3. Bring More Pennsylvanians Into the Middle Class

This section elaborates the rationale for the recommendations in the section of the *Prescription for Prosperity: An Economic Agenda for Pennsylvania's Future*. We also provide more detail on how agenda recommendations might be implemented. As with all sections of this "discussion draft," we welcome feedback. (Comments may be sent to agenda@keystoneresearch.org.)

Make Work Pay Enough to Support a Family

Since the late 1970s, public policies (e.g., minimum wage, trade and immigration, and labor policy) have largely been unfavorable to low-wage workers. Partly as a result, a typical low-wage Pennsylvania earner had a lower hourly wage in 2006($7.59), adjusted for inflation, than in either 2001 ($7.80) or 1979 ($7.71).[1]

Strengthening the middle class in Pennsylvania requires policies that push wages up at the bottom of the labor market. Ample evidence exists from experience with state-level increases in the minimum wage that it is possible to raise the earnings of low-wage workers without increasing unemployment. (For research on this, see the minimum-wage research on the Keystone Research Center and Economic Policy Institute web pages.) Historical experience also makes the same point: during the decades (from 1938 to 1968) when the minimum wage was increasing rapidly in inflation-adjusted terms, unemployment actually fell and then remained low, in the neighborhood of 2-3 percent per year in the 1960s.

Box 1. ***The Prescription for Prosperity Excerpt***
Bring More Pennsylvanians Into the Middle Class

Many Pennsylvania families have been cut off from opportunity by stagnant and declining wages, the erosion of job ladders within individual companies, regressive tax policies, and loss of income and a job when sickness or family responsibilities require missing work. For others, poor schools, lack of job opportunities in inner cities, and the decline in good jobs for those with only a high school diploma have made the American dream unattainable. To bring more Pennsylvanians into the middle class, Pennsylvania should:

i. Make work pay enough to support a family
    a. by indexing the minimum wage to inflation, ensuring that wages grow sufficiently to keep pace with rising costs
    b. by enacting living- and quality-wage laws to ensure that all jobs created with public funds, including in direct care fields, pay enough to support a family
    c. by developing job quality improvement strategies in low-wage industries that receive substantial state assistance (e.g., tourism, agriculture, hospitality/gambling)

ii. Join 19 other states by establishing a refundable tax credit for low-income families

iii. Help families balance work and family responsibilities by ensuring that all workers have access to paid sick leave to care for a sick child, relative, or themselves

iv. Move beyond placing low-income workers into low-wage jobs by helping them take the next step into better jobs and careers that support a family

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[1] A "typical low-wage earner" is defined here as a worker who earns an hourly wage higher than 10% of Pennsylvania earners and lower than the other 90%.

a. Index the Minimum Wage to Inflation. Pennsylvania increases its minimum wage to $6.50 per hour on January 1 of this year, the first increase since 1997. The minimum wage for most workers rises further, to $7.15 per hour, on July 1. Even this increase will leave the Pennsylvania minimum wage approximately 7% below its 1979 inflation-adjusted level and 19% below its 1968 peak.

Moreover, it is worth pondering just how modest an inflation-adjusted standard is. In the previous two decades, from 1947-68, the Pennsylvania and U.S. minimum wage increased in inflation-adjusted terms by more than two-and-a-half times. If the Pennsylvania minimum wage had kept pace with productivity growth since 1968, it would now be about $18.40 per hour, more than the state's median wage.

Simply bringing the state minimum wage back to its inflation-adjusted 1968 level would require a hike to about $8.84 per hour.

Another standard that has been advocated (in Pennsylvania by Representative Mark Cohen) is to at least bring the minimum wage for a full-time, full-year worker to the level necessary to reach the poverty level for a family of three: this would be $8.25 per year in 2007.

To reach this standard and begin to rebuild the middle wage, Pennsylvania should phase in an increase of the minimum wage to $8.25 per hour in 2007 dollars. The minimum should then be linked to the rate of inflation, as is legislator's pay. This would ensure that the state minimum wage continues to stay even with the poverty level for a family of three.

b. Enact quality and living-wage laws ensure that all jobs created with public funds, including in direct care fields, pay enough to support a family.

Beyond the state minimum wage, states and localities have developed several other policy instruments to raise the wages of low-wage workers. We highlight two here.

<u>Living wage laws</u> establish a higher minimum wage that applies to employers who receive contracts or subsidies from a local government. The label "living wage" communicates that the wage level – typically between $9.00 and $11.00 an hour plus health benefits – is closer to the wage needed to enable a low-income worker to meet basic needs. Since 1994 more than 140 cities and counties have enacted such laws. Living-wage laws provide a practical way for cities to ensure that public dollars generate quality jobs for local residents. Research also shows that city contract cost increases due to most living-wage laws have been less than 0.1% of the total budget.[2]

A related approach is to establish <u>quality-wage standards</u> linked with a whole industry or occupation within which public funding represents a sizable portion of the market. In these cases, the wage standard may do more than lift workers toward a living wage or "self-sufficiency" standard high enough to pay for a basic needs family budget (typically about twice the poverty level). Because of the importance of public funding in the industry, the wage standard may aim to change the whole competitive dynamic. That is, the wage standard may aim to discourage high workforce turnover and competition based on low-skills, low wages, low quality, or unsafe working conditions. It may aim to promote a more stable workforce and competition based more on high quality, service, and productivity.

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[2]Andrew J. Elmore, *Living Wage Laws and Communities: Smarter Economic Development, Lower than Expected Economic Costs*, Brennan Center for Justice, NYU Law School, online at http://www.brennancenter.org/dynamic/subpages/elmore_report.pdf.

The best-known "quality-wage" standards as we are using the phrase here are the prevailing wage laws linked with public funding of construction projects at the national and state level. In the construction industry, the presence of many small firms and low barriers to entry (with new businesses often beginning as one-person or two-person subcontractors) lead to a tendency to drift towards low-wage, low-skill competition. Laws requiring that workers earn at least "prevailing wage standards" (in some occupations as high as $30 per hour) help stabilize the industry and make competition somewhat less cut-throat.

Quality-wage laws are needed in "direct care," covering early childhood educators and long-term care staff (who work with the elderly and with clients that have physical or developmental disabilities or mental health problems). In these fields, somewhat or largely funded with governmental funds, low wages and benefits contribute directly to high turnover that severs the critical relationship between the recipient of care or education and the person delivering the care or education. To prevent this turnover and promote higher quality, Pennsylvania early childhood educators in the early 1990s advocated a "worthy wage" for child care workers of $10 per hour. Today, adjusting for inflation that same worthy wage would be around $15 per hour.

c. Develop job quality improvement strategies in low-wage industries that receive substantial state assistance.