No, Really. . .
What Would Jesus Do?

Wealth, Taxes and the Minimum Wage

A report by:

The Policy Institute
and the
Montana Human Rights Network

NOTE ON THE TITLE OF THIS REPORT

Too often, progressive people who are active in the political arena shy away from using arguments that reference Christian stories and metaphors. The Policy Institute and the Montana Human Rights Network wanted to assure that we not lose sight of the moral arguments for ending poverty. The question, "What would Jesus do?" is not only a measure of personal responsibility. It is a call to action for social justice and economic human rights.

Some food for thought...

> "Jesus said to him, 'If you want to be perfect, go, sell what you have, and give to the poor, and you will have treasure in heaven; and come, follow me.'"
> **~Mathew, Chapter 19**

> "Jesus said to his disciples, 'Most certainly I say to you, a rich man will enter into the Kingdom of Heaven with difficulty. Again I tell you, it is easier for a camel to go through a needle's eye, than for a rich man to enter into the Kingdom of God.'"
> **~Mathew, Chapter 19**

> "But when you make a feast, ask the poor, the maimed, the lame, or the blind; and you will be blessed, because they don't have the resources to repay you. For you will be repaid in the resurrection of the righteous." **~Luke, Chapter 14**

> "Come, blessed of my Father, inherit the Kingdom prepared for you from the foundation of the world; for I was hungry, and you gave me food to eat; I was thirsty, and you gave me drink; I was a stranger, and you took me in; naked, and you clothed me; I was sick, and you visited me; I was in prison, and you came to me." **~Mathew, Chapter 25**

> "The Spirit of the Lord is upon me, because he has anointed me to preach good news to the poor. He has sent me to proclaim release to the captives and recovering of sight to the blind, to set at liberty those who are oppressed, to proclaim the acceptable year of the Lord." ~**Luke, Chapter 4**

> "And Zacchae'us stood and said to the Lord, 'Behold, Lord, the half of my goods I give to the poor; and if I have defrauded any one of anything, I restore it fourfold.' And Jesus said to him, 'Today salvation has come to this house….'" ~**Luke, Chapter 19**

Introduction

The Great Depression brought significant political change to America. The laissez faire economics of the Gilded Age and Roaring Twenties ended with a resounding crash in 1929. Franklin Delano Roosevelt implemented an aggressive public intervention into the so-called "free market" which lay in ruin on the rocky shoals of greed and corporate misconduct and left millions of people unemployed, destitute and homeless. Roosevelt's New Deal was built on a fundamental belief that government must intervene. This was the environment in which America saw the first adoption of a Federal minimum wage.

Another significant change came as a result of World War II. People realized that virtually everything Hitler did in Nazi Germany was perfectly legal under German law. The world community came together under the auspices of the United Nations to create a legal framework that would protect all peoples' human rights regardless of the political regime they lived under. The U.S., represented by Eleanor Roosevelt, was a major proponent of the need for clear international standards of basic human rights. The result of that effort is the *Universal Declaration of Human Rights*.

The *Declaration* articulates five categories of rights: political, civil, economic, cultural and social. It has failed to garner sufficient international support to become a treaty, because there has been a split between capitalist countries, which favored civil and political rights, and communist countries which favor economic, social and cultural rights. To solve the problem, two separate covenants were created. The United States ratified the Covenant on Civil and Political Rights in 1992. President Carter signed the Covenant on Economic, Social and Cultural rights in 1977, but it has not yet been ratified by the U.S. Senate.

Americans think human rights issues involve a person's ability to participate in civil and political institutions; the right to vote; the right to assemble, etc. Americans tend not to think of a person's ability to feed and provide shelter to family and loved ones in the context of human rights. Too often the American view of human rights abuses focuses on political and civil rights abuses in other countries and rarely calls into question our own record on issues of economic justice.

In recent years, with the increasing dominance of the right wing in American politics, the public discussion of poverty has been framed by a philosophy of Social Darwinism (ironically, often espoused by anti-Darwinian leaders in the Religious Right) and debates focus on economic formulas, international competition and efficiency. From the right, all of this is reinforced by values-laden accusations of character flaws in those who are not succeeding economically. The right's ability to frame the discussion in these terms deflects examination of institutional barriers to economic security. Most importantly, it completely removes from public debate the issue of community responsibility to provide for the basic needs of citizens.

The starting point of debate about poverty should be basic economic human rights and the failure of our public institutions to secure those rights. These rights are widely recognized around the world and clearly articulated in the *Universal Declaration of Human Rights*. When we start from the assumption that these rights must be secured, the debate changes and moves toward constructive measures to alleviate poverty and meet human needs by securing human rights. This approach also provides the moral basis lacking from progressive activism.

