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Double Whammy High Gas Prices Hammer Minimum Wage Earners

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Introduction

Minimum wage earners today face the double whammy of spiraling gasoline prices and flat to minimal wage growth. The federal minimum wage of \$5.15 per hour has not been raised since 1997. Without any change in 2006, the inflation-adjusted minimum wage in 2006 would be the lowest since 1955.

Gasoline prices, of course, are climbing rapidly. That hits low income workers and their families particularly hard. The vast majority of low income workers, many of whom work at the minimum wage, have to drive to their place of employment, thus facing escalating costs of getting to work. And like all Americans, they have other essential, everyday tasks that often involve driving. Yet low income workers and their families are disproportionately affected by higher gasoline prices. After all, gasoline eats up a larger share of their income.

The combined result is striking. A minimum wage worker in early May 2006 had to labor for 11.2 hours on average to fill a 20-gallon tank of gas, up from 5.5 hours in March 2001. That is an increase of 104.9%. It now takes more than a day of work for minimum wage workers to earn enough money to fill their tank of gas, up from a little more than half a day in March 2001. In 14 states minimum wage earners must labor until lunchtime Tuesday to pay for the gas to drive to work. In another 16 states these employees have to work until well past 10:00 a.m. on Tuesday to pay for their gas.

In the 19 states that raised the minimum wage between March 2001 and May 2006 or already had in place a minimum wage higher than the federal-mandated level, it still took minimum wage earners until Tuesday to begin earning money to pay for something besides gasoline. But according to the study, minimum wage employees in these states could take their mid-morning break and then return to work to earn money for rent, food and clothing, education and other basic necessities of life.

The public policy response to this deteriorating situation for Americans with the lowest incomes should be clear. While in the long run it's paramount to reduce energy costs for families by

increasing energy efficiency, low income families need immediate help. This can primarily come by raising the minimum wage. This would provide financial relief for low income families facing this painful double whammy.

The cost of rising gasoline prices on low-income families

According to the U.S. Census Bureau, 79.4% of workers drove themselves to work in 2003, the last year for which data are available. Among the 6.1 million workers living below the poverty line in 2003, 64.2% drove themselves to work. The median distance to work for those living below the poverty line was seven miles, compared to 10 miles for the population as a whole, mainly because they need to be closer to their places of employment since many don't own a car.¹

But those 3.9 million workers living below the poverty line, many of whom are minimum wage earners who do drive to work, spend a greater share of their income on gasoline than higher income workers. Calculations based on data from the Bureau of Labor Statistics (2005) show that the share of after-tax income families in the bottom quintile (with incomes less than \$24,102) spent on gasoline was 7.9% in 2004, the most recent year full data were available. The percentage spent on gasoline by those in the second quintile, with incomes between \$24,103 and \$41,613 that year was 4.9%. Those percentages continued to drop in the top three quintiles. Those families with incomes between \$41,614 and \$65,099 spent 3.9% of the income on gasoline. Those families with incomes between \$65,100 and \$132,158 spent 3.2%, and those with income earning more than \$132,157 spent 2% on gasoline.

For minimum wage earners spending almost 8% of their weekly incomes on gasoline means that, as of early May, they had to labor for 11.2 hours on average to fill a 20-gallon tank of gas, up from 5.5 hours in March 2001. That's an increase of 104.9%.

After a full day's work on Monday, minimum wage earners have to return to work on Tuesday to pay for the gas to get to their jobs, in some states working past mid-morning -- and sometimes even until lunch that day to pay for the gas to get to work each week (table 1).

On an annual basis, a minimum wage worker driving seven miles a day each way to and from work five times a week chalks up 70 miles in the car. Add in an additional 30 miles per week for shopping and other necessary trips in a car that gets 25 miles per gallon and an average tank of 20 gallons a minimum wage worker would have to fill up the tank every five weeks. The upshot: A little over ten tank fillings per year would require a minimum wage worker to labor for 116.5 hours per year, or about three weeks, to pay for gasoline, compared to 57.2 hours in March 2001.

¹ The fact that fewer poor people drive to work and that they live closer to work is often not a matter of choice but a result borne out of necessity since they do not own a car (Loewentheil and Weller, 2005).

