

A REPORT FROM:

POLICY MATTERS OHIO

OUT OF THE BASEMENT: WHO WOULD BENEFIT FROM A MINIMUM WAGE INCREASE IN OHIO?

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POLICY MATTERS OHIO, the publisher of this study, is a nonprofit, nonpartisan research institute, dedicated to research that matters to working people and their families in Ohio. Policy Matters seeks to broaden the debate about economic policy in Ohio by providing quantitative and qualitative analysis of important issues. Other areas of inquiry for Policy Matters have included unemployment compensation, workforce policy, wage distribution, education, housing and economic development. For downloadable versions of this and other research, see <http://www.policymattersohio.org>.

EXECUTIVE SUMMARY

The federal minimum wage of \$5.15 an hour has less purchasing power than in all but one of the past fifty years. Since its high point in 1968, the value of a minimum wage paycheck has fallen by more than thirty percent. Today a full-time minimum wage worker brings in only \$10,712 a year, just two-thirds of the federal poverty line for a family of three (\$16,090 per year in 2005).

The federal government has not raised the minimum wage since 1997 but the issue has seen intense activity in state legislatures in the past year. Thirteen states and Washington D.C. now have minimum wages above the federal level, two states have approved wages above the federal that have not yet taken effect, and in two states (Maryland and Nevada), increases might occur. Three states have taken steps to adjust the minimum wage annually, and one has committed to annual reassessment of the wage. Much of this state activity took place in 2004 and 2005.

Ohio is one of just two states that sets its minimum below the federal level, although the federal applies to most workers here. State Senator C.J. Prentiss (D-Cleveland) has proposed raising the minimum wage to \$7.15 by 2007 with annual cost-of-living-adjustments thereafter. If the wage is not raised legislatively, activists may attempt to place a minimum wage increase before the voters in the form of a ballot initiative.

The proposed Ohio legislation would directly affect 446,000 covered employees earning less than \$7.15 an hour, and could have spillover affects for some workers earning between \$7.15 and \$8.15. Employees who would be directly affected have the following characteristics:

- ◆ The majority are women workers – 60 percent of those who would get a raise are women, even though they comprise just half of the workforce.
- ◆ More than 70 percent are age 20 or older.
- ◆ More than three-fourths of those affected work at least twenty hours weekly and 35 percent work full-time (35 hours or more a week).

The wages of these workers are important to their families:

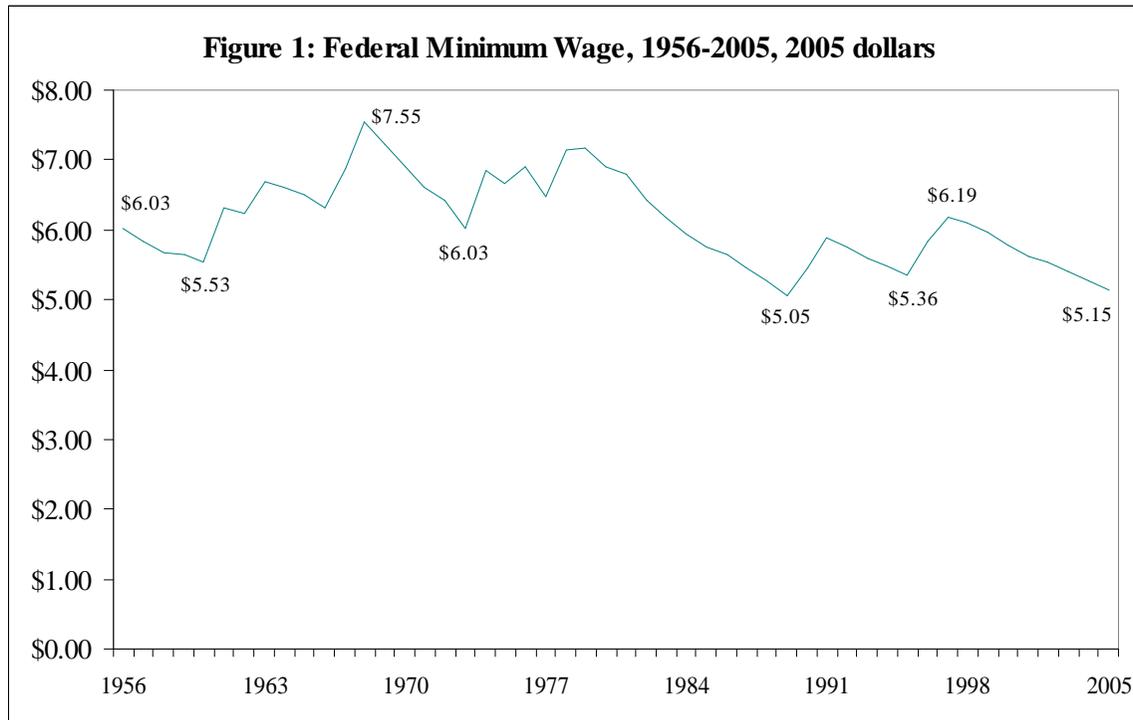
- ◆ The lowest-earning forty percent of Ohio households, which take in just 16 percent of total earnings, would enjoy 57 percent of the gains from the increase.
- ◆ Families with employees that would be affected rely on those workers for half of the family's earnings, on average. Over one-third (37 percent) rely on those family members for the entire family income.