A Brief History of the Minimum Wage

The movement for a minimum wage grew out of the abusive labor practices of the sweatshop system. At the turn of the century, there was increasing public concern about the treatment of children, women and recent immigrants in these large workhouses. Working conditions were hazardous and the pay was poor. Proponents of reforming the sweathouse system made moral arguments, articulating society's obligation to act for the welfare of these individuals. It was these principles which were codified in the *Universal Declaration of Human Rights*.

In 1912, Massachusetts, a state with an industrial economic base and a large number of sweathouse production facilities, became the first state to adopt a minimum wage. As the momentum built across the country, numerous states followed suit. By 1920, 13 states had adopted some form of minimum wage protection. The economic dislocation of the Great Depression provided even more momentum for legal standards to protect the working class. By 1938, 25 states had some form of minimum wage protections.

In 1933, Franklin Delano Roosevelt took office in the depths of the Great Depression. Roosevelt's agenda for economic recovery moved quickly in the first 100 days of his administration. In March, he reorganized the banks. In April, he took the nation off of the gold standard. In May, he federalized relief (welfare), provided mortgage aid for farmers, and set up the Tennessee Valley Authority. In June, he sent the Congress a farm credit bill, a Federal bank deposit insurance bill, and a homeowner's loan bill.

A major component of Roosevelt's economic reform was the National Industrial Recovery Act (NIRA). This act was intended to restructure the industrial sector of the economy. NIRA granted Roosevelt broad powers, including suspension of anti-trust laws. It set up the National Recovery Administration, which had power to control wages, hours, working conditions and prices, including the ability to set a minimum wage.

But the U.S. Supreme Court was cool to Roosevelt's agenda, repeatedly finding aspects of the New Deal, including setting a minimum wage, unconstitutional. Following his re-election in 1936, Roosevelt's response to the court was to ask the Congress for a judicial reform package. It was a controversial move that put enough pressure on the court to cause more favorable consideration of New Deal economic proposals. He subsequently withdrew the proposed legislation.

In his second administration, Roosevelt worked with the Congress to modify the provisions of the NIRA, and in1938 the Fair Labor Standards Act became law. The act dealt with numerous labor issues including overtime pay and child labor. It also set the federal minimum wage at 25 cents an hour.

In 1941, a more sympathetic U.S. Supreme Court again addressed the minimum wage issue in *United States v Darby*. In upholding the Fair Labor Standards Act, the court wrote:

> "It is no longer open to question that the fixing of a minimum wage is within the legislative power . . . ."

The minimum wage has been increased 18 times since it was originally set in the Fair Labor Standards Act at 25 cents an hour. Presidents Truman, Eisenhower, Kennedy, Johnson, Nixon, Carter, Bush and Clinton have all signed legislation increasing the minimum wage. The most recent increase was adopted in the Minimum Wage Increase Act of 1996. This act set the minimum wage at \$4.75 effective October 1, 1996 and provided for an increase to the current rate of \$5.15 per hour effective September 1, 1997.

In Montana, the minimum wage has been increased 11 times since 1971. It is currently tied to the federal rate of \$5.15 and has been since 1997. Employers who have gross receipts less than \$110,000 can pay a lower rate of \$4.00 per hour. The minimum wage rate has been controversial in Montana, with numerous legislative proposals being introduced (and defeated) and a ballot effort in 1996. In the 2005 session of the legislature, several proposals were drafted and one measure, sponsored by Senator Dan Harrington of Butte, passed the Senate. It later died in the House. In June 2006, a coalition of labor, low income, church and human rights groups called "Raise Montana" gathered the signatures necessary to place a measure on the ballot increasing the minimum wage to \$6.15 per hour and providing for regular increases tied to inflation.

WEALTH IN AMERICA

The current debate on the minimum wage must occur in the context of a larger discussion about poverty and wealth in America. The moral imperative to alleviate poverty, which is so clearly articulated in the *Universal Declaration of Human Rights*, becomes much more urgent when the larger picture is made a part of the discussion. The reality is that wealth is concentrating into fewer and fewer hands at the same time that poverty is increasing.

