

March 20, 2006

**MINIMUM WAGE INCREASE COULD HELP
CLOSE TO HALF A MILLION LOW-WAGE WORKERS
Adults, Full-Time Workers Comprise Majority of Those Affected**

A new analysis of Current Population Survey data by the Economic Policy Institute (EPI), a non-partisan research organization based in Washington, DC, indicates that raising the Massachusetts minimum wage from \$6.75 to \$8.25 per hour would increase the pay – either directly or indirectly – of close to half a million workers. This document presents the results of that analysis in greater detail, providing estimates of the number of workers who would be affected by certain increases in the minimum wage and describing some of their demographic characteristics, including age and gender. In addition, this document examines several other reports and statements issued over the course of the past fifteen months concerning the impact on employment of increases in the minimum wage and updates some of the information on employment trends contained in the MBPC’s November 2004 report, *Keeping It Real: The Effects of Increasing and Indexing the Massachusetts Minimum Wage*.

An increase in the minimum wage to \$8.25 per hour would help close to half a million low-wage workers across Massachusetts.

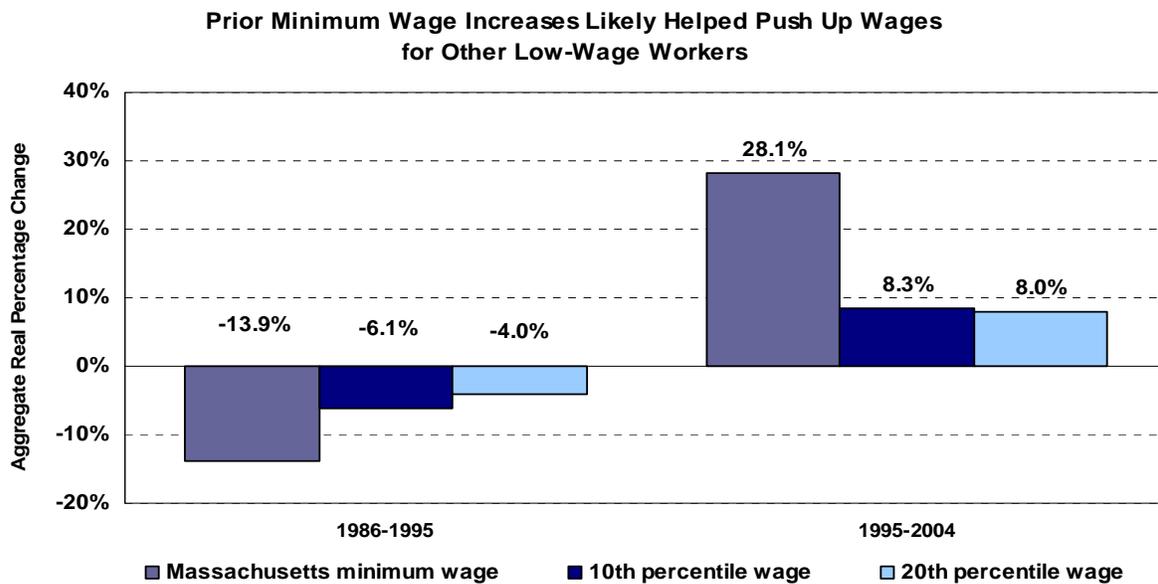
- Legislation introduced at the start of the 2005-2006 legislative session – H. 3782 – would raise the minimum wage from \$6.75 to \$8.25 per hour by 2007 and adjust it to account for inflation each year thereafter. EPI’s analysis of data from the Current Population Survey, a joint project of the U.S. Census Bureau and the U.S. Bureau of Labor Statistics, shows that, if the original version of this legislation were enacted, 483,000 low-wage workers in Massachusetts would receive an increase in their pay in 2007.
- More specifically, EPI projects that approximately 154,000 Massachusetts workers will earn less than \$8.25 per hour in 2007. Consequently, these 154,000 workers would see a direct increase in their wages if the original version of H. 3782 became law.

Figure 1.