In short, the federal minimum wage is at an extremely low point. Many states are acting to raise their minimum wages. If Ohio followed suit, the main beneficiaries would be from low-income households that rely heavily on these earnings.

INTRODUCTION

The 1938 Fair Labor Standards Act first established a wage floor or minimum wage for workers in the United States. In passing the law, the U.S. Congress stated that the minimum standard was needed to ensure employee well-being, prevent detrimental labor conditions, prevent unfair competition, and prevent labor disputes. Originally set at \$0.25, equal to \$3.33 in 2004 dollars, Congress steadily increased the wage during the economic expansion of the 1950s and 1960s. In recent years, the value of the minimum wage has deteriorated substantially, rendering the minimum wage far less effective at ensuring employee well-being.

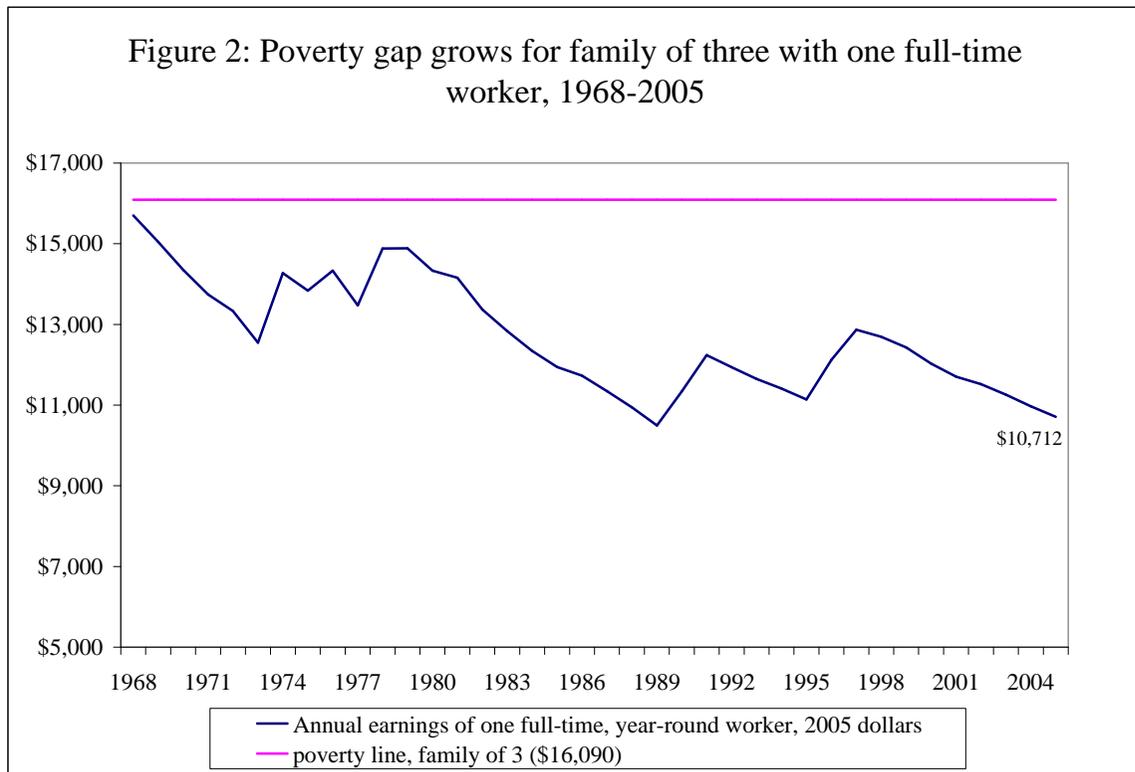
Figure 1 shows the recent erosion in the purchasing power of the minimum wage when adjusted for inflation. Because the federal minimum wage is not indexed to inflation, over the past sixty-five years Congress has repeatedly raised the minimum wage. Since the 1997 raise to \$5.15, the rising cost of living has eroded the real value of the minimum wage to its second lowest point in fifty years. Figure 1 tracks the value of the minimum over the past fifty years in 2005 dollars.¹ The minimum wage was lower than its current value only once during this period, in 1989 after a decade of decline.