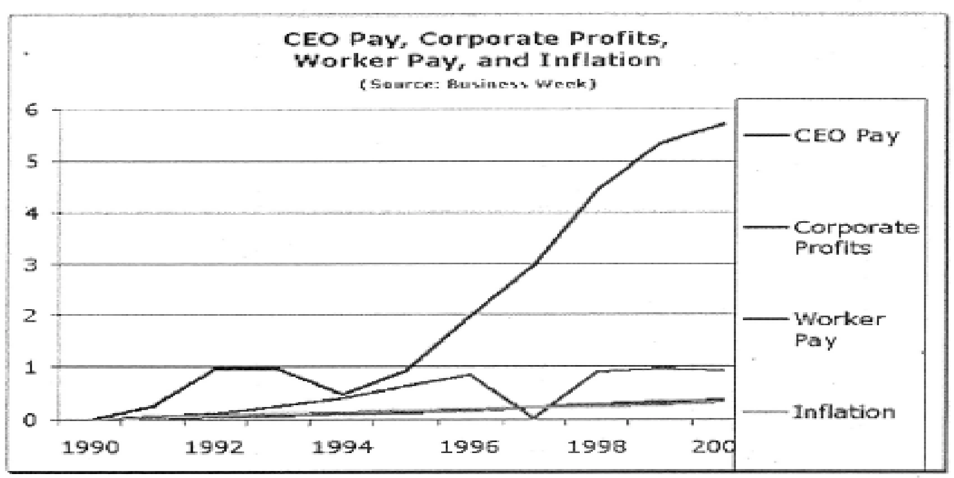
In his book, *Perfectly Legal*, *New York Times* reporter David Cay Johnson examined the issue of wealth concentration and changes to the U.S. tax code. Wealth is more concentrated now than at any time since 1929. The top one-tenth of 1% of income earners (13,400 households) had more income than the 96 million poorest Americans combined.

Increasingly, the story of income distribution is one of the super-rich against everyone else. From 2003 to 2004, the real income of the top 1% of households (those with incomes more than $315,000) grew by 17%. The real income of the remaining 99% of households grew an average of less than 3%[1].

The Business Round Table reports that the median individual executive pay for 350 large companies was $6.8 million in 2005. The *Wall Street Journal*, a frequent critic of exorbitant executive pay, estimates that amount to be 179 times the pay of the average American worker.[2]

Montana is no exception to this CEO largess. Northwestern Energy top management has received consistent bonus packages, even as the company was going through bankruptcy and its customers have seen a doubling of their power rates. Most recently the company announced that its top six executives received a total of $10 million in salary and benefits.[3]

(Figure 1)

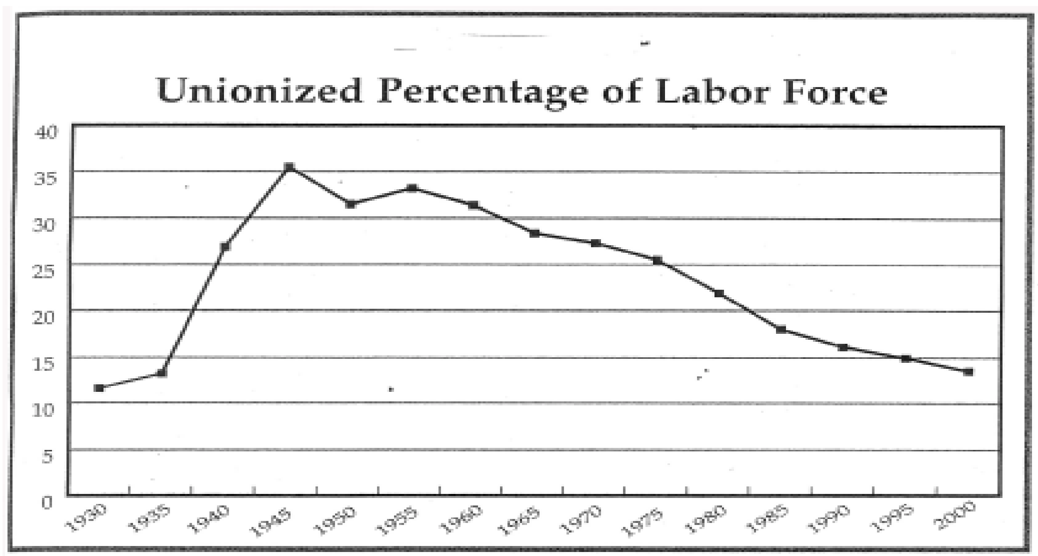


It is axiomatic that the rich get richer while the poor get poorer, but that has not always been the case. In the post World War II period from 1947 to the early 1970s, when some level of income equality was considered a positive public purpose, all income groups shared in the expanding economy. The poor actually had higher income growth than other groups.

The connection between the distribution of wealth and public policy during this period is clear. There were regular increases in the minimum wage and greater investment in the public programs benefiting both the poor and the middle class. Public programs like the GI Bill and home mortgage insurance helped build the middle class by making education and homeownership broadly available. In the private sector, the labor movement was strong, securing the benefits of an expanding economy for its members.

Between the mid-1970s and 1995, that trend reversed. The top 20% of Americans continued gaining wealth but the bottom 40% saw stagnation and decline.[4] During this time "Supply Side" economics brought a less progressive tax structure, less regulation, and more emphasis on fighting inflation than on broadly distributing economic benefits. At the same time, trade policy, declining manufacturing jobs, and the weakening of the labor movement contributed to the relative flat-lining of income for working people.