Raising Massachusetts' Minimum Wage to \$8.25 Per Hour in 2007 and Indexing to Inflation Would Help Close to Half a Million Workers	
	Number of Workers
Workers receiving a direct pay increase	154,000
Workers receiving an indirect pay increase	329,000
TOTAL WORKERS AFFECTED	483,000

- If the original version of H. 3782 were enacted, an additional 329,000 workers would witness an indirect increase in their wages in 2007. That is, economic research indicates that an increase in the minimum wage has a “spillover” effect, as workers earning just above any new minimum wage experience a boost in their wages as well. Several factors are responsible for such an effect: some labor contracts explicitly provide for rates of pay that are a specified dollar increment over and above the minimum wage, while some employers, in order to maintain the pay scales that were in place prior to an increase in the minimum wage, may decide to raise the pay of other non-minimum-wage workers. EPI has developed a detailed economic model that projects future employment and wage trends on a state-by-state basis and thus permits projections of the number of workers who would gain from this “spillover” effect.¹

Figure 2.



¹ For more on the Economic Policy Institute’s methodology, see Chapman, Jeff, *The Wage Effects of Minimum Wage Increases*, Washington, D.C.: Economic Policy Institute (forthcoming). In addition, it should be noted that *Keeping It Real*, MBPC’s November 2004 report on the minimum wage, included an estimate, also calculated by the Economic Policy Institute, that, if the minimum wage were raised to \$8.25 per hour in 2004, 261,000 Massachusetts workers would experience a direct increase in their wages. The new overall estimate of 483,000 affected workers in 2007 differs in two respects. First, rather than assume an immediate increase in the minimum wage, it projects the number of workers at a variety of different wage levels in future years, thus permitting an examination of how many workers would directly benefit from a given minimum wage increase in a specified year. As wages are expected to grow over the next several years, albeit fairly slowly, this means that there will be fewer workers earning less than \$8.25 per hour in the future than there are at present. Second, *Keeping It Real* did not include estimates related to the “spillover” effect of a minimum wage increase.

- This “spillover” effect appears to have been present to some extent the last few times Massachusetts raised its minimum wage, as workers with wages above the minimum seem to have benefited from those increases as well. As seen in Figure 2 above, between 1995 and 2004, the minimum wage rose 28.1 percent in real terms, climbing from \$5.27 to \$6.75 per hour (in constant 2004 dollars). These gains, in turn, may have helped to push up wages for workers at the lowest end of the economic spectrum. During that same 1995-2004 period, wages for workers at the 10th percentile of wage distribution in Massachusetts grew from \$7.30 to \$7.91 per hour, an increase of approximately 8.3 percent. Wages for workers at the 20th percentile grew by roughly the same proportion, rising from \$9.15 to \$9.88 per hour, or 8.0 percent.

Figure 3.

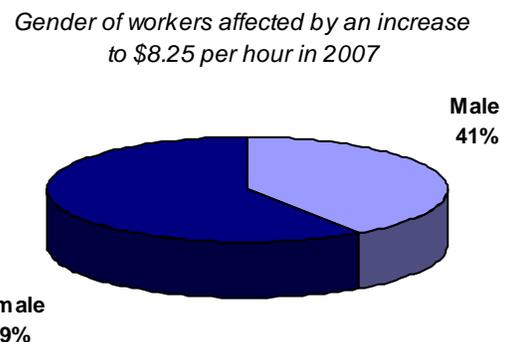
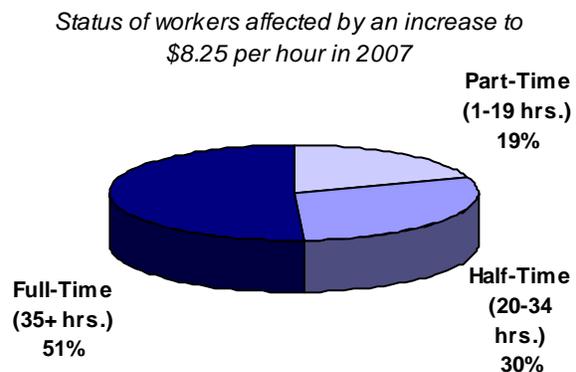
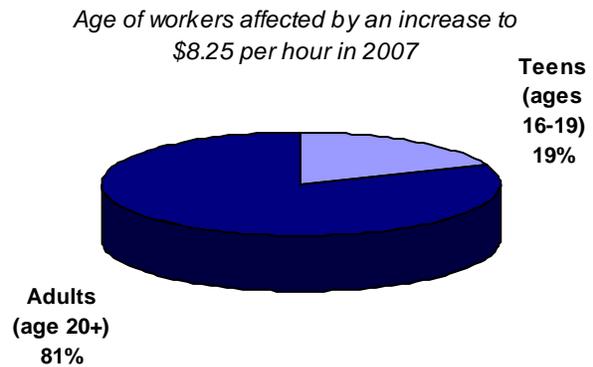
Different Versions of H. 3782			
Would Affect Substantially Different Numbers of Low-Wage Workers			
	H. 3782 - Original	H. 3782 - Committee redraft	Difference
	<u>\$8.43 / hour in 2008</u>	<u>\$7.75 / hour in 2008</u>	
Workers receiving a direct pay increase	155,000	90,000	-65,000
Workers receiving an indirect pay increase	331,000	105,000	-226,000
TOTAL WORKERS AFFECTED	486,000	195,000	-291,000

