50 statewide this year, the minimum wage and the earned income tax credit (EITC) would raise a family's income to \$17,176, which is 11% above the poverty line.

3) Increased wages are a win-win for families and communities

Lower wages lead to downward pull on all other wages and working conditions, depressed living standards, and diminished purchasing power. Higher wages and improved working conditions lead to better employees, who stay at the job longer, thereby not drawing on

unemployment compensation, and who have the potential to move up in the organization, and earn a living wage for self-sufficiency.

The **economic benefits** to Wisconsin are important given our current fiscal situation.

1) The state will benefit in the long run

In areas like Madison, Milwaukee, and other cities who have increased wages, low-wage workers will earn more per paycheck, giving them the opportunity to get out of debt, to save, or to stop utilizing state subsidies to make ends meet. In addition, higher disposable income translates into an improved economy and higher sales tax rates, thus increasing state revenues. In keeping the local ordinances as well as enacting a state-wide wage increase, Wisconsin will effectively lower its poverty rate.

2) Small business and local economies will NOT be hurt

One argument against local increases in minimum wage standards is the effect it will have on the local labor market. Let me be clear about this: The proposed increase will not be detrimental to small business owners. In fact, employers actually benefit, in lower turnover rates, lower absentee-ism, and higher productivity. In cities across the country where the minimum wage has been raised beyond the federal level, there have been no accounts of small businesses being forced to shut down or move.

A recent Fiscal Policy Institute (FPI) study of state minimum wages found no evidence of negative employment effects on small businesses. In places like Santa Fe, New Mexico, which raised their minimum wage to \$8.50, the New Municipal League and the City of Albuquerque actually supported the increase when it was challenged in court.

According to the non-partisan Economic Policy Institute:

- A 1998 EPI study failed to find any systematic, significant job loss associated with the 1996-97 minimum wage increase. In fact, following the most recent increase in the minimum wage in 1996-97, the low-wage labor market performed better than it had in decades (e.g., lower unemployment rates, increased average hourly wages, increased family income, decreased poverty rates).
- Studies of the 1990-91 federal minimum wage increase, as well as 1994, 1995 and 2000 studies by David Card and Alan Krueger of several state minimum wage increases, also found no measurable negative impact on employment.

We are facing a huge budget shortfall. Broader city minimum wage laws are an attractive option because they help more struggling families but don't involve new costs for cash-strapped budgets.

I strongly urge this committee to reject SB 147, and to let low income workers provide for their families.

