



JOINT ECONOMIC COMMITTEE DEMOCRATS



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ECONOMIC FACT SHEET

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STRANGE BEDFELLOWS: MINIMUM WAGE WORKERS AND THE WEALTHY

The latest gambit to gut the federal estate tax bundles together the near-elimination of the estate tax and an increase in the minimum wage (as well as the extension of several expiring tax provisions that have nothing to do with either the estate tax or the minimum wage). The differences in economic circumstances between minimum wage workers and those people with estates large enough to be subject to the estate tax are so great, however, that it is hard to find any economic logic for pairing the two measures.

Number of Beneficiaries and Size of Benefit

Drawing on estimates by the Economic Policy Institute (EPI) and the Urban Institute-Brookings Institution Tax Policy Center, the Center on Budget and Policy Priorities has compared the effects of the minimum wage increase and the estate tax cuts.

- The minimum wage would be increased from \$5.15 to \$7.25 per hour by 2009. EPI estimates that 5.6 million workers would benefit directly from the increase and that the average benefit would be \$1,200 per year. Another 7.3 million workers earning somewhat more than \$7.25 per hour could benefit indirectly as a “spillover benefit” of the minimum wage increase.
- The Tax Policy Center estimates that only about 8,200 estates would owe any estate tax in 2011 if the 2009 levels in current law were made permanent. Those are the people who would benefit from further cuts in the estate tax. The estimated average benefit from the proposed estate tax reduction is \$1.3 million.

The Minimum Wage and the Estate Tax Since 1997

The minimum wage was last raised in 1997. In contrast, legislation in 1997 and 2001 increased the amount of wealth

that is excluded from the estate tax and lowered the rate on taxable wealth. While the minimum wage has steadily lost purchasing power, the wealth of those most likely to have estate tax liability has increased substantially.

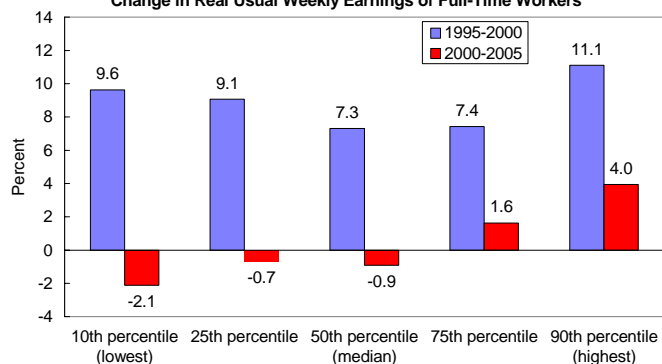
- Increases in living costs have eroded 20 percent of the purchasing power of the minimum wage since it was last raised in September 1997.
- Federal Reserve data show that over roughly the same period (1998-2004) the real (inflation-adjusted) average net worth in the top 10 percent of the wealth distribution increased by almost 40 percent.
- While the average net worth of the wealthiest has risen, the taxes owed on an estate of any given size are lower now than they were in 1997 because of increases in the exclusion and reductions in the tax rate.

Trends in Income, Earnings, and Wealth

Minimum wage workers are among the lowest paid workers in the labor force. People whose assets will be subject to the estate tax when they die are the wealthiest people in the country. The differences in economic circumstances between those at the very top of the income or wealth distribution and those at the bottom are vast and widening.

- Minimum-wage workers would earn \$206 for a 40-hour week at the current rate of \$5.15 per hour. That would put them in the bottom 10 percent of the distribution of usual weekly earnings of full-time workers. In the past five years, earnings at the 10th percentile of that distribution have suffered the largest declines, in contrast to the second half of the 1990s when earnings growth was far more uniform (**Chart 1**).