- As Figure 3 indicates, the redrafted version of H. 3782 reported by the Joint Committee on Labor and Workforce Development in March 2006 would benefit fewer than half as many low-wage workers as the original version of the measure. The redrafted version of H. 3782 would simply raise the minimum wage to \$7.75 per hour by 2008 and would not adjust it for inflation in the future. Accordingly, EPI estimates that the redraft would benefit a total of 195,000 workers, yielding direct increases in the wages of 90,000 workers and indirect increases in the wages of another 105,000 workers. In contrast, under the provisions of the original version of H. 3782, the Massachusetts minimum wage would stand at \$8.43 per hour in 2008 – rising by roughly 18 cents from its 2007 level of \$8.25 per hour to account for inflation – and would thus generate direct or indirect pay raises for a total of 486,000 workers. If the original version of H. 3782 were enacted, in 2008, 155,000 workers would receive direct pay increases and another 331,000 workers would experience indirect increases, according to the EPI. (For more details on the different impacts of the two versions of the bill, please refer to the Appendix.)

An increase in the minimum wage would principally benefit adults, full-time workers, and women.

- The results of EPI’s analysis also indicate that slightly more than four out of every five – or 81 percent – of the workers who would receive either a direct or an indirect pay increase in 2007 due to the original version of H. 3782 are adults aged 20 and older. Only 19 percent are teenagers between the ages of 16 and 19. As Figure 3 above notes, the original version of H. 3782 would raise the wages of 291,000 more workers in 2008 than the redrafted version of the bill. Of these 291,000 workers, 86 percent are adults over the age of 20.

Figure 4.

