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HAWAIʻI APPLESEED
CENTER FOR LAW & ECONOMIC JUSTICE

HAWAIʻI BUDGET
& POLICY CENTER

THE HIGH COST OF LOW WAGES

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Hawai‘i Appleseed is committed to a more socially and economically just Hawai‘i, where everyone has genuine opportunities to achieve economic security and fulfill their potential. We change systems to address inequity and foster greater opportunity by conducting data analysis and research to address income inequality, educating policymakers and the public, engaging in collaborative problem solving and coalition building, and advocating for policy and systems change.

The work of Hawai‘i Appleseed is about people. The issues we work on—housing, food, wages, the state budget and taxation, and racial and indigenous equity—are important because they ensure people have access to shelter, sustenance, and the means to survive and thrive individually and collectively. Addressing these issues requires the knowledge and expertise of the people that have first-hand experience and live with the adverse consequences of our flawed systems.

The Hawai‘i Budget & Policy Center is a program of Hawai‘i Appleseed Center for Law & Economic Justice. Our mission is to ensure that our state and local economic policies increase opportunity for all residents. We do this by analyzing and understanding the implications of tax and budget decisions and making sure that the public and policy-makers are informed through strategic communications, coalitions, and key partners. HBPC’s work is guided by the belief that government at all levels should play an active role in helping people reach their full potential.

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EXECUTIVE SUMMARY

Growing up in a financially secure household is often one of the highest predictors of future economic success. Despite working and being active players in our local economy, more than half of Hawai‘i’s households are living paycheck to paycheck, and are one financial hardship away from slipping into poverty. The causes of poverty are many, but here in Hawai‘i much of it is driven by our high cost of basic needs, including housing, healthcare and food, as well as the growing share of low-wage, low-opportunity jobs.

Living in a low-wage household can have permanent adverse impacts on a child’s chances of success as an adult, and this impact carries over from one generation to the next. The disadvantages of growing up in poverty mean that children in low-income households are less likely to move up the income ladder when they begin working, compared to their peers from financially secure households.[1] The failure of low-wage jobs to provide economic stability can perpetuate a cycle of intergenerational poverty that keeps families trapped in poverty. This lack of economic mobility can impose a high cost on our keiki through loss of future economic productivity, poorer health outcomes, and less educational attainment.

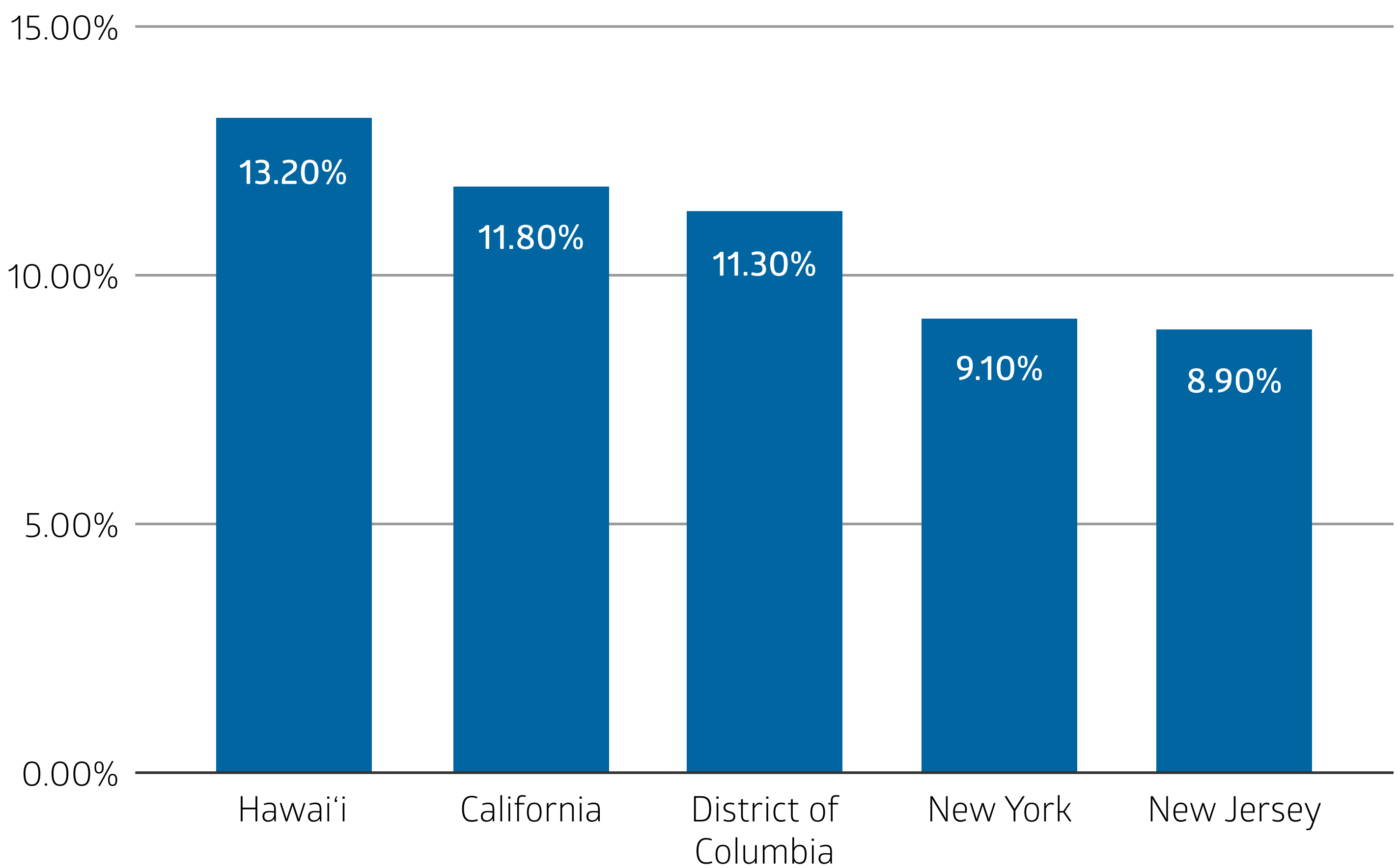
However, policymakers have at their disposal highly targeted interventions that can help to short-circuit the cycle of poverty, and help Hawai‘i’s children from low-income families ladder-up on their journey to economic success. Specifically, lawmakers can invest in proven economic supports—such as creating a state-level Child Tax Credit—that will help low-income families cope with Hawai‘i’s high cost of raising a family. In addition, the state and counties can continue to make public investments in the construction of income-restricted affordable housing, so Hawai‘i’s low-income families can afford to continue to live and work here.

In this report, we demonstrate how chronically low wages have prevented Hawai‘i’s working families from thriving, and identify policies that can help to resolve the root problems that cause poverty.

THE HIGH COST OF LIVING

The high cost of living in Hawai‘i means that residents need higher wages to get by. Hawai‘i continues to be the most expensive U.S. state to live in, with prices that are 13 percent higher than the national average.[2] In addition, the states that come close to Hawai‘i's cost of living have median incomes that are either comparable or significantly higher.[3]

Figure 1. State costs of living compared to the U.S. average (2022)



Note: An RPP of 100 represents the U.S. average.

Figure 2. Median income by state (2022)