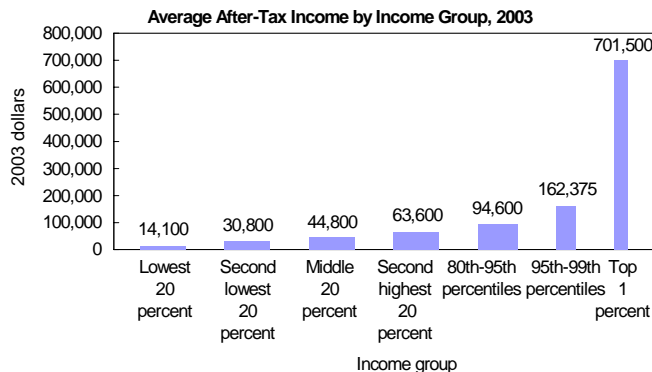
Chart 1
The Distribution of Earnings Has Become More Unequal
 Change in Real Usual Weekly Earnings of Full-Time Workers



Note: Changes are measured from the fourth quarter of 1995 to the fourth quarter of 2000 and from the fourth quarter of 2000 to the fourth quarter of 2005.
 Source: U.S. Department of Labor, Bureau of Labor Statistics

- A minimum wage worker earns less than \$11,000 per year. A household supported solely by a minimum wage worker would be in the lowest 20 percent of the income distribution (**Chart 2**). The after-tax income of the top 1 percent of households—which is where most people with taxable estates are likely to be found—is more than 60 times larger than that of a minimum wage worker.

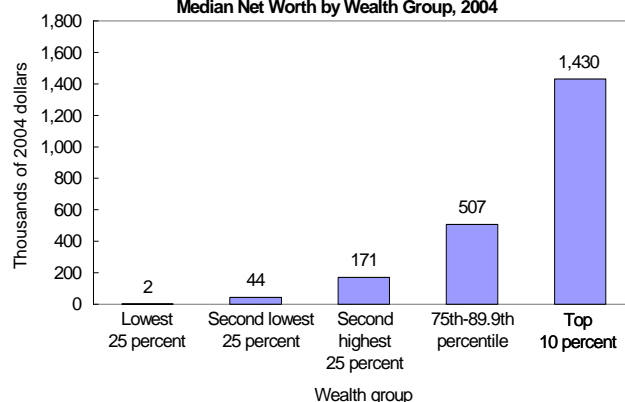
Chart 2
Average After-Tax Income at the Very Top of the Distribution Dwarfs the Income of Other Households
 Average After-Tax Income by Income Group, 2003



Sources: Joint Economic Committee Democrats, Congressional Budget Office.

- An overwhelming majority of households have very little wealth and would not be subject to the estate tax. Households in the bottom fifth of the wealth distribution have a median wealth of just \$2,000. Households in the top 10 percent have a median wealth of \$1.4 million (**Chart 3**), which is less than the current exclusion of \$2 million for an individual (\$4 million for a married couple).

Chart 3
Most Households Have Very Little Wealth
 Median Net Worth by Wealth Group, 2004



Source: Federal Reserve Board.

Because half of the households in that wealthiest group have less than the median net worth of the group (by definition), most will not owe any estate tax.

- Wealth is even more unequally distributed than income. In 2004, the wealthiest 1 percent of households (those likely to be subject to the estate tax) held 33 percent of the country's wealth, compared with just 31 percent held by the bottom 90 percent of households (those with almost no likelihood of being subject to the estate tax).

Budgetary Consequences

Raising the minimum wage will increase the likelihood that minimum wage workers will be paying taxes and drawing on fewer government safety-net services. In contrast, virtually eliminating the estate tax will reduce federal revenues, increase the budget deficit, and put pressure on other government programs that contribute to the economic well-being of lower-income workers, including minimum wage workers.

- The Center on Budget and Policy Priorities estimates that the latest estate tax proposal would cost about \$600 billion over the 2012-2021 period, or about \$750 billion when the associated debt service costs are included. That is about three-quarters of the cost of full repeal, but probably understates the true cost because the latest proposal is not fully effective until 2015.