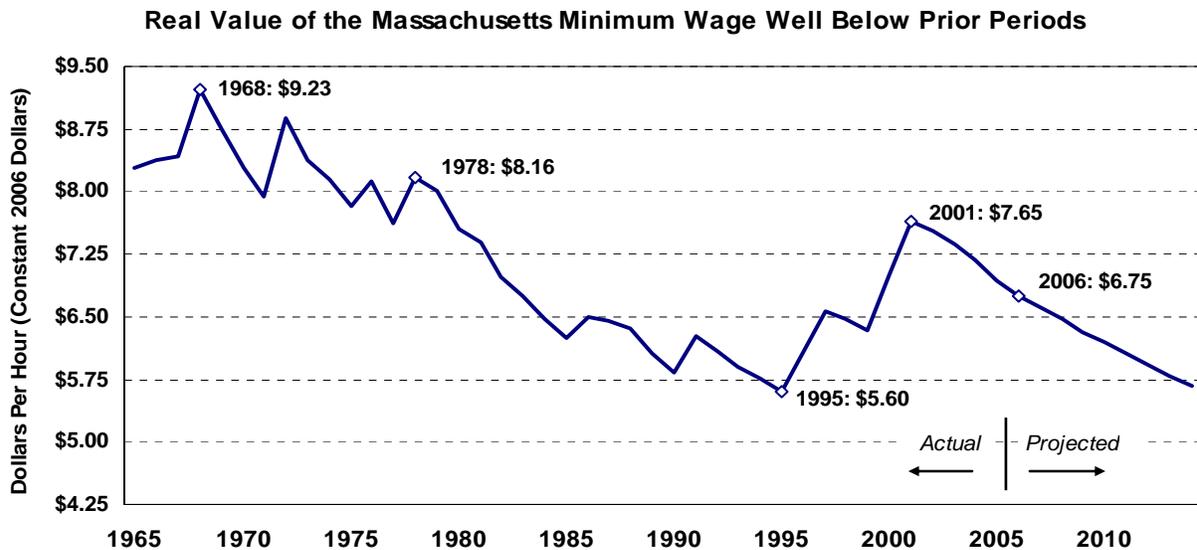


- Over half – 51 percent – of the workers who would benefit from the original version of H. 3782 in 2007 – 246,000 people – work full-time (that is, 35 or more hours each week). An additional 30 percent – 143,000 people – work half-time or more (i.e. 20 or more hours each week). More than half – 57 percent – of the additional 291,000 workers who would benefit from the original version of H. 3782 in 2008 are full-time workers.
- Of the nearly half-million low-wage workers who would experience an increase in their pay in 2007 if the original version of H. 3782 were enacted, some 287,000 – or 59 percent – are women.
- Among those families who would gain from an increase in the minimum wage, minimum wage workers, on average, provide more than half (54 percent) of the family’s total earnings. Minimum wage workers serve as the sole source of earnings in more than a third of such families (38 percent).

Due to inflation, the Massachusetts minimum wage has lost almost 27 percent of its purchasing power over the last several decades – the equivalent of more than \$5,100 per year for someone working full-time.

- In real terms, the Massachusetts minimum wage is now well below its value in the 1960s and the 1970s. In 1968, the Massachusetts minimum wage reached an inflation-adjusted peak of \$9.23 per hour (in constant 2006 dollars); in 1978, it stood at \$8.16 per hour. The changes between those points and the minimum wage’s current real value amount to declines of 27 percent and 17 percent respectively. For someone working full-time at the minimum wage, the difference between the 1968 value of the minimum wage and its present value comes out to more than \$5,100 per year.

Figure 5.



Values for 1965-2005 adjusted by the CPI-U; values for 2006-2014 based on CBO projections of the CPI-U.

By next year, Massachusetts will have one of the lower minimum wages in the northeast.

- Nationally, eighteen states and the District of Columbia have minimum wages that are higher than the federal minimum wage of \$5.15 per hour. Among the states in the northeast, by 2007, Connecticut (\$7.65 per hour), Rhode Island (\$7.40), Vermont (\$7.40), New Jersey (\$7.15), and New York (\$7.15) will all have minimum wages above that of Massachusetts.²