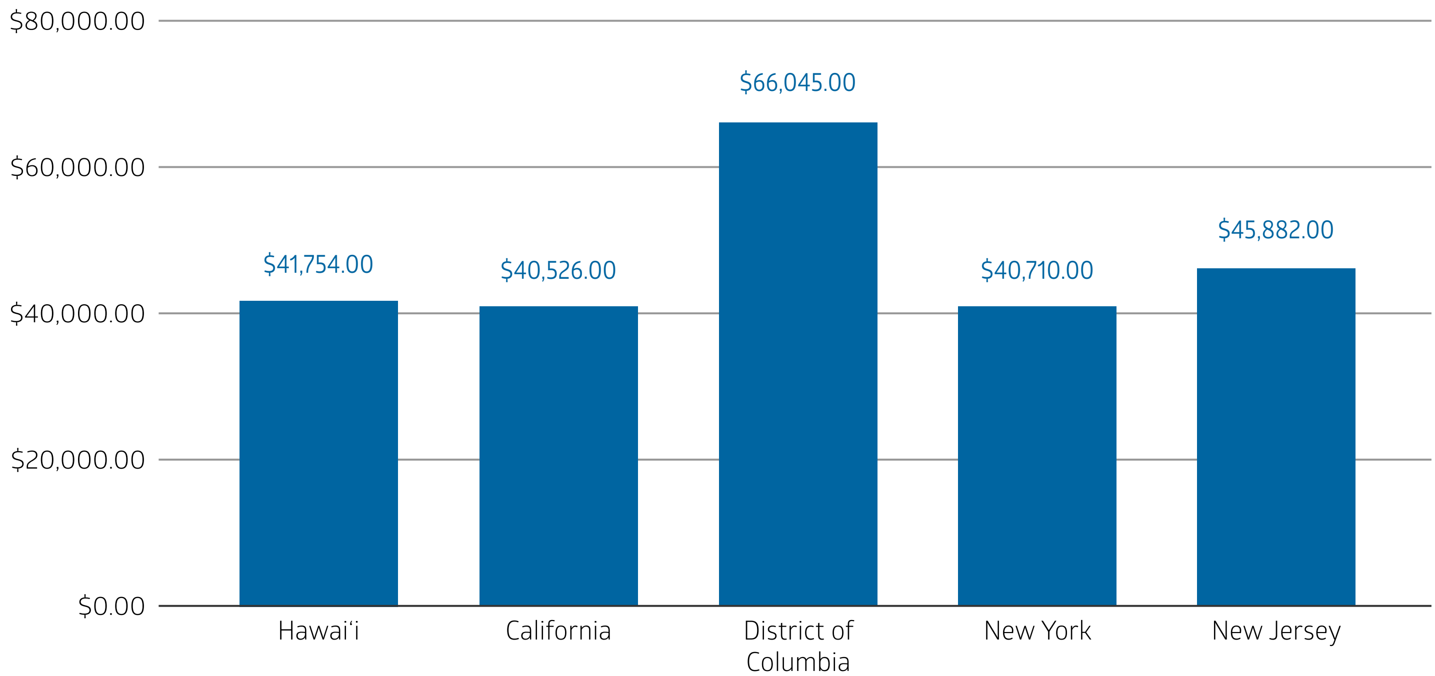
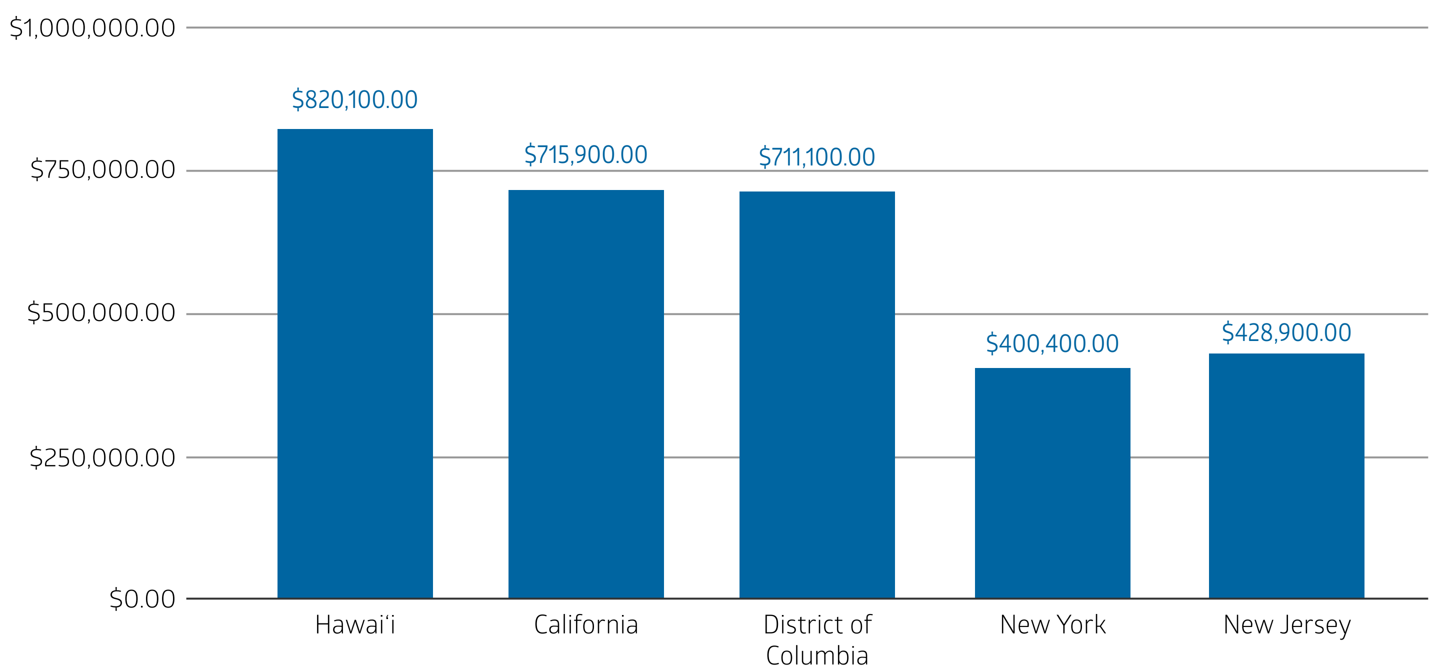
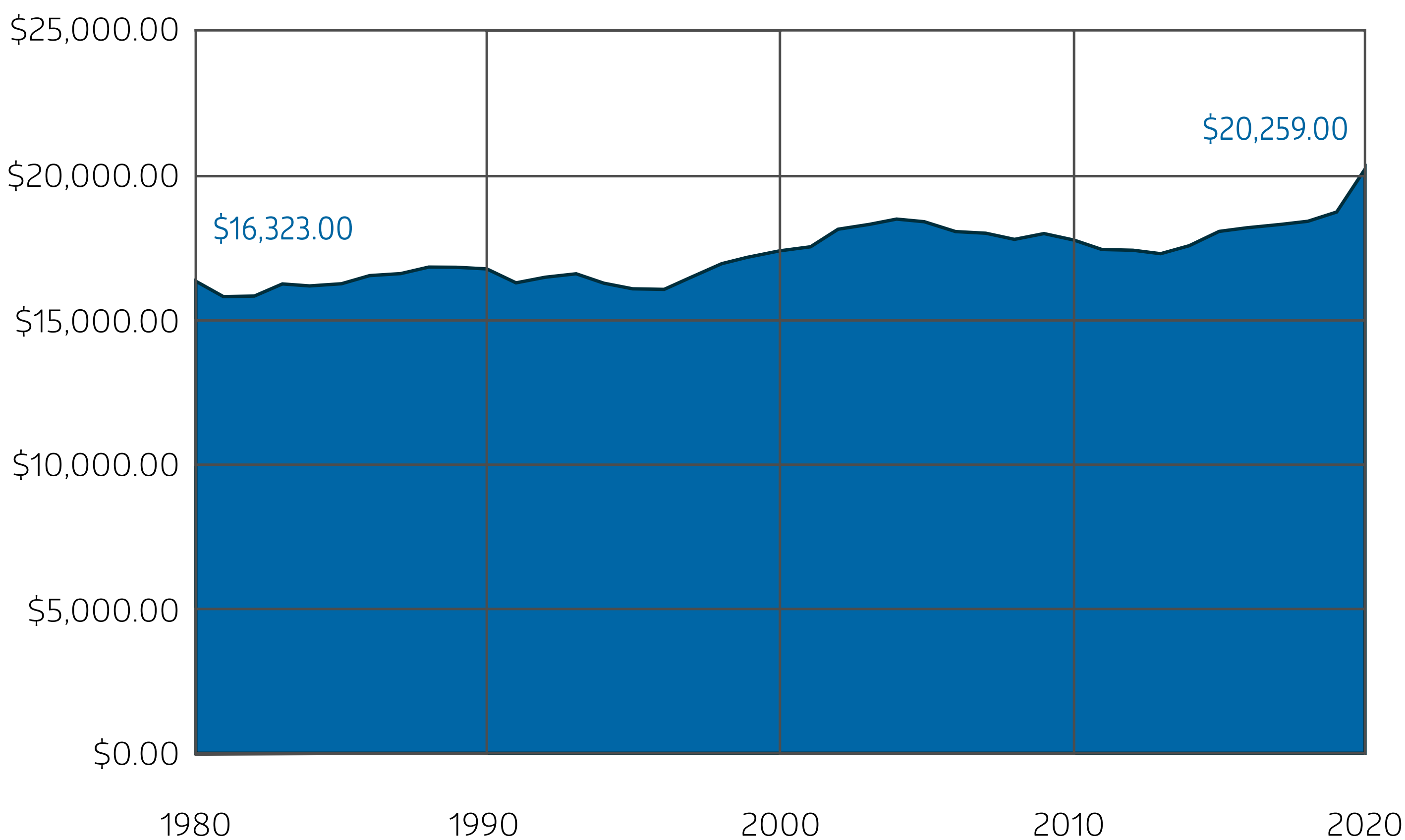