Table 1
Minimum Wage Levels and Gasoline Prices by State, March 2001 and May 2006

State	Min. wage in March 2001	Min. wage in May 2006	Avg. price per gallon of gas – March 2001	Avg. price per gallon of gas – May 2006	Hours at min. wage needed to fill gas tank – March 2001	Hours at min. wage needed to fill gas tank – May 2006	Difference in hours needed – March 2001 to May 2006
Alabama	5.15	5.15	1.39	2.77	5.4	10.8	5.4
Alaska	5.65	7.15	1.68	2.96	5.9	8.3	2.3
Arizona	5.15	5.15	1.51	3.09	5.8	12.0	6.1
Arkansas	5.15	5.15	1.35	2.73	5.2	10.6	5.4
California	6.25	6.75	1.73	3.37	5.5	10.0	4.5
Colorado	5.15	5.15	1.47	2.83	5.7	11.0	5.3
Connecticut	6.40	7.40	1.54	3.04	4.8	8.2	3.4
Delaware	6.15	6.15	1.42	3.11	4.6	10.1	5.5
District of Columbia	6.15	7.00	1.54	2.89	5.0	8.3	3.2
Florida	5.15	6.40	1.44	2.89	5.6	9.0	3.4
Georgia	5.15	5.15	1.29	2.77	5.0	10.8	5.8
Hawaii	5.25	6.75	2.00	3.40	7.6	10.1	2.5
Idaho	5.15	5.15	1.49	2.87	5.8	11.2	5.4
Illinois	5.15	6.50	1.44	2.89	5.6	8.9	3.3
Indiana	5.15	5.15	1.36	2.81	5.3	10.9	5.6
Iowa	5.15	5.15	1.38	2.75	5.3	10.7	5.3
Kansas	5.15	5.15	1.35	2.73	5.2	10.6	5.4
Kentucky	5.15	5.15	1.36	2.75	5.3	10.7	5.4
Louisiana	5.15	5.15	1.39	2.80	5.4	10.9	5.5
Maine	5.15	6.50	1.48	2.87	5.7	8.8	3.1
Maryland	5.15	6.15	1.45	2.98	5.6	9.7	4.1
Massachusetts	6.75	6.75	1.45	2.92	4.3	8.6	4.4
Michigan	5.15	5.15	1.41	2.80	5.5	10.9	5.4
Minnesota	5.15	6.15	1.42	2.72	5.5	8.8	3.3
Mississippi	5.15	5.15	1.39	2.77	5.4	10.8	5.4
Missouri	5.15	5.15	1.32	2.65	5.1	10.3	5.2
Montana	5.15	5.15	1.49	2.73	5.8	10.6	4.8
Nebraska	5.15	5.15	1.44	2.81	5.6	10.9	5.3
Nevada	5.15	5.15	1.71	3.18	6.6	12.4	5.7
New Hampshire	5.15	5.15	1.46	2.87	5.7	11.2	5.5
New Jersey	5.15	6.15	1.36	2.87	5.3	9.3	4.0
New Mexico	5.15	5.15	1.40	2.90	5.5	11.3	5.8
New York	5.15	6.75	1.52	3.10	5.9	9.2	3.3
North Carolina	5.15	5.15	1.38	2.84	5.4	11.0	5.7
North Dakota	5.15	5.15	1.50	2.85	5.8	11.1	5.2
Ohio	5.15	5.15	1.38	2.75	5.4	10.7	5.3
Oklahoma	5.15	5.15	1.30	2.67	5.1	10.4	5.3
Oregon	6.50	7.50	1.56	3.04	4.8	8.1	3.3
Pennsylvania	5.15	5.15	1.39	2.93	5.4	11.4	6.0
Rhode Island	6.15	7.10	1.49	2.93	4.9	8.3	3.4

State	Min. wage in March 2001	Min. wage in May 2006	Avg. price per gallon of gas – March 2001	Avg. price per gallon of gas – May 2006	Hours at min. wage needed to fill gas tank – March 2001	Hours at min. wage needed to fill gas tank – May 2006	Difference in hours needed – March 2001 to May 2006
South Carolina	5.15	5.15	1.31	2.70	5.1	10.5	5.4
South Dakota	5.15	5.15	1.48	2.85	5.8	11.1	5.3
Tennessee	5.15	5.15	1.35	2.76	5.2	10.7	5.5
Texas	5.15	5.15	1.35	2.82	5.2	11.0	5.7
Utah	5.15	5.15	1.42	2.91	5.5	11.3	5.8
Vermont	6.25	7.25	1.46	2.89	4.7	8.0	3.3
Virginia	5.15	5.15	1.37	2.86	5.3	11.1	5.8
Washington	6.72	7.63	1.55	3.11	4.6	8.1	3.5
West Virginia	5.15	5.15	1.42	2.89	5.5	11.2	5.7
Wisconsin	5.15	5.70	1.45	2.89	5.6	10.2	4.5
Wyoming	5.15	5.15	1.45	2.70	5.6	10.5	4.9
U.S.	5.15	5.15	1.41	2.88	5.5	11.2	5.7