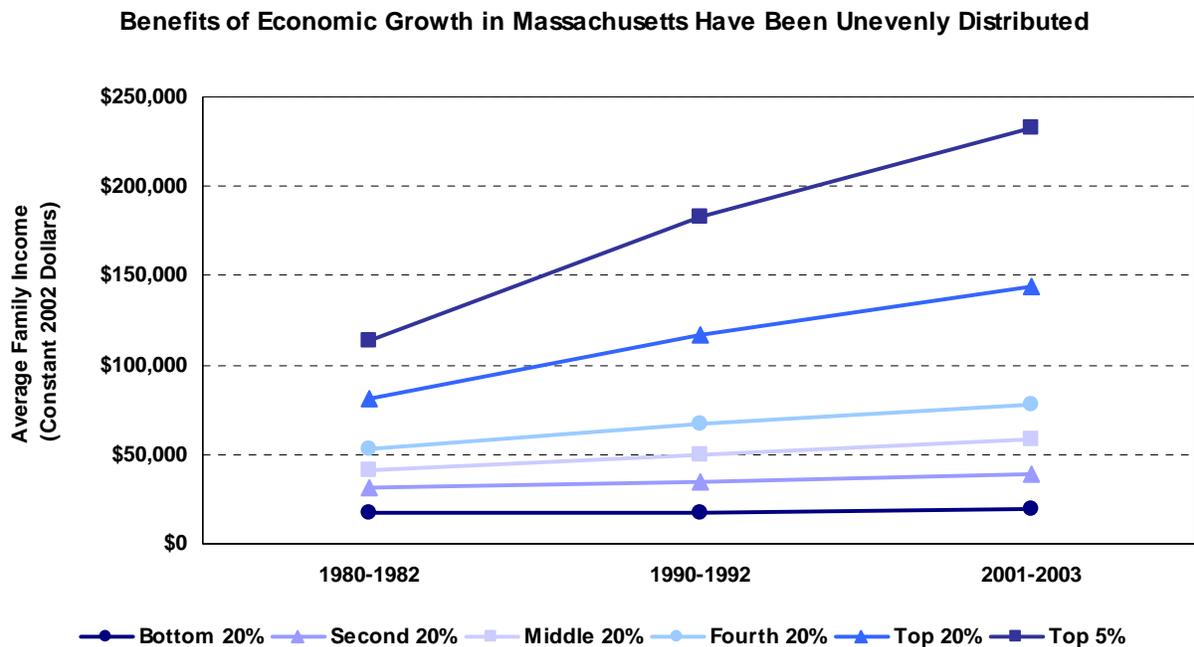
² The value of the Vermont minimum wage listed here is projected, as it is indexed to inflation. It is currently \$7.25 per hour.

- At present, the three highest minimum wages in the country can be found in Washington (\$7.63 per hour), Oregon (\$7.50), and Connecticut (\$7.40). However, each of these minimum wages is scheduled to rise over the next several years. Connecticut's minimum wage, under statute, will climb to \$7.65 in 2007, while both Washington and Oregon have indexed their minimum wages to inflation. Thus, based on recent inflation projections from the Congressional Budget Office, the Washington minimum wage will grow to approximately \$7.97 per hour by 2008 with Oregon close behind at roughly \$7.85 per hour.
- Washington, Oregon, Vermont, and Florida have all indexed their minimum wages to some measure of inflation.

An increase in the minimum wage could help to reduce income inequality in Massachusetts.

- Over the past two decades, the incomes of the highest income families in Massachusetts have grown almost five times as fast as those of low-income families and nearly twice as fast as middle-income families. While there have been similar trends across the country, the gap between higher and lower income families has grown more in Massachusetts than in forty seven of the fifty states.

Figure 6.



- More specifically, between the early 1980s and the first few years of the current decade, the average annual income for the wealthiest 20 percent of families in the Commonwealth rose 77 percent to \$144,412. Over the same span, the average annual income for the very richest 5 percent of families soared 105 percent to \$233,108. The average annual income for middle class families grew significantly more slowly during this period, increasing 40 percent overall, while the average income for the poorest 20 percent of Massachusetts families rose just 16 percent – to \$19,690 per year. (These changes are summarized in Figure 6 above.) As a result, the average family in the top fifth of the income distribution now makes seven times more than the average family in the bottom fifth.
- An increase in the minimum wage in Massachusetts would help to close this sizable gap by boosting incomes for families at the bottom of the income distribution. Indeed, economic research has demonstrated that declines in the real value of the federal minimum wage have contributed significantly to the degree of inequality experienced by low-wage workers, while real increases in the federal minimum have helped to mitigate inequality at the bottom end of the wage distribution. For instance, Thomas Lemieux of the University of British Columbia concludes that:

...large increases in the [federal] minimum wage in 1973-74, 1989-91, and 1995-97 all closely match corresponding declines [in wage inequality among workers with the same education and experience]. By contrast, the three periods where the [federal] minimum wage declined in real terms for failing to be indexed (1981-1989, 1992-1995, and 1998-2003) all correspond to clear increases in residual wage inequality.³

An increase in the minimum wage will not impair Massachusetts' ability to compete economically.