Figure 3. Median home price by state (2022)[4]



After adjusting it for inflation, Hawai'i's average wage only climbed by about 24 percent between 1980 and 2020.[5] These stagnant wages have made it difficult for low-income Hawai'i residents to enter the middle-class. In Honolulu, the cost of housing alone accounts for over 41 percent of the average household's budget.[6]

Figure 4. Average wage adjusted for inflation, Hawai'i (1980–2020)

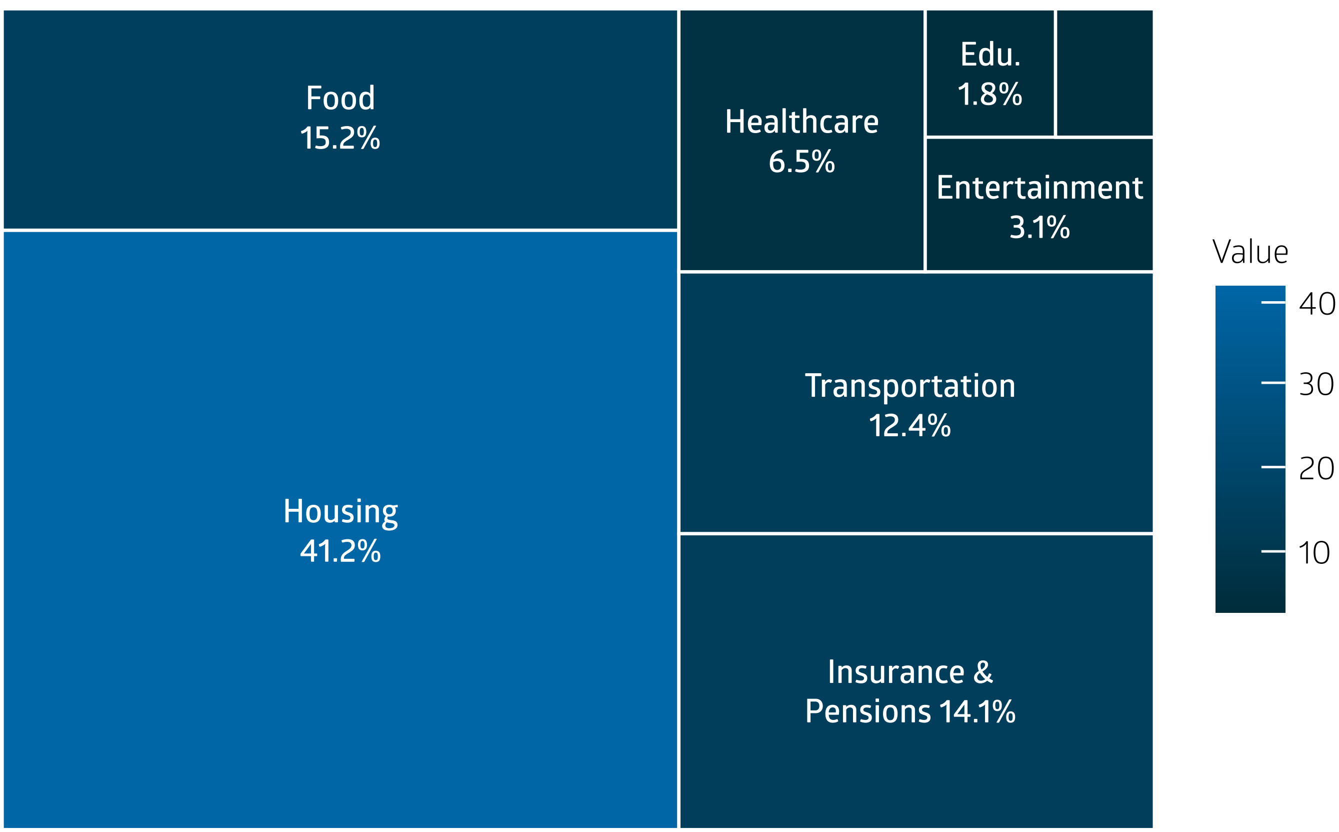


Hawai'i's average wage has only risen slightly with the rate of inflation over the last 40 years.

Since low-income households spend a higher portion of their budget on basic necessities compared to high-income households, cost increases can push them even deeper into economic insecurity. One survey found that 54 percent of Hawaiʻi residents spend all of their income on necessities, leaving them with little savings for unexpected costs, such as emergency room bills or vehicle repairs.[7]

Having a child can also add thousands of dollars to a family's yearly expenses, since parents have to budget for their children's education, food and medical care. Although it can be costly to afford childcare for infants and toddlers, the overall cost of raising a child only increases with age. In 2015, it cost the average American couple about 10 percent more to support a 17-year-old compared to a 2-year-old.[8]

Figure 5. Average household budget by spending category, Honolulu (2020-2021)[9]

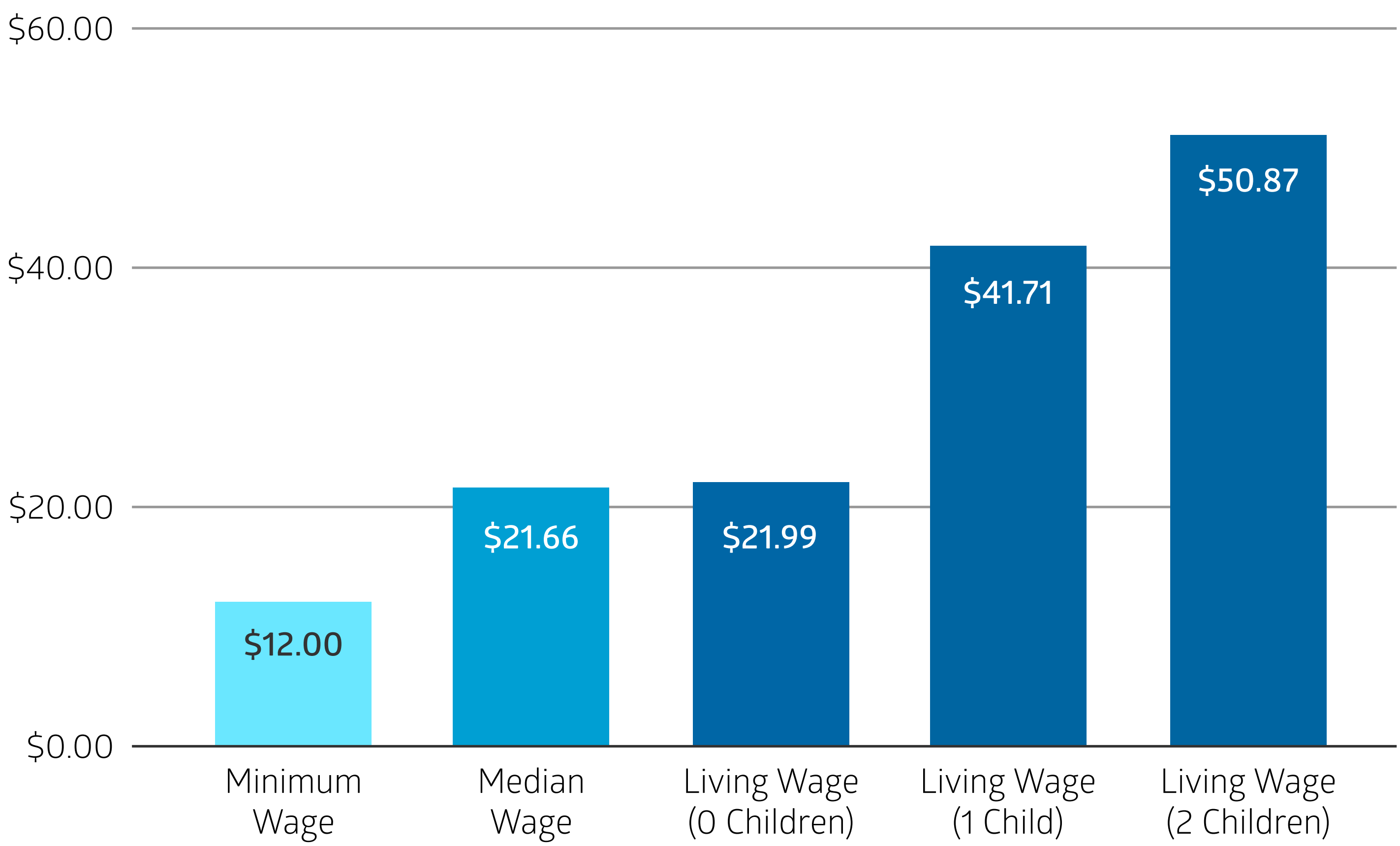


Housing and food costs take up over half of the average household's budget in Honolulu.