Source: Economic Policy Institute

¹ We adjust past prices to inflation using the Consumer Price Index urban, rural, and suburban series (CPI-U-RS) index to inflate dollars. This is generally considered a more cautious and conservative deflator than the urban index (CPI-U) which was previously used (and is still used by the Bureau of Labor Statistics). Had we used the CPI-U, the 1968 value would have been \$8.69 in 2005 dollars, not \$7.55.

The federal minimum wage reached its highest point in 1968. Since then, wages of minimum wage workers have fallen by more than thirty percent in inflation-adjusted dollars. Today, one full-time earner with a family of three would fall 33.4 percent below the official 2005 federal poverty level (\$16,090). Many analysts argue that the official poverty line grossly understates actual costs of living. The Economic Policy Institute has estimated the cost of a “basic family budget” and the women’s organization Wider Opportunities for Women has estimated “self-sufficiency standards,” each of which amount to levels well above the official federal poverty line.² Figure 2, below, illustrates this growing gap between annual minimum wage earnings and the poverty line for a family of three. Table 1 on the next page displays poverty levels for families of other sizes.



Source: Economic Policy Institute

Figure 2 above does not include family income cash assistance programs such as food stamps, housing vouchers, or the Earned Income Tax Credit (EITC). Many low-income employees, particularly if they have children, qualify for government support that can often make a dramatic difference in family income.³

² Depending on family size and community, these standards range from 1.5 to 3 times the federal poverty level. Somewhat dated basic family budget estimates for Ohio are available at: <http://policymattersohio.org/pdf/ohiobudgets.pdf> (accessed March 2005).

³ A paper outlining the potential benefits to Ohio workers of adding a state EITC can be found here: <http://policymattersohio.org/EITC.htm>, and a paper outlining how localities can increase participation in the federal credit can be found here: http://policymattersohio.org/eitc_04.htm (both accessed March 2005). Future research will address the interaction between tax policy and wage policy.

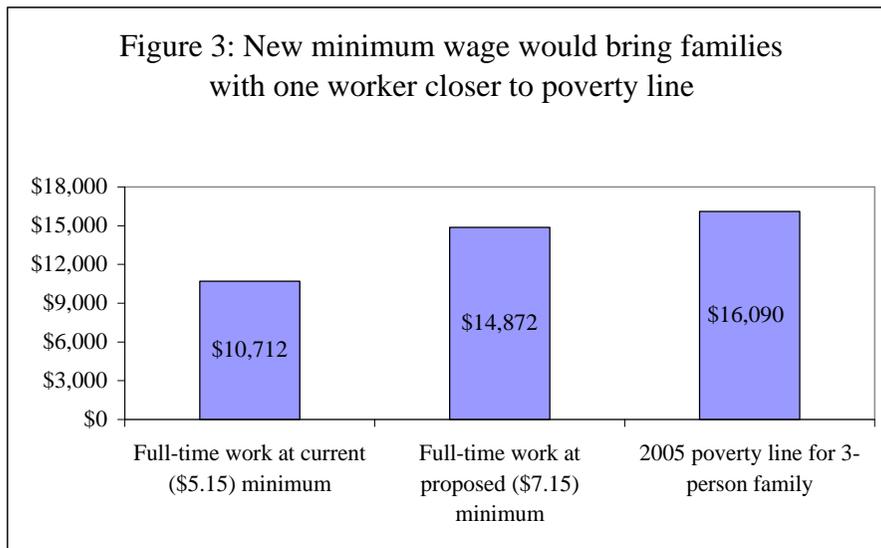
Table 1 helps put the current minimum wage in context. As mentioned, one full-time year-round worker earns \$10,712 with a minimum wage pay rate of \$5.15 an hour.⁴ This is enough to support a single individual just above the official poverty line, but falls short of the poverty line for even a two-person family. The poverty gap – the difference between work-related minimum wage earnings and the poverty level – grows wider as family size increases, since poverty levels are tied to family size.

1-person family	\$ 9,570
2-person family	\$12,830
3-person family	\$16,090
4-person family	\$19,350
5-person family	\$23,610

Source: Federal Register, 2/18/05

Placing annual earnings of a minimum wage worker in the context of federal poverty levels exposes inconsistency in policy: while the government recognizes that the cost of meeting basic needs must be adjusted each year to inflation, it fails to annually adjust the wages of employees most likely to be under or near those poverty levels. Despite yearly adjustments in many other cost of living measures, we have allowed the minimum wage to remain stagnant for eight years, resulting in our current, historically low wage.