Notes: All figures are in dollars, unless otherwise noted. Sources are EPI (2006) and OPIS (2006). Average gasoline prices for the U.S. for May 2006 is a straight average of all state prices. A gas tank size of 20 gallons is assumed for simplicity reasons, particularly since it approximates the average gas tank size of the most popular car models of the past few years (Edmunds.com, 2003; CNN Money, 2006). The minimum wage for the U.S. is the federally mandated minimum wage. In states without a state minimum wage level, the federally mandated minimum wage level is assumed. The calculations do not take taxes into consideration.

The cost of stagnating wages on low income families struggling to pay for gas

Minimum wages and gasoline prices vary by state, of course, as does the impact of higher gasoline prices on low income families. In Kansas, for example, where the minimum wage remains at the federal level of \$5.15 per hour, it takes 10.6 hours a week for the lowest paid workers to earn enough to pay for the gas (at \$2.73 a gallon as of early May) to fill a gas tank. In Oregon, which boasts a minimum wage of \$7.50 an hour, it takes 8.1 hours to achieve the same result, even though the per-gallon cost of gas in that state averaged \$3.04 as of early May.

If Kansas had a minimum wage of \$7.50 in May 2006 it would have taken only 7.3 hours, or less than one day, for a minimum wage earner to pay for gas to get to work. Over the course of a year, the difference would have meant about 40 hours. That's one additional week of work that a low income worker could have spent on other everyday necessities.

Not surprisingly, states where the minimum wage is not above the federal level in May 2006 also have minimum wage workers who have to labor longer to pay for the gas they need to get to work. Every state that has not raised the minimum wage also has minimum wage earners working more than 10 hours a day to pay for a tank of gas. Of the 17 states and the District of Columbia that had a minimum wage above the federal level in May of this year, only California, Connecticut, Hawaii and Wisconsin have minimum wage workers laboring 10 hours or more to pay for gas (see table 2). These four states also have some of the highest gasoline costs in the country.

Most of the states that have seen comparatively small increases in the hours needed to fill up a gas tank have increased their minimum wage in the intervening period. The most dramatic case is Alaska. There, it took 8.3 hours to fill up a gas tank in May 2006, compared to 5.9 hours in March 2001. That comparatively small jump in hours needed to pay for gas to get to work is due to the state's high minimum wage of \$7.15 per hour, up from \$5.65 per hour in March 2001. Even though Alaska has some of the highest gas prices in the nation, the state's decision to increase the minimum wage has dampened substantially the impact of gas price hikes on minimum wage workers.

In fact, among the 17 states and the District of Columbia with the smallest amount of increase in the hours needed to fill a typical gas tank, all but one — Delaware — had minimum wage levels above the federally mandated level. And 17 of these states with the smallest increases in hours needed to fill a gas tank, Massachusetts being the exception, had raised their minimum wage between March 2001 and May 2006 (table 2).

Table 2
Seventeen States and District of Columbia with Smallest Increase of Gasoline Burden for Minimum Wage Workers

State	Min. wage in March 2001	Min. wage in May 2006	Hours at min. wage needed to fill gas tank – May 2006	Difference in hours needed – March 2001 to May 2006	Rank in difference – smallest at top
Alaska	5.65	7.15	8.3	2.3	1
Hawaii	5.25	6.75	10.1	2.5	2
Maine	5.15	6.50	8.8	3.1	3

District of Columbia	6.15	7.00	8.3	3.2	4
New York	5.15	6.75	9.2	3.3	5
Vermont	6.25	7.25	8.0	3.3	6
Oregon	6.50	7.50	8.1	3.3	7
Minnesota	5.15	6.15	8.8	3.3	8
Illinois	5.15	6.50	8.9	3.3	9
Rhode Island	6.15	7.10	8.3	3.4	10
Connecticut	6.40	7.40	8.2	3.4	11
Florida	5.15	6.40	9.0	3.4	12
Washington	6.72	7.63	8.1	3.5	13
New Jersey	5.15	6.15	9.3	4.0	14
Maryland	5.15	6.15	9.7	4.1	15
Massachusetts	6.75	6.75	8.6	4.4	16
California	6.25	6.75	10.0	4.5	17
Wisconsin	5.15	5.70	10.2	4.5	18

Notes: All figures in dollars, unless otherwise noted. See notes to table 1 for other details.