THE GROWTH OF LOW WAGE WORK

The wages earned by many of Hawai'i's workers are not enough to sustain a comfortable standard of living. In 2022, the median wage in Hawai'i was $21.66 an hour, or $45,043 a year before taxes. Although Hawai'i's median wage almost counts as a "living" wage for single workers without children—the wage needed to be financially secure at a basic level—it is well below the living wage for single-income families with any number of children. The minimum wage, on the other hand, is not enough for even single workers to support themselves.

Figure 6. Living wage for a full-time working adult with children, Hawai'i (2022)[10]



Note: All data is for one adult.

The financial burden of raising a child is compounded when households have to rely on the income of only one working adult. Reflecting this reality, single-mothers with children in Hawaiʻi are more than twice as likely to live in poverty compared to households without children, and all single mother households are more than twice as likely to live in poverty than married couple households.

Figure 7. Poverty rate of households with children, Hawaiʻi (2022)[11]

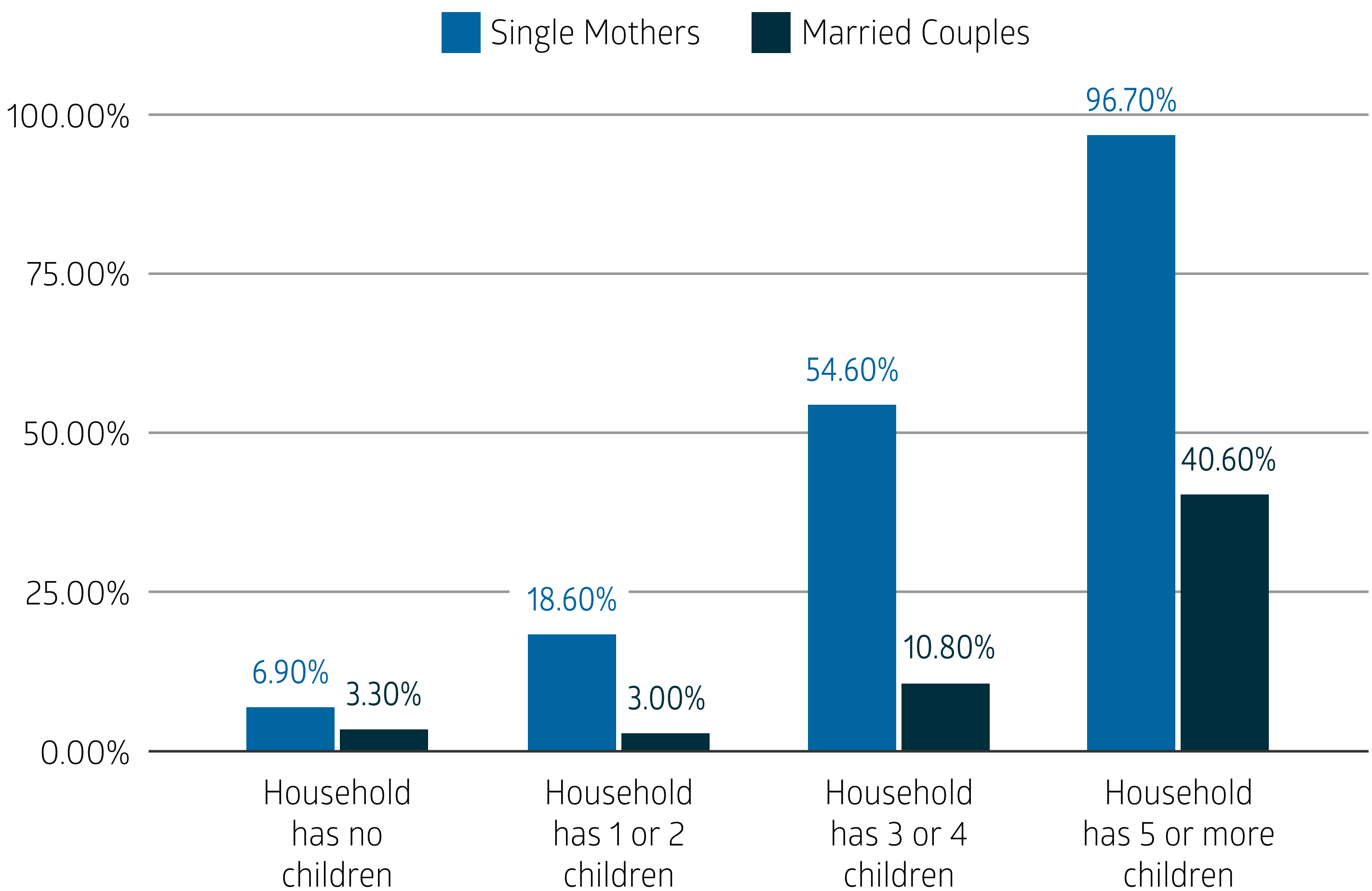
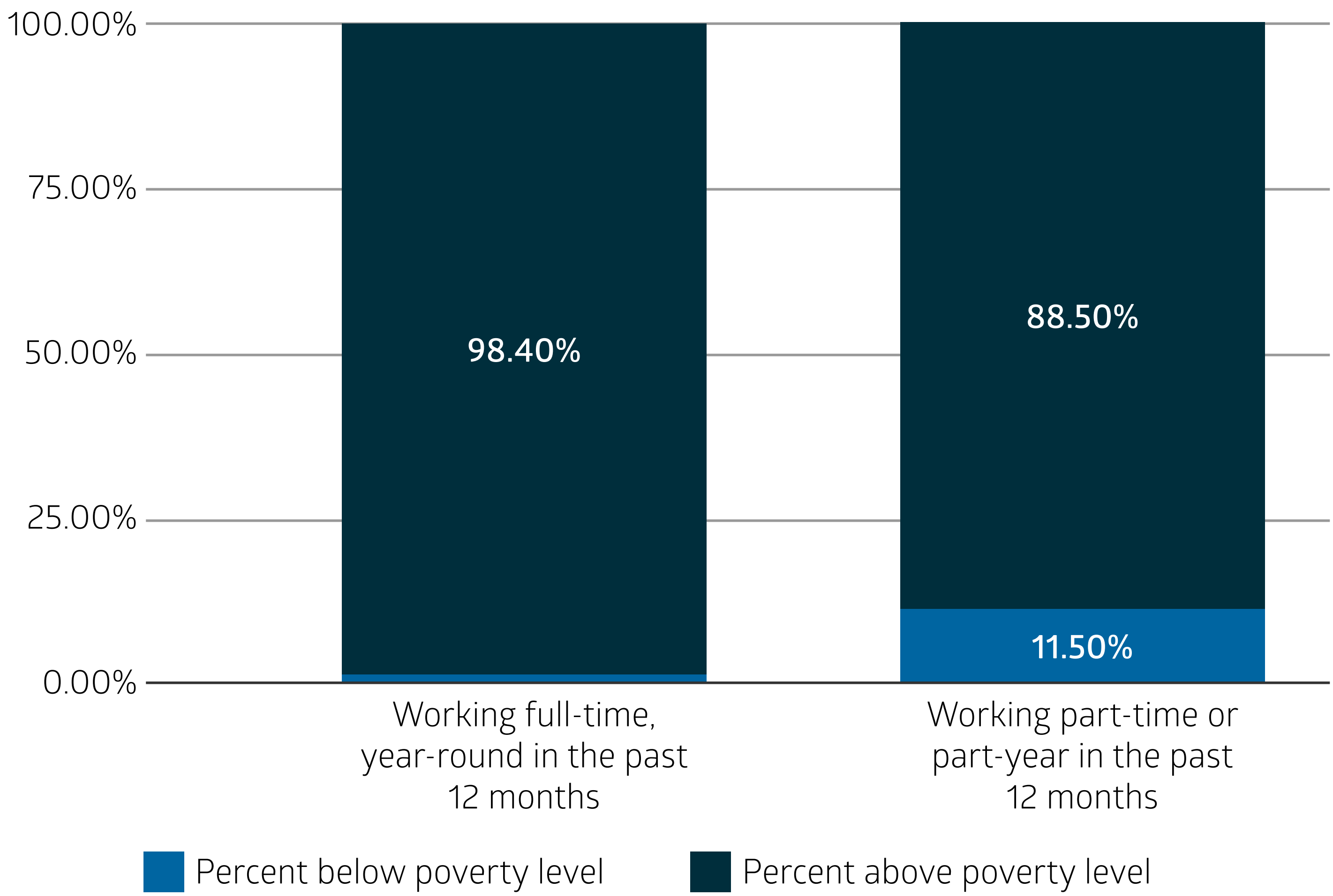