The Ohio proposal to increase the minimum wage, discussed later in the paper, would bring families who depend heavily on minimum wage earnings closer to or above the poverty line, depending on how many hours are worked. As Figure 3 shows, a 3-person family with one full-time, year-round minimum wage worker now earns \$10,712, 66.6 percent of the official poverty line. If that worker earned \$7.15 an hour, family annual earnings would be \$14,872, 92.4 percent of the poverty line. For smaller families, or families working more than 2250 hours a year, the new wage would enable the family to escape the official poverty designation.



Source: Authors' calculations, Federal Register

⁴ We define full-time, year-round work as 2080 hours a year – 40 hours a week for 52 weeks. This assumes that workers are either paid for or do not take any days off for sickness or vacation. Most minimum wage workers are not, in fact, provided paid leave for sickness or vacation.

TIPPED EMPLOYEES

Nationally and in Ohio, the current minimum wage only applies to non-tipped employees. Seven states have set minimum wages for tipped employees that are either at or above the national minimum wage rate. All other states allow a “tip credit,” which enables employers to pay an hourly rate below the federal minimum under the assumption that wages will be supplemented by tips. The level of the tip credit varies by state. Thirty-two states and the District of Columbia have wages somewhere between \$2.13 and \$5.15 for tipped employees. Ohio and ten other states have the lowest standards, allowing employees who garner at least \$30 in tips each month to be paid as little as \$2.13 an hour, which is the minimum required by federal law for tipped workers.

In March 2005, Senator Rick Santorum (R- PA) attempted to pass an amendment to the bankruptcy bill that would have increased the overall minimum wage but would have banned states from setting a standard higher than the federal one for tipped employees. Although Santorum’s amendment failed in the Senate, it marks a new attempt to limit the ability of states to raise wages. Furthermore, it brings attention to the well-being of a wide range of workers from waiters and waitresses to baggage handlers and hairdressers who are often overlooked in the minimum wage discussion.

ACTION IN THE STATES

In January 2005, U.S. Senator Debbie Stabenow (D-MI) introduced Senate Bill 14, which would increase the federal minimum wage in three steps over 26 months to an eventual level of \$7.25. The bill was referred to committee.⁵ More recently, two amendments to the federal bankruptcy bill that would have raised the minimum wage were defeated.⁶ But the real action on minimum wage has been in the states.

In 1997, just five states set their wage above the national standard. By October 2005, fifteen states and Washington D.C. will have minimum wages above the federal level, as shown in Table 2. Much of the activity has been in the past year. Some highlights:

- ◆ Since January 2004, Maine, New Jersey and New York have passed increases legislatively (overriding the governor’s veto in New York). Maryland legislators passed an increase but it may be vetoed.
- ◆ In November 2004, Nevada and Florida voters approved ballot measures to raise the minimum wage. The Nevada measure, which 68.3 percent of the voters approved, requires a second approval before it will take effect.
- ◆ Washington, Oregon, and Florida have all indexed their minimum wage to inflation, and the Nevada increase will also be indexed if voters approve it again. New Jersey did not index its wage, but put in place a committee to annually review and make recommendations on whether increases are needed. New York, Maine, and Washington, D.C. passed additional increases after the first boost.

◆ In four states – Illinois, Oregon, Vermont and Washington – the minimum wage rose in January 2005 because of past legislative action.

◆ California legislators passed an increase (beyond the current \$6.75 rate) but Governor Arnold Schwarzenegger vetoed the measure.

Table 2: States with Minimum Wages Above Federal Level		
State	Wage	Scheduled Increase
Washington	\$7.35	Annual
Oregon	\$7.25	Annual
Alaska**	\$7.15	
Connecticut	\$7.10	
Vermont	\$7.00	
California	\$6.75	
Massachusetts	\$6.75	
Rhode Island	\$6.75	
District of Columbia**	\$6.60	\$7.00 in Jan. '06
Illinois	\$6.50	
Maine	\$6.35	\$6.50 in Oct. '05
Hawaii	\$6.25	
Delaware	\$6.15	
Florida*	\$6.15	Annual
New Jersey*	\$6.15	\$7.15 by 2006, Review annually
New York	\$6.00	\$7.15 by 2007
* Effective later in 2005		
** Includes mechanism to stay above federal		