(Figure 2)



With the exception of the technology bubble in the stock market during the late 1990s and a blip during the Clinton Administration, the trend has remained the same and intensified under the current administration. During the George W. Bush Administration, economic growth has been relatively strong. However, the real compensation of all but the top 20% has been flat or falling.

None of this trend is accidental. Long-term policies to provide protection against wealth concentration and to assure a minimum level of support for all people have been under attack. The minimum wage, progressive taxation, Social Security, Medicaid, and other economic reforms finding their roots in Roosevelt's New Deal have been challenged and dismantled with varying degrees of success.

MEANWHILE BACK AT THE POOR FARM

Hurricane Katrina forced the issues of race and class back onto the national agenda…for a week or two anyway. Following the catastrophe, President Bush admitted, "There's…some deep, persistent poverty in this region," but he has spoken little of it since. When Bush's press Secretary, Tony Snow, was asked if Bush was going to address poverty when he spoke to the NAACP in July 2006, Snow said the President would focus on opportunities available to everyone. He quipped, "After all, the goal is prosperity."

During the Bush Administration the number of people living in poverty (less than $20,000 per year for a family of four) has increased each year, rising from 31.6 million in 2000 to 37 million in 2004. The number of children living in poverty changed little between 2003 and 2004, hovering at 17.8%.[5] The high number of children in poverty and their relative lack of access to education increases the likelihood that they will remain in poverty as adults.

In 2004, Montana ranked 50th among states in average annual pay. 14.2% of people live in poverty, ranking 11th among states. 19.2% of children live below the poverty line. 17.9% have no health insurance. As in other areas of the country, poverty correlates with race. The counties with the highest poverty rates, some as high as 30%, are also counties with the highest percentages of Native Americans. Poverty is also more prevalent in urban areas where the cost of housing is higher. [6]

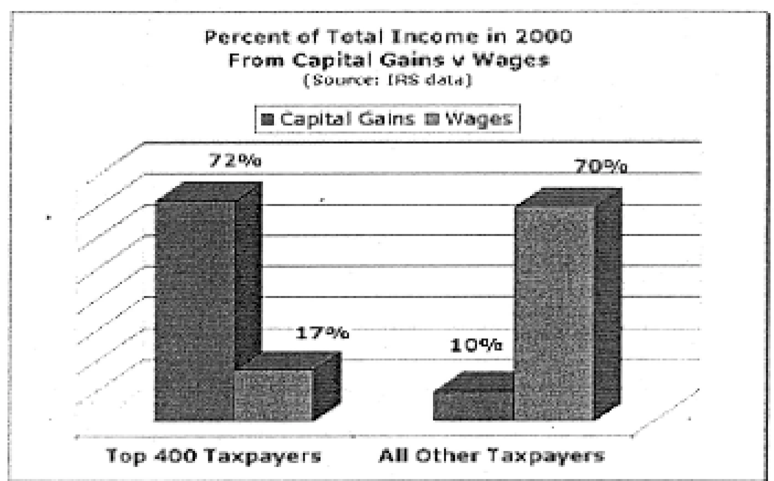
The avalanche of money into the pockets of the wealthiest Americans and the concurrent dismantling of a minimal social safety net for the poor is only part of the story. The other part of the story is the impact of wealth concentration on the middle class. The increasing deficit, as taxes are cut for the wealthy, places more and more debt on future middle-class taxpayers. At the same time, more on-going revenue is required to pay interest on the debt and less is available for services (like higher education). Despite these facts, the Bush Administration is pressing on with an ideologically driven agenda of further tax cuts, deregulation, and spending cuts to domestic programs…all of this while executing a war in Iraq.

TAX POLICY

A Values Statement

As mentioned previously, more and more wealth has been concentrating in the hands of the very wealthiest Americans. This occurs for many reasons but primary among them is through changes in the tax code. The thrust of recent changes in the tax code at both the state and federal level has been to protect the holdings of the wealthiest Americans while shifting the responsibility for paying taxes to fund public services to the middle class.

In the area of income taxes, the shift has been to tax wage earners more than investors. The top tax rate on wages is 35%. The top tax rate on capital gains (investment income) is less than half that amount at 15%. According to IRS, in 2000 most American households derived 70% of their income from work and about 10% from capital gains. The higher a household's income, the more likely the source of that income is capital gains on investments.