Figure 8. Poverty level by work status, Hawai‘i (2022)[12]



Another issue is that many low-income parents work multiple part-time jobs so that they have more flexibility to take care of their children. Part-time jobs almost always come with lower wages and fewer benefits than full-time jobs. One 2019 survey reported that 39 percent of Hawai‘i adults in households earning less than $40,000 work multiple jobs, in contrast to 16 percent of adults in households earning above $100,000 per year.[13]

Aside from the lack of job opportunities, full-time work may not always be a realistic option for low-income parents. Parents with lower incomes have to balance their work commitments with other responsibilities, such as school or childcare. Across the United States, school attendance and personal obligations are the most common reasons for doing part-time work, while 20 percent of part-time workers cannot work full-time due to economic reasons, such as issues with finding a job.[14]

Part-time workers are nearly six times as likely to be in poverty compared to full-time workers.[15] This makes sense given the fact that part-time jobs are most commonly found in the retail and hospitality industries, where workers tend to have lower earnings.[16]

During the Great Recession of 2009, the resulting steep drop in wages for U.S. workers was accompanied by an increase in the number of part-time jobs.[17,18] Hawai‘i state law only requires employers to provide health insurance to employees who work a minimum of 20 hours a week, which means that many part-time workers—who often have their hours intentionally restricted to 19 a week—have to pay for their own private insurance or enroll in a state Medicaid plan. Perhaps just as important, part-time jobs are less stable than full-time jobs in general, since many of them are seasonal.[19] Twice as many Hawai‘i workers with multiple part-time jobs report having inconsistent earnings compared to those who have a single job.[20]

Job losses during the COVID-19 pandemic were skewed towards the accommodations and food services sectors as well—all of which have the highest proportions of part-time jobs out of all sectors. On a month-to-month average, these sectors were responsible for a combined 40 percent of the unemployment claims in Hawai‘i in 2020.[21]

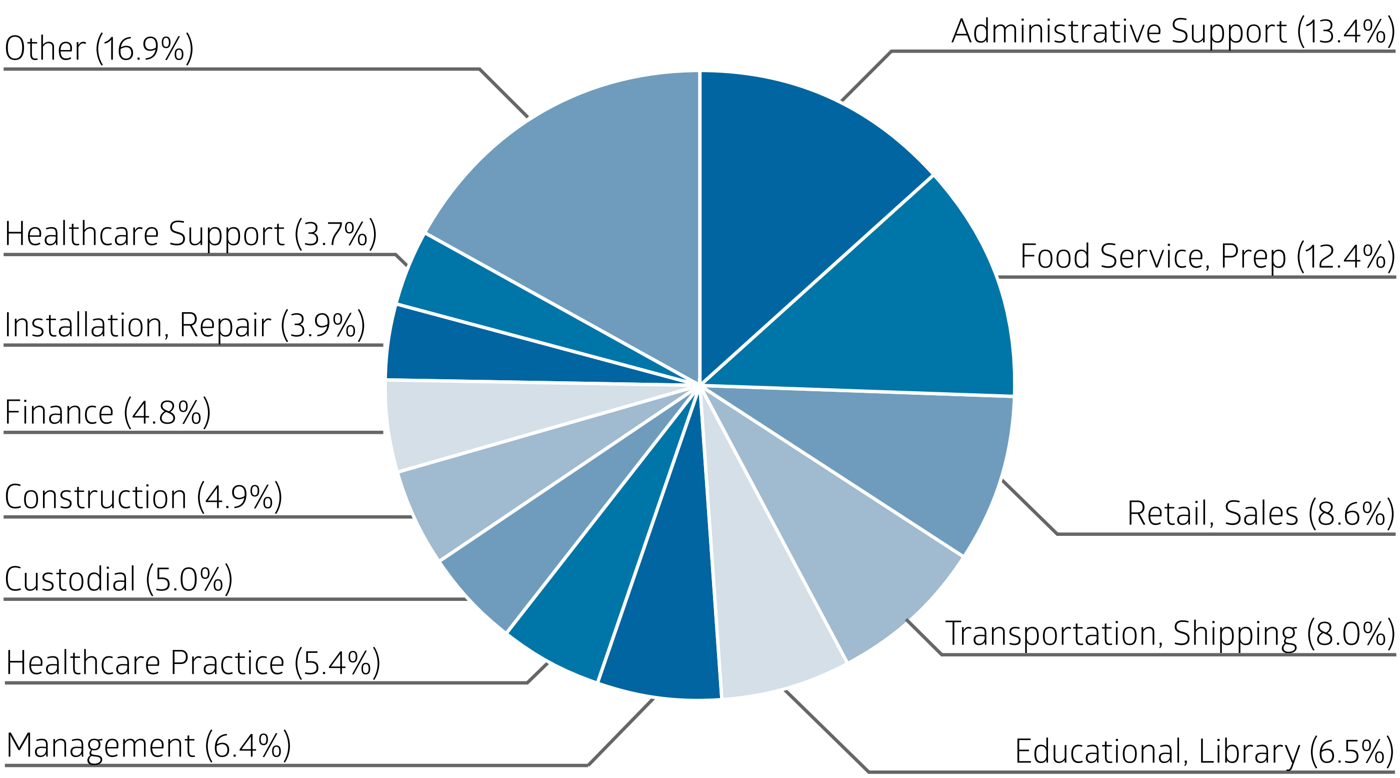
Gig work is also on the rise, and it carries with it other disadvantages for part-time workers. Gig workers are defined as independent contractors—workers temporarily contracted with an employer.[22] In 2022, it was estimated that 16 percent of the U.S. labor force participated in some form of “independent” work—including gig work—in a given prior month.[23]

Gig workers have minimal job security, especially during recessions. For example, between 2020 and 2021, 3.1 million new workers in the U.S. entered the platform-based gig economy, which includes services such as Uber or DoorDash. At the same time, 1.2 million workers left this type of gig work behind. Evidence suggests that this sudden increase in gig workers was strongly influenced by the large number of workers who were seeking employment after being laid off during the COVID-19 pandemic.[24]

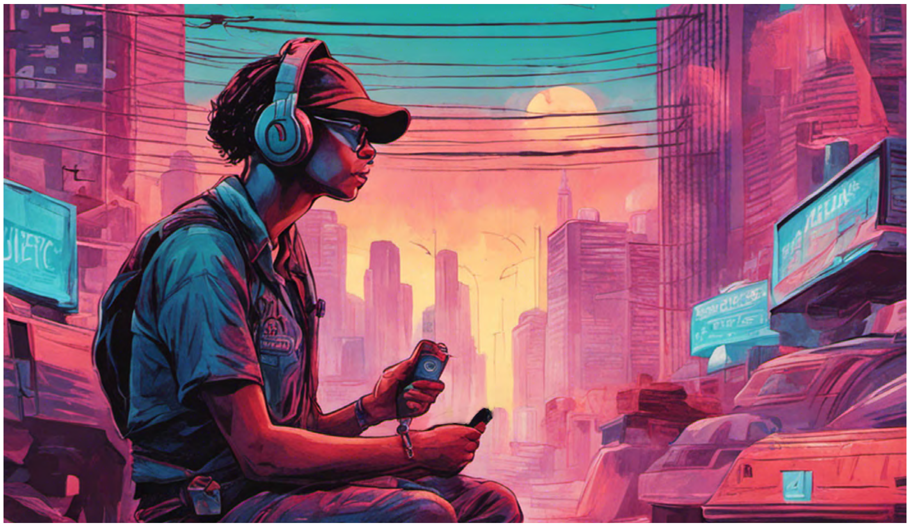
Given that most gig workers are employed as independent contractors, many companies in the gig economy are not legally required to treat their workers as employees. Consequently, gig workers often have to cover their own job-related expenses, and they rarely receive benefits such as health insurance.[25] Despite the drawbacks of gig work, not all workers can find full-time jobs that fit their personal situations.