Source: Economic Policy Institute

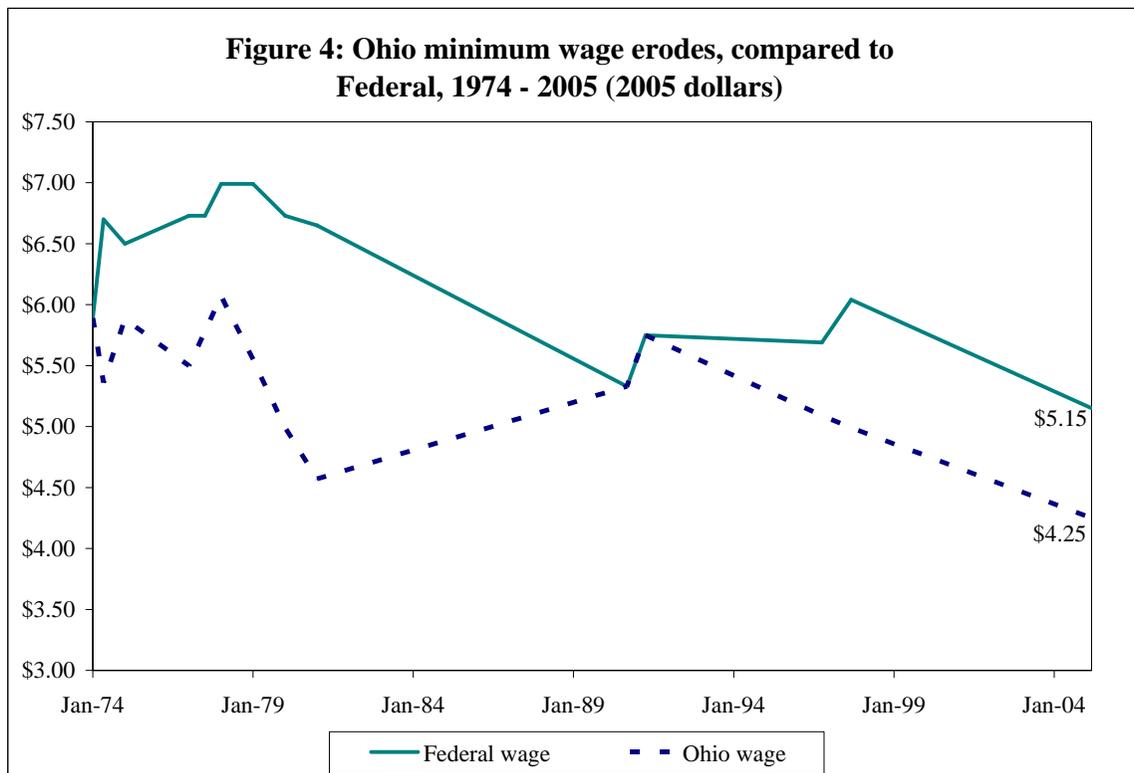
⁵ <http://www.govtrack.us/>, downloaded April 21, 2005.

⁶ “Bill Could Boost Pay.” *Lake County News Herald*. 23 Mar. 2005.

OHIO EFFORTS

Ohio is one of only two states in the country where the state minimum wage, \$4.25, is actually lower than the federal.⁷ The federal law applies to all firms that engage in interstate commerce or gross more than \$500,000 a year.⁸ Although the vast majority of Ohio workers are covered by the federal standard, about 1.9 percent of the state’s employees, nearly 92,000 people, earn less than the federal minimum wage, according to the U.S. Department of Labor’s Bureau of Labor Statistics. Of those workers, 61 percent work in food service. Others are laborers, farm workers, salespeople and administrative support employees.⁹ For a list of occupations in which at least one-fourth of employees earn less than \$7.15, see the appendix.

When the Ohio minimum wage was put in place in January 1974, the rate was equal to the federal rate. Four months later, Ohio fell behind the federal wage and has remained at or below the federal rate ever since. Figure 4 shows how the Ohio minimum wage compares to the federal wage and how both have declined over the last thirty years.



Source: Economic Policy Institute and Laws of Ohio volumes 135-145 (1973-1993)

⁷ The Kansas minimum wage is \$2.65. Note that six states have no minimum wage law in place – employees in these states actually have fewer protections than Ohio workers have.

⁸ The actual Ohio minimum wage depends on the employer’s gross sales and can range from \$2.80 - \$4.25 for the 92,000 Ohio workers not covered by the federal minimum.

⁹ Sheban, Jeffrey, and Catherine Candisky. “Minimum Wage in Ohio May Get Boost: Bill Eventually Would Bump Rate Above Federal Level.” *Columbus Dispatch*. 10 Jan. 2004.

Legislators and activists have tried repeatedly to raise Ohio's minimum wage. In 2003 and 2004, bills to boost the wage were blocked or tabled by party line vote. Most recently, Senator C.J. Prentiss¹⁰ (D-Cleveland) introduced a bill to raise the wage to \$7.15 by 2007. If the Senate bill does not pass, it is likely that grassroots organizers will try to place a minimum wage amendment on the Ohio ballot in November 2005.¹¹

OHIO MINIMUM WAGE WORKERS — A PROFILE

A minimum wage increase would directly affect covered workers earning less than \$7.15 an hour. The raise would increase wages of the 446,000 Ohio employees who earn between \$5.15 and \$7.15 – nine percent of Ohio's workforce. Most of these workers are women, three-quarters work 20 hours or more a week and most are age 20 or older.