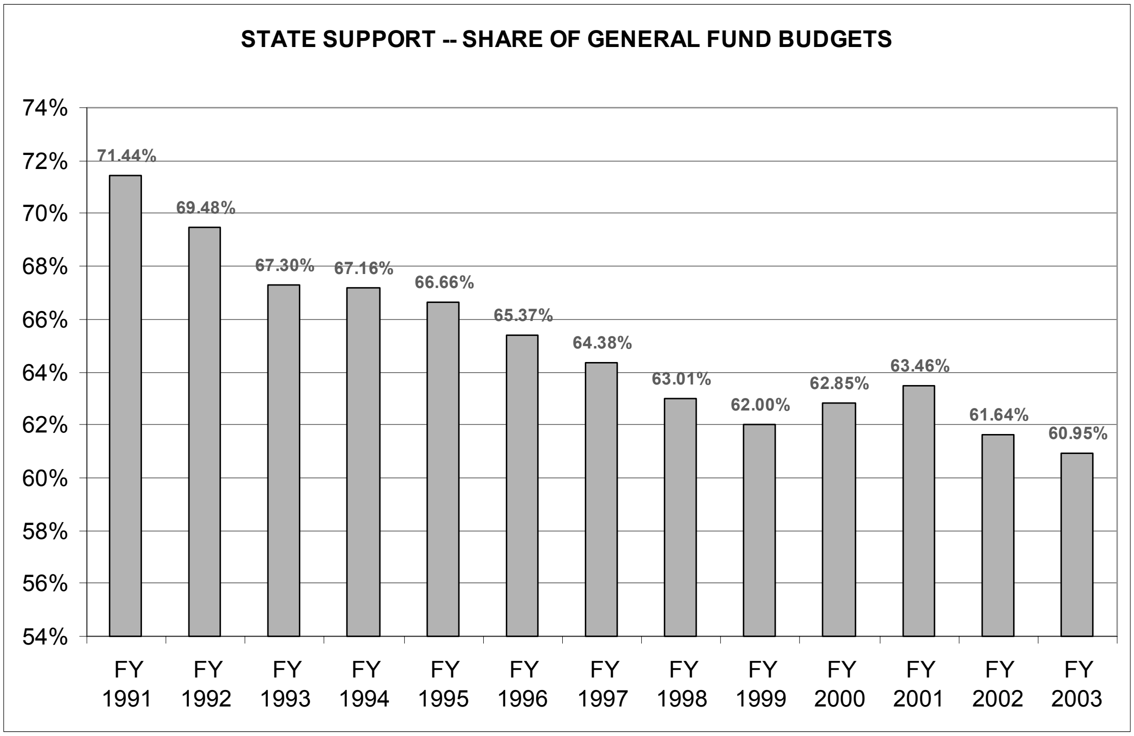


(Figure 3)

Note: Income figures above do not total 100% because some sources of income, such as rent and royalties, are not included.

Tax Shift in Montana

In Montana, the transfer of tax burden from the wealthy to the middle class is the same, though it occurs in a more complex manner. Through the Republican administrations in the 1990s, successive tax cuts were given in a number of areas. At the same time, state expenditures on public education were cut. After making cuts at the local level, schools were forced to make up the loss of funding by going to voters in with increased mils (see Figures 4 and 5 on next page). By and large, Montana voters have supported their local schools' pleas for money. Over the last 10 years, approximately 95% of all voted levies have passed.



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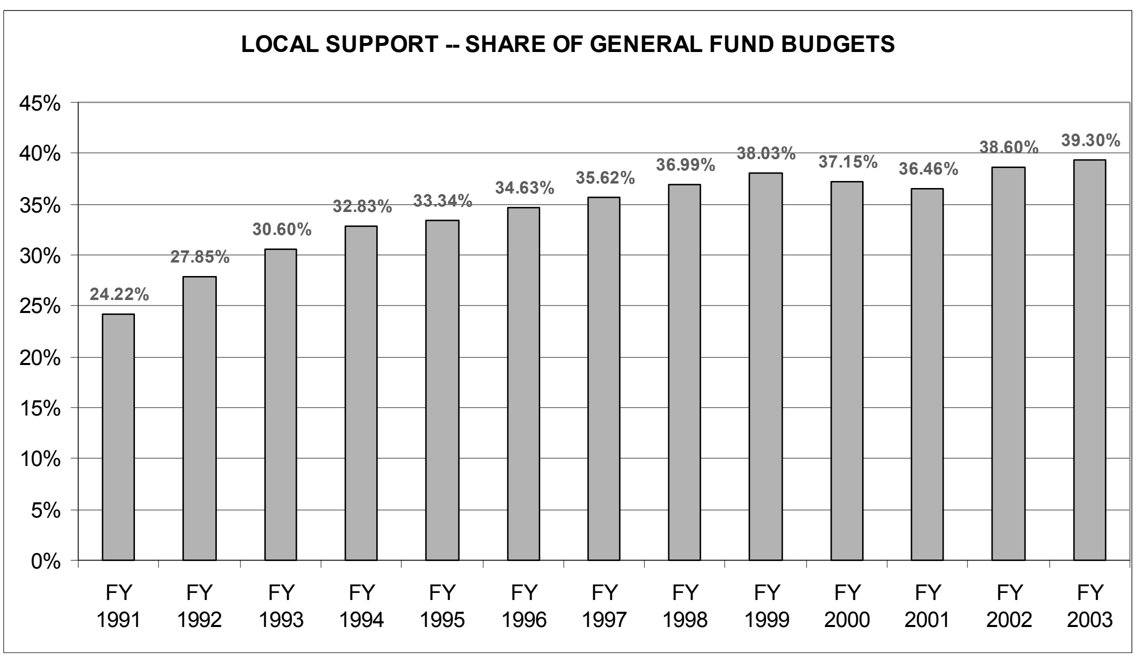