Jobs that pay a living wage are in short supply for Hawai'i's workers. When compared to the rest of the nation, Hawai'i has an unusually high concentration of low-paying occupations. For example, food preparation and serving-related jobs make up the second-largest proportion (12.4 percent) of jobs in the state. The median wage for these jobs is $14.45 an hour, and at least three-fourths of them do not pay the living wage for a single parent with a young child.[26]

Figure 9. Percentage of total employment by occupation, Hawai'i (2022)[27]

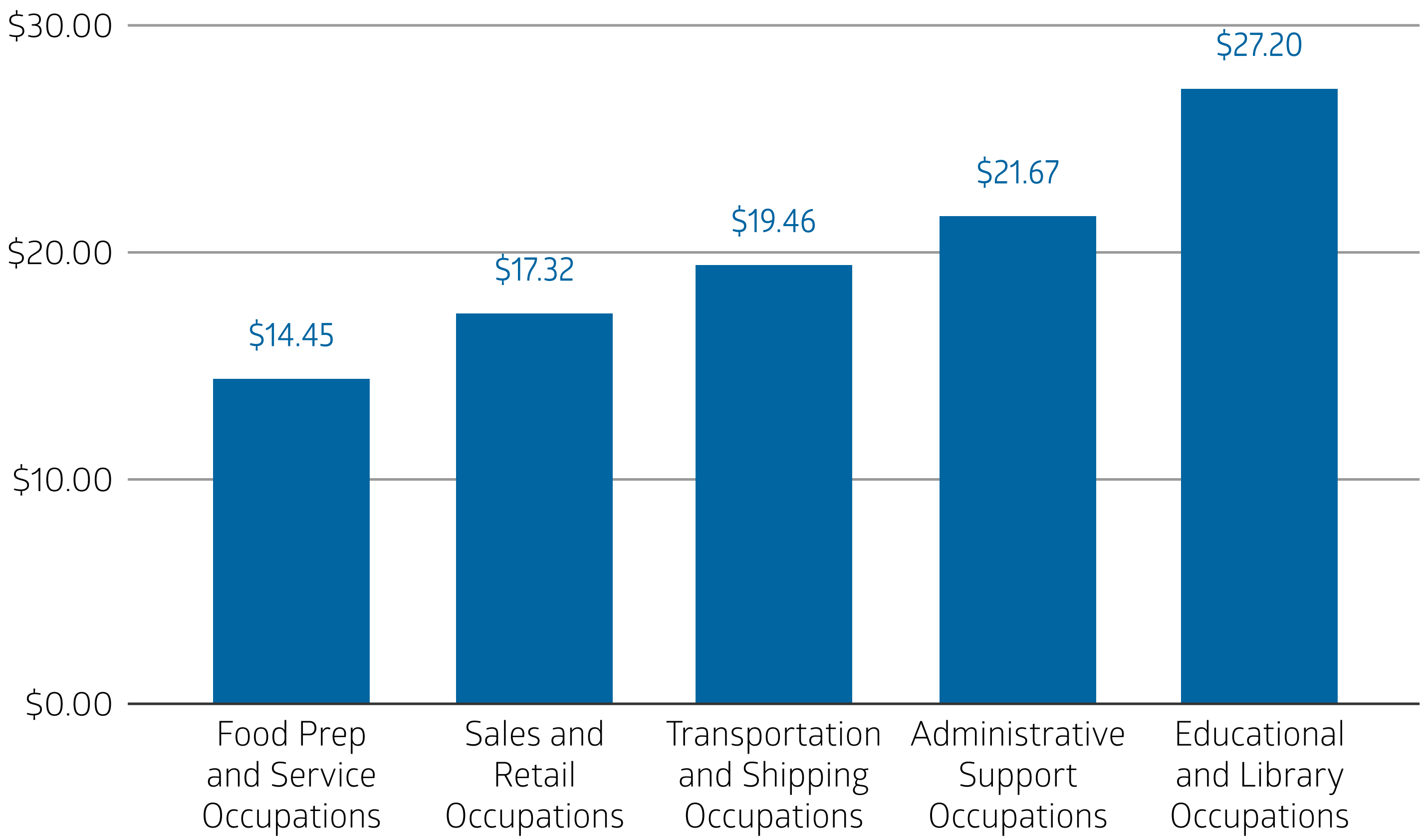


Hawai'i had a total of 594,880 employed workers in May of 2022.



Through the rest of the 2020s, Hawaiʻi's job growth will provide few opportunities for low-income residents to boost their income. Between 2018 and 2028, it is predicted that 73 percent of 25,450 new jobs will be in the health and social assistance, food services, and construction industries.[28] Health and social assistance jobs, such as nurses, can offer high wages to qualified workers. However, they typically require a college education, and there has been a severe shortage of available slots in Hawaiʻi-based educational programs.[29]

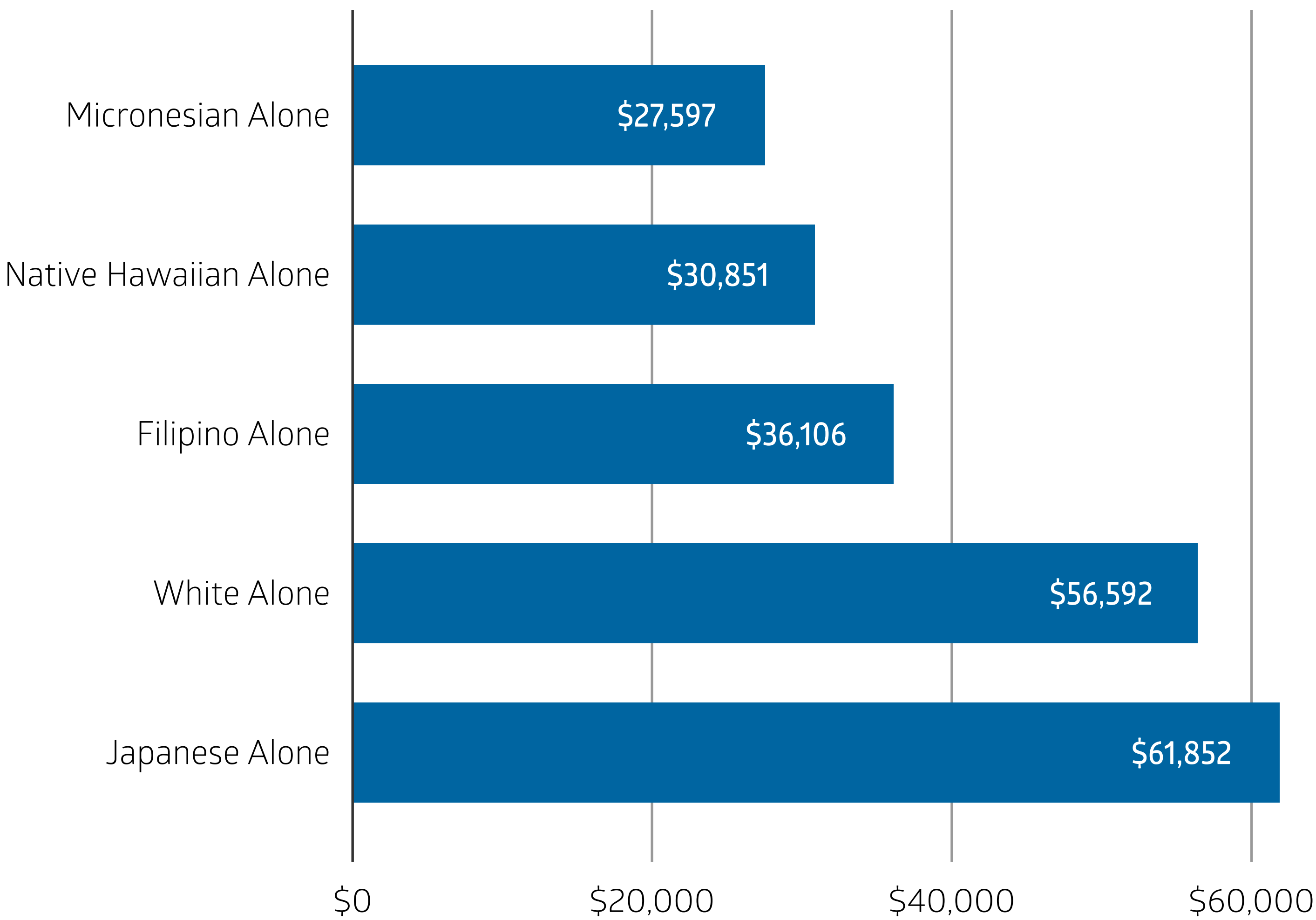
Figure 10. Median wage for the top five occupations, Hawaiʻi (2022)[30]



The median wages for the five largest occupation groups are far below the $41.71 living wage for a single parent.