A minimum wage increase to \$7.15 could also benefit employees earning slightly more than \$7.15 an hour. To try to capture this, we consider the workers who earn between \$7.15 and \$8.15 as the group that could benefit from these so-called "spillover effects". Spillover effects occur because many firms have a salary structure in place that would preserve a wage differential among the lowest-paid and slightly higher-paid employees.

Opponents of a minimum wage increase have at times argued that such a measure would be poorly targeted, affecting primarily teenagers from affluent households. But demographic details about the beneficiaries defy that argument. Among those details:

- ◆ Women comprise the majority, 59.9 percent. In Ohio, 297,000 women would get a raise. Because many large states already have higher minimums, only Texas has as many women who would benefit directly from a minimum wage increase.¹²
- ◆ More than two-thirds (71.1 percent) of those affected are age 20 or older.
- ◆ More than a third of those directly affected work full time (35 hours or more a week), and 76.2 percent work at least 20 hours weekly.
- ◆ Raises would be concentrated in service occupations and in the leisure and hospitality or retail trade industries. These occupations are often location-specific, so the work is less easily completed from outside of the state or country.
- ◆ Although sample sizes don't allow for accurate breakdowns by race in Ohio, nationwide trends indicate that women of color are disproportionately affected by a minimum wage increase. Nationally, 33 percent of female beneficiaries are African American or Hispanic, even though these populations only make up 23.6 percent of the workforce.¹³

¹⁰ Senator Prentiss is a founding board member of Policy Matters Ohio.

¹¹ Some of the groups who might be involved in the Ohio effort include Let Justice Roll, a coalition of 47 faith and community organizations, and ACORN, the Association for Community Organization for Reform Now. ACORN ran the successful Florida campaign and has been involved in such efforts elsewhere.

¹² Economic Policy Institute analysis of 2003 Current Population Survey data.

¹³ Ibid.

Table 3: Characteristics of Ohio workers affected by minimum wage increase to \$7.15			
	Affected directly	Other low-wage workers*	Total workforce
Number of workers	446,000	334,000	4,983,000
Percent of workforce	9.0%	6.7%	100.0%
<i>Gender</i>			
Male	40.1%	42.9%	50.9%
Female	59.9%	57.1%	49.1%
<i>Age</i>			
16-19	28.9%	19.1%	5.7%
20 and older	71.1%	80.9%	94.3%
<i>Work hours</i>			
1-19 hours	23.8%	} 43.8%	6.6%
20-34 hours	41.4%		15.2%
Full-time (35+ hrs.)	34.8%	56.3%	78.2%
<i>Industry</i>			
Retail trade	24.6%	18.1%	11.7%
Leisure and hospitality	37.3%	21.4%	10.5%
<i>Occupation</i>			
Sales	21.7%	16.7%	10.9%
Service	43.6%	36.1%	17.8%

*These workers earn between \$7.15 and \$8.15 an hour and many may be affected by so-called spillover effects.

Source: EPI analysis of 2004 Current Population Survey data.

As Table 3 shows, more than 70 percent of those who benefit directly are age 20 or older. This reflects, to some extent, the lack of income mobility in the American labor market. Although minimum wage jobs are often depicted as a brief character-building rung at the bottom of the career ladder, research challenges this notion. The Boston Federal Reserve Bank and the University of Michigan found that 40 percent of American families remained in the same income quintile throughout the 1990s and that 53 percent of those who started the decade in poverty remained in poverty.¹⁴

POOR HOUSEHOLDS GAIN MOST

As Table 4 shows, more than a third of the benefits of a minimum wage increase would go to households in the lowest-earning quintile (bottom 20 percent). More than half of the benefits (56.9 percent) would go to the lowest two quintiles together (bottom 40 percent of earners).