- Some have argued that an increase in the minimum wage would lead to large-scale declines in employment in Massachusetts, yet empirical research has found little support for the notion that minimum wage increases produce large job losses. As the 1999 Economic Report of the President states:

... the weight of the evidence suggests that modest increases in the minimum wage have had very little or no effect on employment. In fact, a recent study of the 1996 and 1997 increases, using several different methods, found that the employment effects were statistically insignificant.⁴

- Similarly, a comprehensive review of the economic literature on the minimum wage by University of Michigan economist Charles Brown, highlighted in a January 2006 Federal Reserve Bank of Boston (FRBB) study on this subject, finds that:

³ Lemieux, Thomas, "Increasing Residual Wage Inequality: Composition Effects, Noisy Data, or Rising Demand for Skill?", forthcoming in *The American Economic Review*, 2006, p. 32, available at <http://www.econ.ubc.ca/lemieux/papers/within.pdf>.

⁴ *Economic Report of the President*, United States Government Printing Office (Washington, DC), February 1999, p. 111-112.

... more recent papers replicating earlier studies with additional years of data generally find less negative [employment] effects [from the minimum wage]. In addition, newer studies that use comparisons across states report elasticities that cannot be distinguished from zero, suggesting no [employment] effect. Finally, several studies using surveys of fast-food restaurants before and after a minimum wage change actually find a positive impact on employment.⁵

- In June 2005, over fifty economists from across the Commonwealth signed a statement supporting an increase in the Massachusetts minimum wage. Their statement affirmed the findings of the Economic Report of the President and declared that:
... raising the minimum wage in stages to \$8.25 per hour is unlikely to affect jobs. To the contrary, an increase in the minimum wage will raise purchasing power and could yield other distinct benefits for Massachusetts businesses, such as reduced turnover and lower training costs.⁶
- A study conducted by the Beacon Hill Institute (BHI) in June 2005 predicted that Massachusetts employment would fall by 26,970 jobs if the minimum wage were increased to \$8.25 per hour.⁷ Yet, in its January 2006 study, FRBB suggests that the BHI study is flawed, since it engages in a selective reading of prior economic studies and then overstates the results of those studies regarding the effect of the minimum wage on employment. The FRBB study notes:

Rather than relying on [a] comprehensive review of the literature...BHI calculates an average elasticity of demand of -0.31 based on only 6 recent studies and excludes those studies where a positive employment effect was found. The authors then 'scale-up' this elasticity by a factor of 4 to arrive at a low-wage elasticity of demand of -1.2.⁸

Consequently, the FRBB projects that any employment losses due to an increase in the minimum wage to \$8.25 would be just a fraction of that predicted by BHI – a decline of 2,100 to 10,500 jobs. Moreover, the FRBB study finds that, even if such job losses were to arise, raising the Massachusetts minimum wage to \$8.25 per hour would still raise the aggregate wages of low-paid workers by \$255 million.

- Increases in the Massachusetts minimum wage over roughly the past ten years do not appear to have produced declines in employment. As Figure 7 below shows, minimum wage increases took effect in Massachusetts in January 1996 (to \$4.75 per hour), January 1997 (to \$5.25), January 2000 (to \$6.00) and January 2001 (to \$6.75). In each of the first three instances, with the exception of manufacturing (a sector without heavy concentrations of minimum wage workers), employment in all sectors of the Massachusetts economy either held steady or rose following the increase in the minimum wage.