There is an undeniable connection between income and race in both Hawaiʻi and the United States at large. People of all backgrounds are struggling to make a living in Hawaiʻi, but there have always been more barriers to financial security for some groups. In Hawaiʻi, white and Japanese residents consistently report having the highest average incomes in the state. There is a large income gap between these groups and Filipinos, Native Hawaiians, and Micronesians.

Figure 11. Average income (per person) by ethnicity, Hawaiʻi (2022)[31]



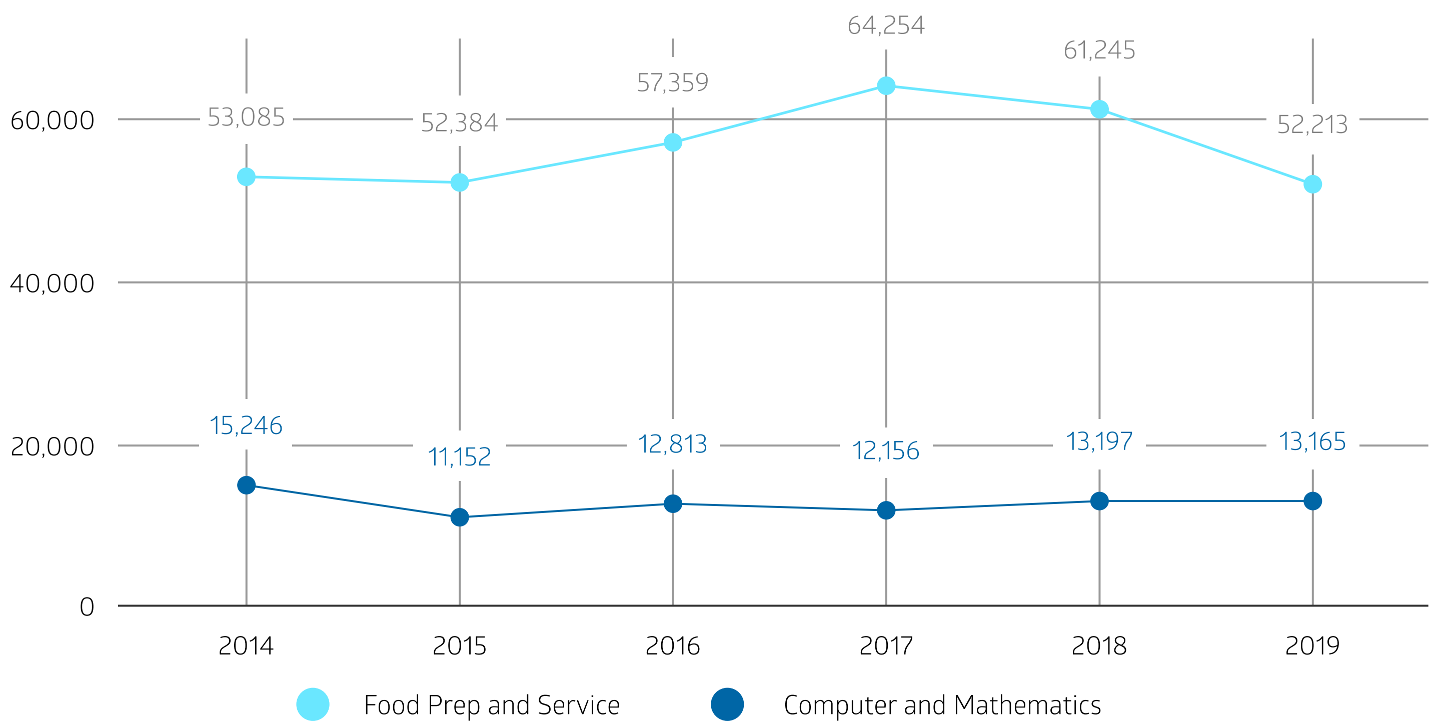
WHY ARE WAGES LOW?

Hawai‘i’s low wages are influenced by its unbalanced economy and geographical distance from the continental U.S. Tourism has been the dominant industry in the islands for decades, providing mostly low-wage service jobs. Although the state is less reliant on tourism now compared to 20 years ago, it still drives around 23 percent of the economy.[32]

The state’s dependence on tourism is one of the primary reasons why low-wage jobs remain prevalent. One large-scale study discovered that jobs in the leisure and hospitality industry have the lowest earnings in the U.S. economy.[33] Unfortunately, there are limited opportunities for local workers to enter higher-paying careers.

Higher-paying industries, such as the high-tech sector, make up a small fraction of Hawai‘i’s job market. Since the early 1980s, the State of Hawai‘i has provided over $1 billion in tax credits to local startups in the technology sector. However, only 4.5 percent of Hawai‘i’s workers belonged to this industry in 2018, and it drove less than 4 percent of the state’s economic output.[34]

Figure 12. Employment numbers by occupation, Hawai‘i (2014–2016)[35]



Since high-paying job opportunities are in short supply and require a college education, only workers with the time and money to pursue a college education can eventually switch to careers with higher pay—a path that is out of reach when most low-wage workers cannot even afford their rent.

The decline in union organizing across the U.S. has also negatively affected wages and job opportunities. Historically, unions have been a key force behind fairer wages and higher labor standards, leveraging their collective bargaining power and strikes to advocate for reforms.[36] However, the national decline in union membership has gone hand-in-hand with growing wage inequality between the working class and the wealthy.[37] Even though Hawai‘i still has a high rate of union membership compared to the national average, the percentage of local workers in unions dropped from 29.9 percent in 1989 to 23.5 percent by 2019.[38]

SOCIAL COSTS OF LOW-WAGES

The high concentration of low-wage jobs in Hawai‘i, coupled with our high cost of living, creates barriers to economic security for workers across the islands. For children living in these families, growing up in a low-income household can be particularly costly. These costs manifest in the form of lower income, poorer health and educational outcomes, higher incidences of contact with the criminal-legal system, and higher rates of houselessness.

These poorer outcomes impose high costs on our collective resources, and lead to losses in economic productivity. Recent research estimates that the annual cost of childhood poverty in the U.S. amounts to over $1.03 trillion annually.[39] This aggregate cost is the result of increased healthcare costs ($192.1 billion), reduced earnings ($294 billion), higher incidences of crime ($200 billion), nominal and social costs of incarceration ($205.7 billion), and child homelessness and neglect ($137.4 billion).[40]

HEALTH

Children who grow up in low-income households are more likely to be exposed to adverse life conditions, including food and housing insecurity. When experienced early in life, these adverse conditions can impact health outcomes throughout a child's lifetime. Children who experienced poverty in their first 6 years of life are more than twice as likely to report being in poor overall health as adults, relative to their peers who grew up in families with incomes that were above twice the poverty level.[41]

Furthermore, children who experience poverty are more likely to experience toxic stress as a result of adverse childhood experiences, which can negatively impact brain development. Prolonged exposure to these stressors can disrupt brain development in children, leading to increased incidences of stress-related diseases and even impaired cognitive function later in life.[42]

EDUCATION

Children from low-income families are also more likely to experience lower levels of educational attainment, and can lag behind their more affluent peers while attending school. Research suggests adults who experience poverty early in life achieve two fewer years of schooling on average, while also dropping out of school at far higher rates, relative to higher income students.[43 44]

Differences in academic performance between low-income and higher income children can also be observed as early as kindergarten. Nationally, just 48 percent of keiki from low-income households entering school at age 5 are considered "school-ready," meaning they possess adequate early math and reading skills. By contrast, 75 percent of keiki from middle and high income households are considered school ready by age 5. This represents a nearly 30 percentage point gap between these populations, putting children from low-income households at a considerable disadvantage, when compared with higher income children.[45]

INCOME

Poorer outcomes in both health and education for low-income children can also translate to lower levels of success later in life. Research demonstrates that children who grow up in persistent poverty are 37 percent less likely to to be consistently employed as young adults relative to children from less poor households.[46] These lower levels of employment can often correspond with higher levels of poverty in early adulthood and middle age. One study found that children growing up persistently poor had a poverty rate of 46 percent in early adulthood, while those who never experienced poverty as children had a poverty rate of just 4.1 percent.[47]

These outcomes strongly suggest an intergenerational effect of poverty on children: Experiencing poverty early in life makes it far more likely that a child will experience poverty in adulthood. In this sense, the income and well-being of parents can be strong predictors for the income and well-being of their children in the future. This intergenerational cycle deprives our future workforce of economic opportunity and may pose a significant threat to the health of our economy overall.