(Figure 5)

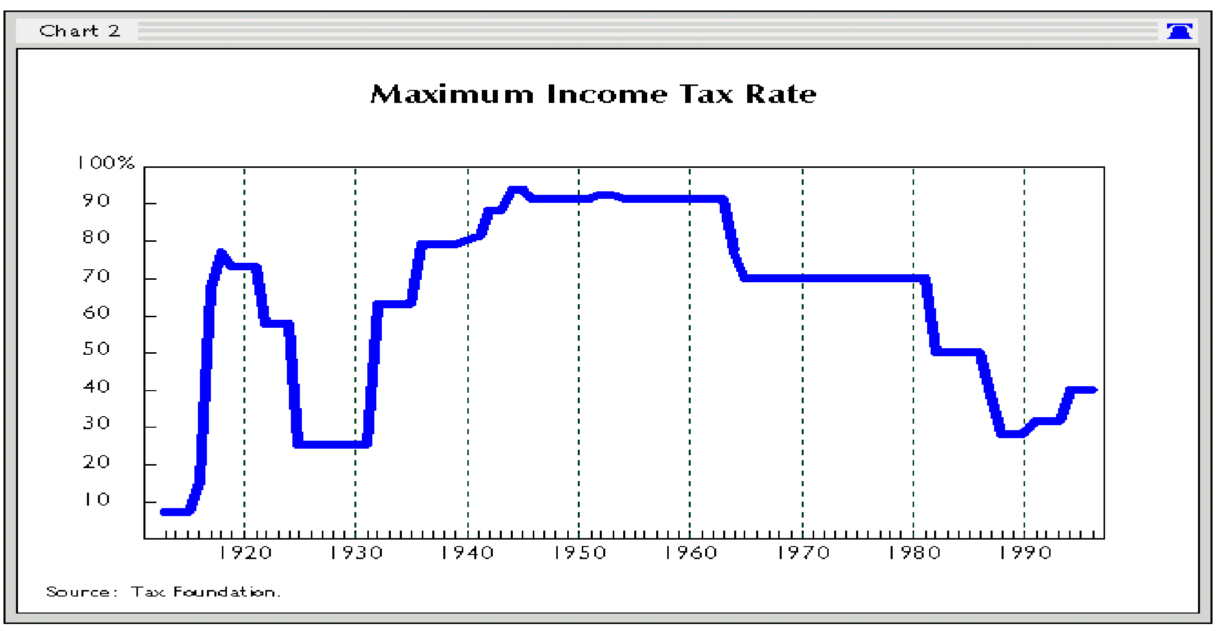
The single most significant Montana tax cut was the reduction of business equipment taxes in 1999. The Legislative Fiscal Analyst Office projected that this single bill would result in a reduction of approximately $170 million to the Montana General Fund during the biennium ending in 2007. While this tax cut benefited small businesses, the biggest beneficiaries were the largest corporations in the state.

1999: Senate Bill 200 - Business Equipment Tax Cut Top Five Beneficiaries

ASMI	$3,506,858
Continental Oil	$1,261,693
Stone Container	$1,297,368
Exxon	$915,050
CENEX	$592,847

Moreover, during the budget crisis of the 2003 legislative session, the major revenue bill of the legislative session raised taxes on rental cars, hotel accommodations, and tobacco. But, it also included a deferred tax cut for the wealthy, which reduced the state capital gains tax and income tax rate. That tax cut became effective in January of 2005. The Montana Legislative Fiscal Division estimates that the income tax reduction will cost $35 million annually.

Of course, the argument is that putting money in wealthy pockets stimulates investment, which stimulates economic activity, which stimulates jobs creation, which increases everyone's income and moves people out of poverty. But the evidence calls that scenario into question. During the 1950s and 1960s, when dramatic economic expansion was seen across income strata, the top federal income tax rate was as high as 91%.