Policy implications for the states and the federal government

States can protect minimum wage workers from increases in basic costs of living by adjusting the minimum wage through legislative action. But instead of relying on ad hoc increases of the minimum wage to protect workers from the erosion of their purchasing power due to price increases, the federal government or the states could let their minimum wage levels rise automatically — tied to overall price increase or some other relevant measure, such as average wages.

Some states have already done this, raising their minimum wage levels above the federal level and then adjusting them as prices increase over time. For instance, the minimum wage in Florida was increased by a successful ballot initiative in November 2004. Under this enacted proposal, the state minimum wage would rise to \$6.40, and thereafter it will be tied to prices at the federal level. Oregon and Washington have similar indexation methods for their state minimum wage levels.

Other states have legislative or ballot initiatives underway to raise the minimum wage in their states. Specifically, ballot initiatives are underway in Arizona, Missouri, Montana, Nevada and Ohio to raise the minimum wage to between \$6.15 and \$6.85 per hour and to let it automatically rise after the initial increase in line with prices (table 2).

In a number of states, proposed ballot initiatives have resulted in legislative action. In Michigan and Arkansas, proposed ballot initiatives have led to preemptive action by the state legislature. The ballot initiatives in these two states are no longer moving forward.

Sometimes, however, legislative action does not stall the ballot initiative. In Ohio, for example, only a few months ago the state raised the minimum wage to the national average of \$5.15 per hour.² In response to this comparatively small improvement, signatures are being collected to put a minimum wage increase to \$6.85 per hour on the ballot in November. This higher minimum wage would go into effect on January 01, 2007, and would increase with prices thereafter.

² When states do not have a minimum wage, the federal level applies to most workers. Some workers are exempt from the federal level.

In a handful of other states (California, Pennsylvania, North Carolina, South Dakota, Nebraska, New Mexico, Iowa and Utah), legislative efforts are underway to raise the minimum wage.

Table 3
State Ballot Initiatives on Minimum Wage, 2006

State	Proposal	Action
Minimum wage indexed to prices		
Arizona	Raise the minimum wage to \$6.75 per hour on January 01, 2007. After initial increase, minimum wage would be indexed to prices.	The coalition is still in the process of gathering the 122, 612 valid signatures needed to put the issue on the ballot.
Missouri	Raise the minimum wage to \$6.50 per hour by January 01, 2007. After initial increase, the minimum wage would be indexed to prices.	200,000 signatures submitted to secretary of state.
Montana	Raise the minimum wage to \$6.15 an hour by January 01, 2007. After initial increase, minimum wage would be indexed to prices.	The initiative is in the process of gathering the requisite amount of signatures required for the November ballot.
Nevada	Raise the state’s minimum wage to \$6.15 an hour by November 28, 2006. After initial increase, minimum wage would be indexed to prices.	Already victorious in 2004 when the measure was placed on the ballot. Nevada law requires an initiative to be passed by voters twice before it comes into effect. The initiative will be on the ballot for the 2006 election.
Ohio	Raise the state minimum wage to \$6.85 an hour by January 01, 2007. After initial increase, minimum wage would be indexed to prices.	The coalition is collecting the 322,899 valid signatures needed for the initiative to qualify for the ballot.
Minimum wage not indexed to prices		
Arkansas	Raise the state’s minimum wage to \$6.15 per hour.	In response to the initiative drive, Arkansas state legislature and Republican Governor Mike Huckabee raised the minimum wage to \$6.25 per hour, effective October 01, 2006.
Colorado	Raise the minimum wage to \$6.85 an hour.	The coalition is in the process of gathering the 100,000 needed signatures to put the issue on the ballot.
Michigan	Raise the minimum wage from \$5.15 an hour to \$6.85 per hour. Thereafter the minimum wage would be indexed to prices.	The state legislature preempted the ballot initiative by passing a law raising the minimum wage to \$6.45 in 2006 and to \$7.45 by July of 2008. This measure is not indexed to inflation.

Sources: Billings Gazette (2006), Brennan Center (2006), CAP (2006), CPC (2006), Columbus Dispatch (2006), DeMillo (2006), EPI (2006), Mannies (2006), NFIB (2006), Pitzl and Scutari (2006).

Although states can help to improve energy efficiency and reduce energy consumption in the long run through a variety of mechanisms, raising the minimum wage is the most straightforward way to help low income workers and their families cope with rising gas prices in the short run. It’s the fair and caring step to take.

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