ECONOMIC IMPACTS

These costs could be significantly reduced by investments that support working families and that help them to reach economic success. Cash transfers, such as the Child Tax Credit and Earned Income Tax Credit represent key investments that the federal and state governments can make to help lift up families struggling to make ends meet. Researchers have estimated that for every dollar dedicated to reducing childhood poverty, the U.S. saves up to seven dollars in terms of the economic costs that are connected to poverty.[48] Clearly, investments in the economic well-being of children and families, now, will produce future savings and give our children a chance to succeed throughout their lifetimes.

RECOMMENDATIONS

1. Establish a state-level Keiki Credit to augment the federal Child Tax Credit.

Children are our most important investment and ensuring that every child is set up for success throughout their lifetimes should be our highest priority as a society. Refundable tax credits like the federal Child Tax Credit and Earned Income Tax Credit are some of the most effective ways to make those investments, as they provide direct economic assistance to working families so they can meet their basic needs.

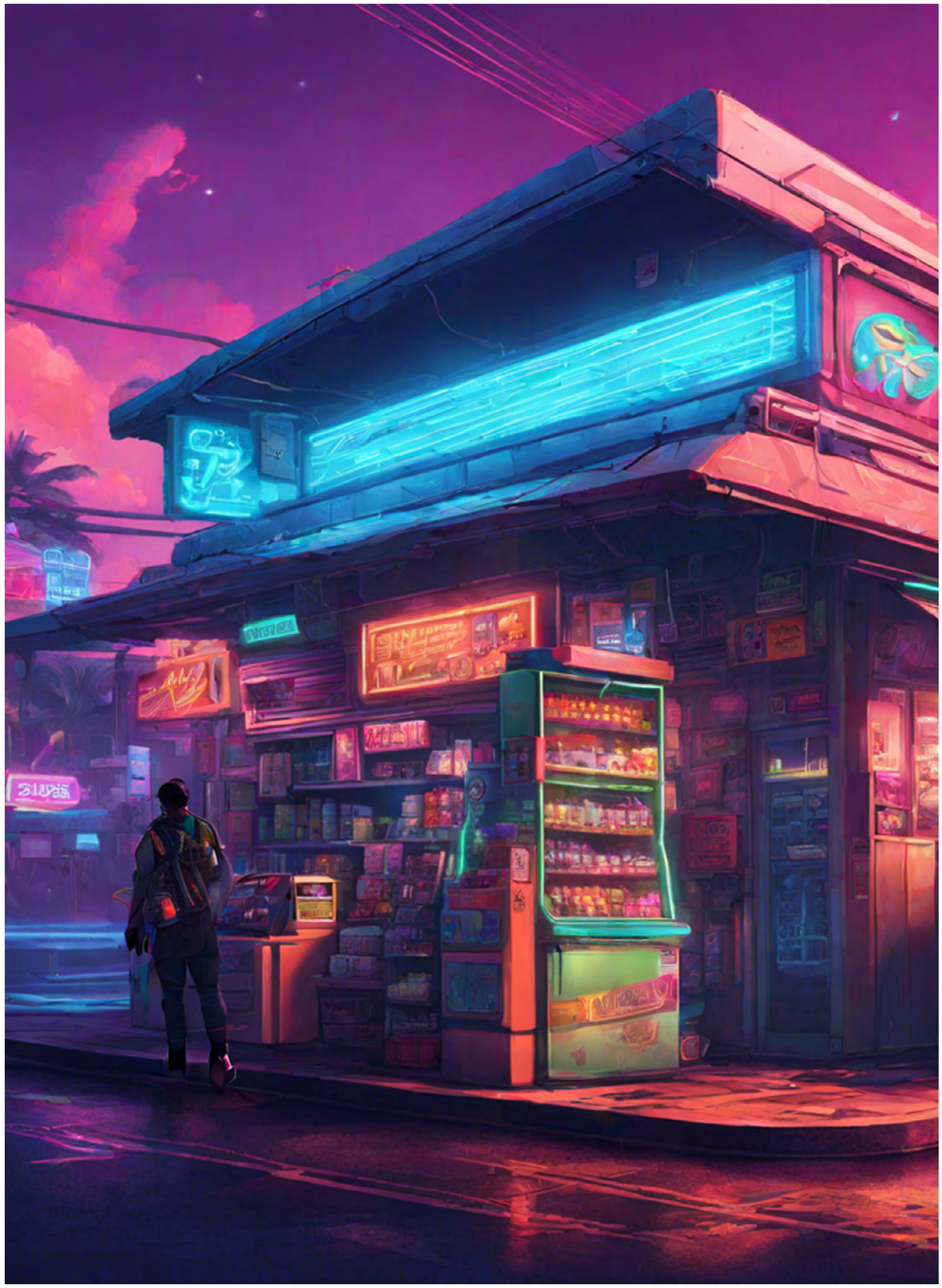
In response to the COVID-19 pandemic, the federal government temporarily expanded the federal Child Tax Credit from $2,000 per child to $3,600 for children aged 0–5 and to $3,000 for children aged 6–17. These direct investments in children reduced child poverty rates by a staggering 40 percent throughout 2021. This was one of the steepest drops in child poverty on record, and clearly demonstrates the efficacy of refundable tax credits like the CTC. However, this expansion was allowed to expire by Congressional policymakers, and child poverty has more than doubled from 5.2 percent in 2021 to 12.4 percent in 2022.[49]

The Hawai‘i State Legislature should help to fill the gap left by the federal government by creating Hawai‘i's first state level Child Tax Credit—or "Keiki Credit." Given that income is such a strong predictor of future earnings, good health outcomes, and higher educational attainment, the Keiki Credit would level the playing field for children from low-income families, and help to start them on a pathway to future economic success. For more on creating a state level CTC, see our report "Investing in our Future: A Keiki Credit for Hawai‘i."

2. Index the minimum wage to the cost of living or inflation.

Hawaiʻi's minimum wage workers face some of the steepest obstacles to achieving economic security, given our extremely high cost of living. The high cost of housing alone represents one of the most significant barriers to financial stability, especially for those earning the legal minimum wage. Recently, the legislature passed a landmark piece of legislation, raising our minimum wage to $18 per hour by 2028 and putting our state on a path to having one of the highest state-mandated minimum wages in the country

However, the legislature missed an opportunity to ensure continued economic prosperity for low-wage earners by failing to tie future wage growth to either the cost of living or inflation. This means that, once the wage reaches its maximum of $18 in 2028, it will remain there until the legislature once again takes action to increase it. Minimum wage earners will then be trapped in a cycle of wage stagnation, which can only be remedied by action from lawmakers.



Tying the wage to the cost of living—"indexing" the minimum wage—avoids wage stagnation by linking increases in the minimum wage to either inflation or increases in the consumer price index. Doing so would ensure that the minimum wage continues to grow as the costs for basic necessities continue to rise. Currently, 13 states and the District of Columbia index their wages to the cost of living, ensuring their wages are growing with the cost of goods and services.[50] Hawaiʻi should take this next step in its minimum wage policy, and index our wage to the cost of living as well. Costs will inevitably continue to rise, and the wages of our lowest wage workers should rise too.

3. Increase dedicated revenue for affordable housing construction.

Housing is often the most expensive item in the budgets of working families. 59 percent of low-income households are cost burdened, meaning they spend more than 30 percent of their monthly income on housing.[51] These costs will continue to rise as the high demand and limited supply of housing units continues to put upward pressure on rents. This in turn puts additional pressure on the monthly finances of low-income renters who are already struggling to keep up with the rising costs of other basic needs.

To combat the lack of affordable housing, the state needs to make large scale investments in the construction, acquisition, and rehabilitation of affordable housing rentals for local working families. While the state does invest millions each year in affordable housing,—mostly through one-time appropriations—these investments need to ratchet up if they are to effectively address our housing needs. However, doing so requires an increase in dedicated revenue for affordable housing.

One way the state can achieve this is by increasing the conveyance tax, which is levied on the sale of real property in the state. Under this tax, home sales are taxed at progressively higher rates depending on their sale value and 50% or $38 million, whichever is lower, is dedicated to the Rental Housing Revolving Fund. The Rental Housing Revolving Fund is used as gap financing for Low Income Housing Tax Credit (LIHTC) projects for construction of affordable units for those making 0-60 percent Area Median Income (AMI), and the Tier 2 Program which funds construction of affordable workforce rental housing at 60-100 percent AMI. Projections estimate that more than 50 percent of our housing production needs to be affordable rentals for low-income and workforce families. The conveyance tax is one of the only dedicated revenue sources for affordable housing in our tax code and should be increased or have its revenue caps removed to drive more funding to affordable housing development.

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