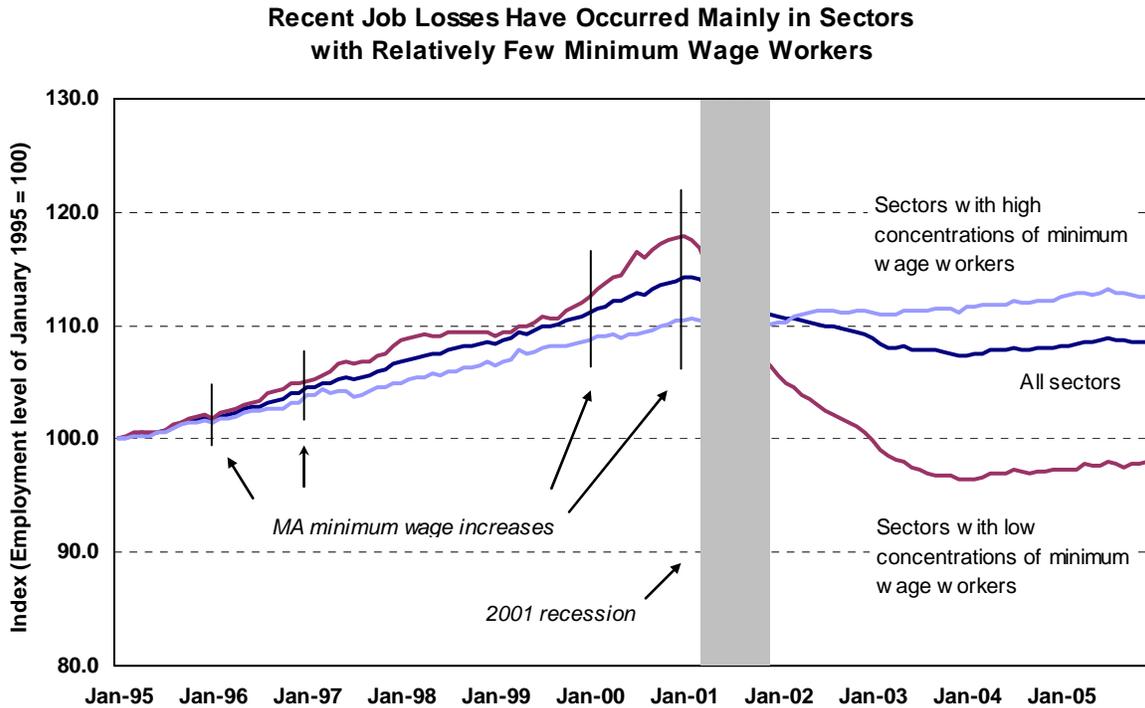
⁵ Sasser, Alicia, *The Potential Economic Impact of Increasing the Minimum Wage in Massachusetts*, New England Public Policy Center, Federal Reserve Bank of Boston, January 2006, p. 14.

⁶ *Economists' Statement Supporting an Increase in the Massachusetts Minimum Wage*, available at http://www.massbudget.org/economist_statement.pdf

⁷ Tuerck, David and Bachman, Paul, *The Economics of a Higher Minimum Wage in Massachusetts*, Beacon Hill Institute at Suffolk University (Boston, MA), June 2005, p. 1.

⁸ Sasser, p. 15.

Figure 7.



- While employment in Massachusetts has declined substantially since 2001, those losses, for the most part, have not occurred in sectors that employ large concentrations of minimum wage workers, such as leisure and hospitality or education and health services. In fact, taken together, the sectors with the highest concentrations of minimum wage workers have outperformed the Massachusetts economy as a whole (at least in terms of job growth) since the end of the 2001 recession. Rather, as Figure 7 demonstrates, job losses since 2001 have been concentrated in sectors, like manufacturing and business and professional services, that do not employ high concentrations of minimum wage workers.
- Sectors with high concentrations of minimum wage workers have performed (again, at least in terms of job growth) as well as – if not better than – the Massachusetts economy as a whole since January 2000, as Figure 8 illustrates. For example, between January 2000 and January 2005, employment in leisure and hospitality and in other services grew 10.7 percent and 6.5 percent respectively, both well in excess of the overall change in Massachusetts employment. The same could be said of employment in education and health services, which grew 7.6 percent during this period. Employment in retail trade in Massachusetts did fall during this period – dropping 2.1 percent – but not as sharply as the 2.6 percent decline in employment overall in the Commonwealth. Finally, as Figure 8 shows, employment in leisure and hospitality and in other services grew more rapidly in Massachusetts than it did nationally over this five year stretch, even though the Massachusetts minimum wage was considerably higher than the federal minimum.

Figure 8.

