

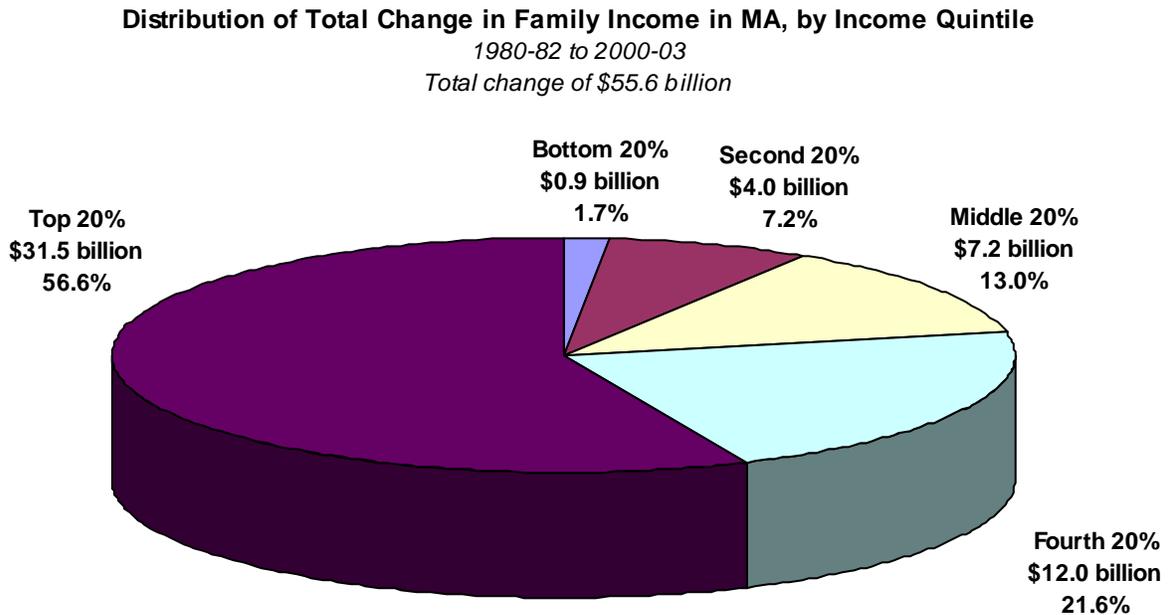


Income Inequality and the Minimum Wage

Over the past twenty years, the total income received by the wealthiest families in Massachusetts has grown by over \$31 billion in real terms, an increase that is 33 times greater than the total increase experienced by the lowest-income families in the Commonwealth.ⁱ While the source of this growing gap may lie in national and international economic trends – as well as in federal and state public policies – there are some policies at the state level that can lift wages for the lowest-paid and help to narrow the gap between the rich and the poor. Among those policies is the minimum wage; in fact, economic research has demonstrated that declines in the real value of the federal minimum wage have contributed significantly to the degree of inequality experienced by low-wage workers.ⁱⁱ If Massachusetts were to raise its minimum wage to \$8.25 per hour and to index it to inflation, the wages of 486,000 workers would grow by a total of \$355 million by 2008, with the large majority of those higher wages going to low- and moderate-income households.ⁱⁱⁱ

Over the roughly twenty year period from 1980-1982 to 2000-2003, total family incomes in Massachusetts rose by approximately \$55.6 billion, from \$79.9 billion at the start of the period to \$135.6 billion by its close. (All figures are in constant 2002 dollars.) As Figure 1 indicates, the bulk of that increase in total family incomes accrued to the wealthiest 20 percent of families in Massachusetts. Families in this category saw their incomes rise by \$31.5 billion in the aggregate – or nearly 57 percent of the total increase in family incomes. In stark contrast, the poorest 20 percent of families witnessed their total incomes rise by less than \$1 billion over this same stretch – their aggregate family income gain amounted to just 1.7 percent of the total increase.