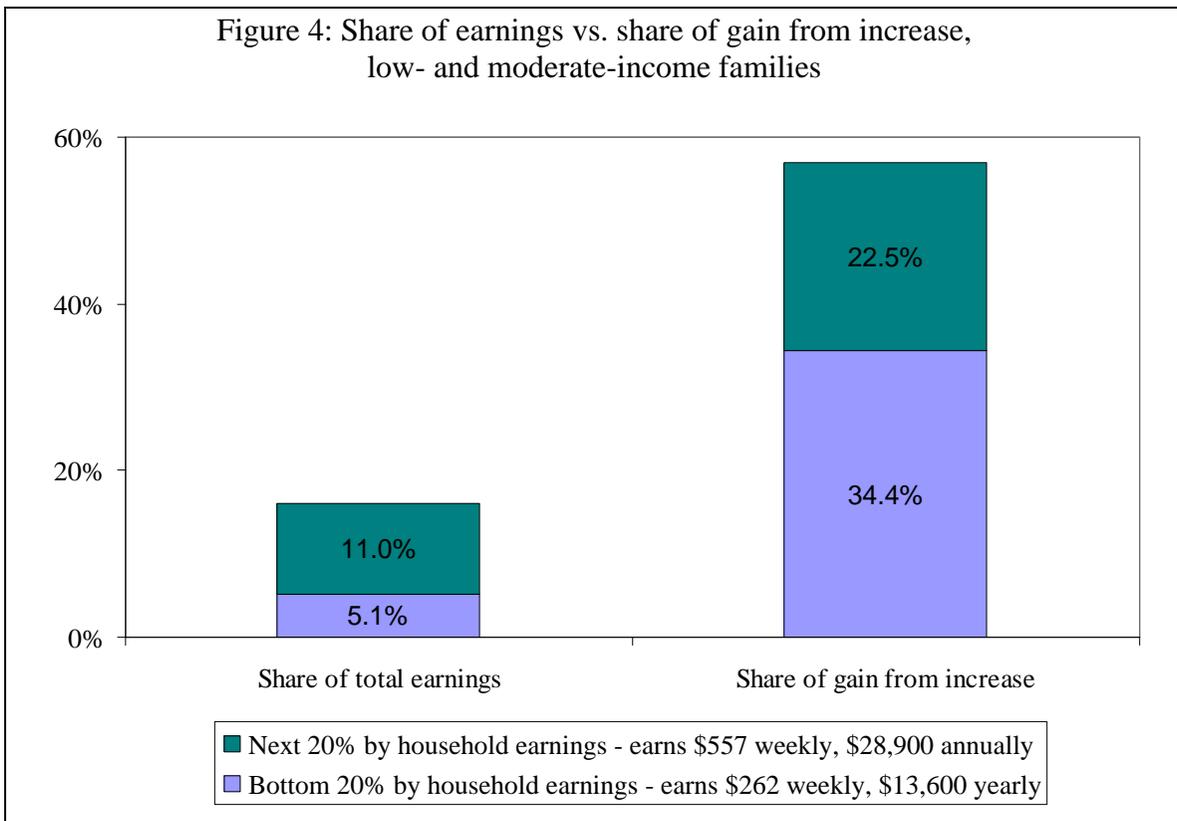
Table 4: Distribution of minimum wage gains by total household earnings in Ohio			
Weekly earnings quintile	Share of total earnings	Share of gain from increase	Average weekly earnings
1 (bottom 20%)	5.1%	34.4%	\$262
2	11.0%	22.5%	\$557
3 (middle 20%)	16.9%	13.5%	\$858
4	24.7%	13.6%	\$1,257
5 (upper 20%)	42.3%	16.0%	\$2,151

Source: EPI analysis of 2004 CPS-ORG data.

¹⁴ Bernstein, Aaron. "Waking up from the American Dream." *BusinessWeek*. 1 Dec. 2003.

Although most beneficiaries have low incomes, an increase would not solely target workers in low-income families. About 30 percent of the benefits would go to upper-middle or upper-income households. The minimum wage is a reasonably well-targeted benefit that serves not just to improve the living conditions of poor households, but also to prevent market forces from eroding wages too far below the poverty level.

Figure 4, below, shows the degree to which winners from a minimum wage hike would come from low- and low-middle earning households, compared to their share of overall earnings. While the lowest-paid twenty percent of households garner just over five percent of overall earnings, they would receive over a third of the raise associated with a higher minimum wage. The second quintile, those earning in the bottom 40 percent, takes in just eleven percent of overall earnings in the state but would reap 22.5 percent of the wage gains from a higher minimum wage.



Source: EPI analysis of Current Population Survey Outgoing Rotation Group

Not all minimum wage employees are poor or support a family on their earnings alone. But it is striking to note how much these low-wage workers contribute to their family income. On average, families with workers that would benefit rely on those family members for half the household earnings, in both households with and without children (Table 5).

Table 5: Proportion of earnings contributed by workers earning less than \$7.15 in 2004	
	Share of earnings
All households	49.8%
Families with children	48.5%

Source: EPI analysis of 2004 CPS-ORG data.

households with children, as shown in Table 6. For these families, an increase in the minimum wage would increase household earnings considerably. Although an increase will not exclusively impact poor minimum wage workers with families, most of those affected by a hike play a significant role in their family’s weekly income.