Recent Job Losses Have Occurred Mainly in Sectors with Relatively Few Minimum Wage Workers				
<i>Change, by sector, in non-seasonally-adjusted employment, January 2000 to January 2005</i>				
	Massachusetts		United States	
	Change (in thousands of jobs)	Change (percent)	Change (in thousands of jobs)	Change (percent)
Total Non Farm Employment	(82.5)	-2.6%	1,605.0	1.2%
<hr/> <i>Low Concentrations of Minimum Wage Employees</i> <hr/>				
Manufacturing	(90.8)	-22.5%	(3,038.0)	-17.7%
Information	(19.0)	-18.3%	(487.0)	-13.8%
Wholesale Trade, Transportation and Utilities	(13.6)	-5.9%	(355.5)	-3.3%
Professional and Business Services	(21.7)	-4.7%	169.0	1.1%
Government	(15.3)	-3.6%	247.0	4.9%
Financial Activities	(6.3)	-2.8%	415.0	5.4%
Construction	17.1	15.2%	360.0	5.7%
Natural Resources and Mining	0.7	58.3%	12.0	2.1%
<hr/> <i>High Concentrations of Minimum Wage Employees</i> <hr/>				
Retail Trade	(7.6)	-2.1%	(72.3)	-0.5%
Other Services	7.0	6.5%	247.0	4.9%
Education and Health Services	40.7	7.6%	2,211.0	14.9%
Leisure and Hospitality	26.3	10.7%	1,008.0	9.1%

- Business groups often claim that higher minimum wages will yield substantial job losses, but evidence from other states suggests that minimum wage increases have not been an impediment to job growth. For instance, prior to the implementation of an increase in the minimum wage in Oregon in January 2003, the Oregon Restaurant Association argued that “nearly 30,000 more Oregonians could lose their jobs as a result of [a] higher minimum wage.” Yet, recent research by the Oregon Center for Public Policy shows that Oregon added more than 91,000 jobs between January 2003 and November 2005.⁹ In fact, job growth in Oregon was the ninth fastest in the country over that period. The Oregon minimum wage is now the second highest in the nation – \$7.50 per hour – and is indexed to inflation. In addition, a study by the New York-based Fiscal Policy Institute finds that “between 1998 and 2004, the job growth for small businesses in states with a minimum wage higher than the federal level was 6.2 percent compared to a 4.1 percent growth [rate] in states where the federal level prevailed.”¹⁰

⁹ For the Oregon Restaurant Association’s arguments against a higher minimum wage, see Oregon Secretary of State, Elections Division, *Official 2002 General Election Online Voters’ Guide*, available at <http://www.sos.state.or.us/elections/nov52002/guide/measures/m25opp.htm>. For more on employment growth in Oregon since a higher minimum wage was adopted, see Oregon Center for Public Policy, *New Year’s Day Minimum Wage Boost Helps Low-Wage Workers Without Hurting Economy*, December 30, 2005, available at <http://www.ocpp.org/2005/nr051230%20minwage.pdf>.

¹⁰ Center for American Progress, *Raising the Minimum Wage – Issue Brief*, March 1, 2006.

APPENDIX

ESTIMATED IMPACT OF SPECIFIED MASSACHUSETTS MINIMUM WAGE INCREASES IN 2008							
	All MA workers	Number of workers affected by an increase to:					
		\$8.43 per hour		\$7.75 per hour		Difference	
Total workers	2,939,000	486,000		195,000		-291,000	
Impact							
Directly affected		155,000		90,000		-65,000	
Indirectly affected (min. 20 cents)		331,000		105,000		-226,000	
Gender							
Male	1,457,000	197,000		79,000		-118,000	
Female	1,483,000	289,000	59.5%	116,000	59.5%	-173,000	59.5%
Age							
16 to 19 years	145,000	93,000		52,000		-41,000	
20 years and older	2,794,000	393,000	80.9%	143,000	73.3%	-250,000	85.9%
Weekly Hours Worked							
1-19 hours	231,000	95,000		56,000		-39,000	
20-34 hours	480,000	144,000		58,000		-86,000	
Full-time (35+ hrs.)	2,229,000	247,000	50.8%	82,000	41.8%	-165,000	56.9%