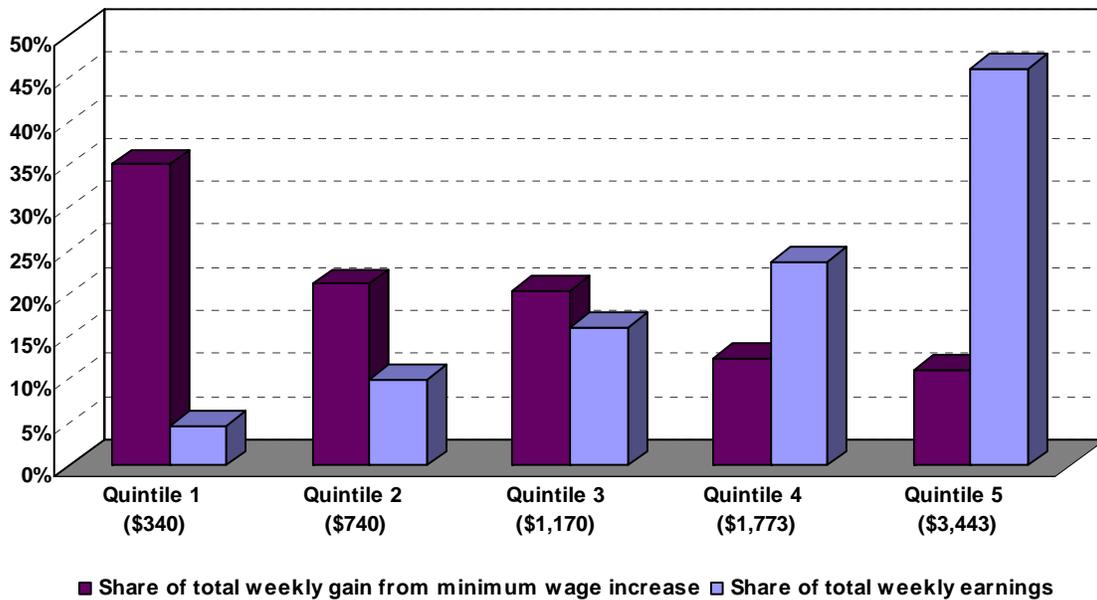
Figure 1.



Raising the minimum wage would lift the wages of the lowest-paid workers in the Commonwealth and would help to narrow the gap between its wealthiest and poorest families. Indeed, the distribution of gains from an increase in the minimum wage would be almost precisely the opposite of the economic trends described above, as the lowest-wage workers in the Commonwealth would receive the largest share of the total increase in wages generated by raising the minimum wage. For example, raising the minimum wage to \$8.25 per hour and indexing it to inflation would yield an aggregate increase in wages of \$355 million in 2008. As Figure 2 shows, 35 percent of this total change in wages would be realized by the poorest 20 percent of households in Massachusetts (as measured by weekly earnings), with another 21 percent accruing to the next lowest 20 percent.

Figure 2.

Distribution of Gains from Raising the MA Minimum Wage to \$8.25 per hour and Indexing It to Inflation
by quintile of household earnings



Figures in parentheses represent average weekly earnings in each quintile.

ⁱ For more on the growth of income inequality in Massachusetts and the United States as a whole, please see *The Growing Gap: Income Inequality in Massachusetts* (available at http://www.massbudget.org/growing_gap.pdf) and *Pulling Apart: A State-by-State Analysis of Income Trends* (available at <http://www.cbpp.org/1-26-06sfp.pdf>). The data on income inequality in Massachusetts in this document is drawn from data compiled by the Economic Policy Institute for use in *Pulling Apart*.

ⁱⁱ Lemieux, Thomas, "Increasing Residual Wage Inequality: Composition Effects, Noisy Data, or Rising Demand for Skill?", forthcoming in *The American Economic Review*, 2006, p. 32, available at <http://www.econ.ubc.ca/lemieux/papers/within.pdf>.

ⁱⁱⁱ The data presented in this document on the impact of raising the Massachusetts minimum wage are based on Economic Policy Institute analyses of Current Population Survey data.