An astounding percentage of households with a low-wage earner rely entirely on that worker’s earnings for household income. Among those households with a low-wage employee, that worker provides all of the family’s weekly earnings in 36.7 percent of all households and in 36.1 percent of

Table 6: Households in which 100% of earnings come from a worker earning less than \$7.15 in 2004	
All households	36.7%
Families with children	36.1%

Source: EPI analysis of 2004 CPS-ORG data.

CONCLUSION

The federal minimum wage of \$5.15 an hour is currently at a lower real level than in all but one of the last fifty years. Since its highest point, in 1968, wages of minimum wage workers have deteriorated by more than thirty percent. If the minimum wage is supposed to provide a floor, then the current rate has clearly descended to the basement.

Today's full-time minimum-wage earner brings in \$10,712 annually, 33.4 percent below the official 2005 federal poverty level for a family of three. On average, these workers contribute half of their family's earnings, and more than a third of families rely on these earnings alone.

The current proposal to raise the Ohio minimum wage is comparable to proposals that have passed recently, either legislatively or at the ballot box, in states across the country. In Florida and Nevada, voters overwhelmingly authorized a minimum wage hike, by 71.3 percent and 68.3 percent, respectively. "The issue tugged at people's heartstrings. They saw it as a basic matter of fairness," said Bob Fulkerson, director of the Progressive Leadership Alliance of Nevada.¹⁵

Critics of a wage increase are mistaken when they argue that the policy is not well-targeted to adults in needy families. Most Ohio workers who would benefit from a minimum wage increase are adults over the age of 20 who support themselves and, in many cases, their families. The degree to which Ohio families with a very low-wage employee rely exclusively on that person's earnings is astounding. If Ohio were to raise its minimum wage, wage increases would be well-targeted to working people in low-income families.

¹⁵ Dreier, Peter and Kelly Candaele. "Democrats Should Fight for a Moral Minimum Wage." *The Nation* 3 Dec. 2004.

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Appendix 1 provides the occupation, number of workers and 25th percentile wage levels of some of Ohio’s lowest-paid employees, according to the federal Bureau of Labor Statistics. At least one-fourth the employees in each occupation earn less than \$7.15 an hour. Nearly all of the positions are in the service or retail sectors and the majority are in the restaurant industry. Approximately 854,000 Ohio workers hold these jobs.

To calculate the weighted average wage for these 854,000 workers, we took the sum of the hourly wage for each occupation multiplied by its share of total employment. For example, dishwashers contribution to the weighted average wage is \$6.22 * (18,460/854,000) = \$0.1345.

Appendix 1: Snapshot of Ohio’s Lowest Paid Workers, by Occupation		
Occupational Title	Total Employment	25th Percentile Hourly Wage
Waiters & waitresses	86,020	\$5.90
Cooks, fast food	34,900	\$6.01
Bartenders	20,630	\$6.03
Counter attendants, cafeteria, food concession, & coffee shop	10,800	\$6.03
Ushers, lobby attendants, & ticket takers	2,950	\$6.04
Dining room & cafeteria attendant & bartender helpers	17,920	\$6.07
Combined food prep and serving workers, including fast food	100,840	\$6.16
Dishwashers	18,460	\$6.22
Hosts & hostesses, restaurant, lounge, & coffee shop	13,830	\$6.22
Food servers, non restaurant	7,240	\$6.25
Gaming dealers	370	\$6.25
Locker room, coatroom, and dressing room attendants	1,100	\$6.30
Driver/sales workers	21,240	\$6.38
Cashiers	143,360	\$6.40
Shampooers	190	\$6.41
Tour guides & escorts	390	\$6.54
Cooks, short order	9,520	\$6.56
Child care workers	22,420	\$6.57
Cooks, institution & cafeteria	27,010	\$6.60
Cleaners of vehicles and equipment	14,070	\$6.64
Food preparation workers	40,400	\$6.67
Mechanical door repairers	610	\$6.70
Service station attendants	2,360	\$6.70
Counter & rental clerks	16,220	\$6.74
Motion picture projectionists	310	\$6.76
Baggage porters & bellhops	760	\$6.82
Packers & packagers, hand	49,240	\$6.84
Parking lot attendants	3,150	\$6.90
Nonfarm animal caretakers	2,700	\$6.98
Retail salesperson	149,910	\$6.99
Recreation workers	11,230	\$7.02
Concierges	340	\$7.03
Library assistants, clerical	9,810	\$7.05
Crossing guards	2,280	\$7.06
Forest & conservation workers	860	\$7.10
Hotel, motel, & resort desk clerks	5,760	\$7.13
Ambulance drivers & attendants (except EMTs)	950	\$7.13
Veterinary assistants & laboratory animal caretakers	3,610	\$7.14
TOTAL	853,760	\$6.59 (weighted average)

Source: U.S. Bureau of Labor Statistics, Occupational Employment & Wage Estimates, November 2003



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