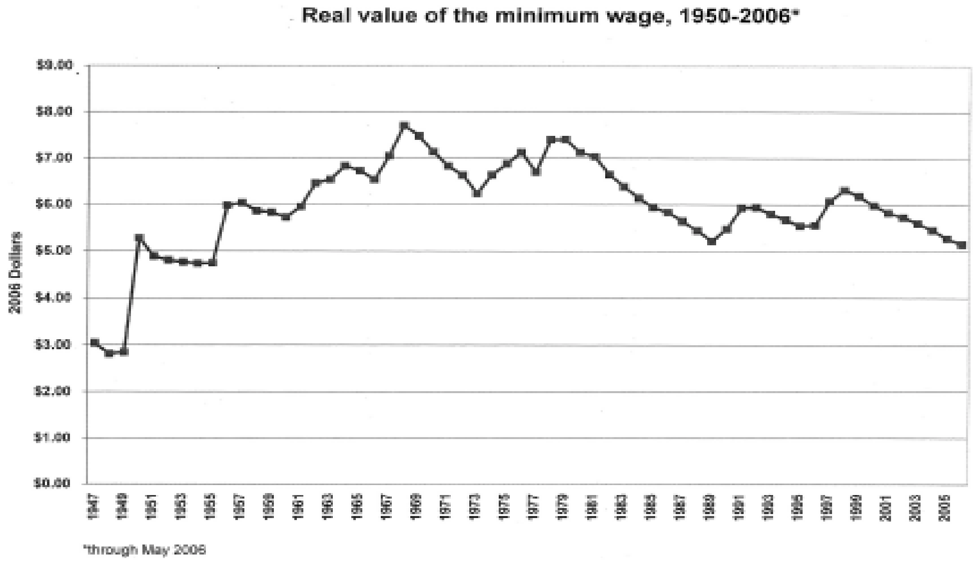


(Figure 6)

Now, About that Minimum Wage. . . .

The current minimum wage is $5.15 and has not been increased since 1997. The real buying power of a person at the minimum wage is the lowest it has been since the 1950s.

(Figure 7)



There has been increasing political pressure to raise the minimum wage at the national and state level. In the 2005 Montana Legislature, there were numerous bill draft requests filed to raise the minimum wage. The proposal which emerged was by Senator Dan Harrington to raise the minimum wage to $6.15 per hour. The proposal passed the Senate but failed in the House amidst controversy surrounding an amendment which allowed a tip credit on the bill. A similar proposal, without the tip credit, will appear on the ballot in November.

Anti-poverty activists realize the increase falls far short of providing for the basic needs of healthcare, housing, food, heat and medicine. The advocate community also recognizes that once the minimum wage issue passes or fails on the ballot it is likely a dead issue for some time to come.

Despite concern that the increase is far from adequate, human rights and low income advocates have supported the one dollar per hour increase. As a political matter, public support for increasing the minimum wage falls off proportionally to the amount of the proposed increase. Advocates have supported a $6.15 minimum wage because it represents nearly a 20% increase and would make a big difference in the lives of people earning the current minimum.

How Far is a Minimum Wage Earner from Meeting Basic Human Needs?

In 2001 the Ms. Foundation for Women released *Raise the Floor: Wages and Policies that Work for All of Us*. The authors put together a minimum needs budget detailing the cost of meeting basic needs. The categories included were housing, healthcare, food, child care, transportation, clothing and personal items, telephones and taxes. Both high and low cost cities were examined. In the lowest cost city of Camden, Alabama, the authors found that a minimum needs budget for a single person living alone is $13,268 per year. A person earning minimum wage of $5.15 per hour working 40 hours per week will bring in $10,712 per year. Than means that the single minimum wage worker, with no dependents, working full-time falls almost 24% short of meeting their basic human needs in the lowest cost areas in the country.

(Figure 8)

National and Metropolitan Minimum Needs Budgets Without Employment Health: Single Adult, No Children

Expenditure	National	Gadsden, Alabama	Des Moines, Iowa	Kansas City, Missouri	Los Angeles, California	New York, New York
Housing	$6,272	$3,804	$5,424	$5,724	$7,260	$9,720
Health Care	3,066	2,906	2,897	3,013	3,090	3,270
Food	1,759	1,633	1,725	2,106	1,859	2,237
Child Care	0	0	0	0	0	0
School Age Care	0	0	0	0	0	0
Transportation	1,285	1,312	1,269	1,340	1,542	1,261
Clothing and Personal	610	539	537	511	554	695
Household Expenses	489	459	441	496	625	459
Telephone	550	574	532	532	559	537
Payroll Tax	1,073	859	981	1,050	1,185	1,391
Federal Taxes	1,211	754	1,016	1,159	1,444	1,879
State Taxes	234	428	347	279	182	973
TOTAL	16,549	13,268	15,169	16,210	18,300	22,422

In Montana, the living wage for a single adult is calculated at $9.07 per hour. A living wage for a single adult with two children is estimated to be $18.46 per hour. 40% of all job openings annually in Montana pay less than $9.07, and 80% of all job openings pay less than $18.46.[7]

Just who are these people working in low-wage jobs (under $9.00 per hour)? Most workers in low-wage jobs are adults, with only 7% nationally being teenagers. 60% of low wage workers are women. 30% of the entire female workforce is in low-wage jobs. 40% have completed high school, and 38% have some post secondary education.[8]

It is important to note, however, that more than one third of prime-age minimum wage workers (25 to 54) are often trapped in these low wage jobs. The Center for Economic and Policy Research reports that these workers get stuck in low wage jobs for as long as three years, particularly in times of high unemployment. The same study found that these workers, on average, supplied 68% of their total family income.

Here in Montana approximately 22,000 workers will be directly affected by an increase in the minimum wage to $6.15 an hour. Additionally the Economic Policy Institute projects that another 22,000 workers who earn more than the statutory minimum of $6.15 but still reside at the bottom of the scale of average pay will receive an indirect benefit or ripple effect.

The average raise for those workers who are directly affected will be 44 cents or 8%. 34% are male and 66% are female. 38% work in full time positions. Of the affected workers, 44% (or 9,680 individuals), of the minimum wage earners provide 100% of the household income. There are 13,000 children of parents who will be affected by the minimum wage increase.

Over time, the minimum wage worker in Montana has fallen farther and farther behind. Since 1997, the last time the minimum wage was increased, overall Montana average income increased almost 28%. The median family income grew by almost 13% and per capita personal income increased by almost 24%. The average state employee wage increased nearly 13%. All of this while the minimum wage has stayed the same; its buying power being eroded by inflation (see Figure 5).

Conclusion

The people ask, "How shall we help the poor?" Our leaders respond, "By giving more money to the rich." It sounds like an exchange from the pages of Alice in Wonderland. Unfortunately, it is a concept that resides at the ideological core of right-wing economic and political philosophy. It dominates debate over public policy about poverty and wealth.

This report has provided some basic information about the increasing concentration of wealth in America, the relative stagnation of the middle-class, and expansion of poverty. The important point in all of that information is these things are interrelated and profoundly affected by public policy decisions made by our representatives. They are not beyond our control. They speak to the priorities we choose and values we believe in.

Increasing the minimum wage is one concrete and specific step in addressing poverty in Montana. Political constraints have limited the practicality of increasing the level of the minimum wage to only $6.15; an amount which is far from meeting the economic needs of one individual. The reality is that, win, lose or draw, the viability of using a statutory minimum wage as a mechanism to address poverty in Montana will be over with this ballot measure in this election. Its political life will have played out for the next five to ten years.

There is much to be done to secure all of our citizens' basic economic human rights. The following are strategies that will enhance the security of the middle class in Montana while helping to alleviate poverty among the least fortunate among us.

Health Care Reform: Ultimately, the solution here is no different than it is in the rest of the world…a single payer system. In Montana, we can move in that direction by expanding eligibility for programs like CHIP and Medicaid and having public administration of these programs rather than premium-based private administration.

Affordable Housing: Home ownership is one of the surest ways to build wealth, yet it is beyond the reach of many Montanans. There should be programs, such as the creation of an affordable housing trust, to make home ownership more broadly available.

Tax Reform: Montana's tax system is increasingly unfair. It relies too heavily on residential property tax. The result is a shifting of the responsibility for taxes to middle class homeowners and a school funding system which is not equitably funded. In addition, the top marginal income tax and capital gains tax rates should be increased, and the income threshold for being obligated to pay income tax should be raised.

Energy Assistance: "Universal System Benefit" programs, which are currently run under a hodge-podge of rules, should be standardized between both electricity and gas rates, as well as among different classes of consumers and energy providers.

Valuing Work: There should be a state-level, earned income tax credit for low-wage workers. All workers should also be entitled to paid sick leave.

Child Care/Education: Assistance for child care expenses should be available through programs similar to the Child Care Development Fund. Pre-kindergarten and all-day kindergarten should be available through the public education system. In addition, after school programs should be available.

To some people the question is, “Can we afford it?” If that is the question, there are only two answers…yes and no. But, if the question is framed as a matter of basic human rights and moral responsibility, it becomes, “How do we afford it?” That question starts a different, more productive, discussion.

END NOTES

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Charts and Tables

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