

Restoring the Purchasing  
Power of New York State's  
Minimum Wage



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## **Recent action to raise the minimum wage**

In New York's 2007-2008 legislative session, a new bill was drafted and introduced in the Assembly (A.9168-A) that would raise New York State's current minimum wage of \$7.15 in three steps over three years: to \$7.75 in January 2009, \$8.00 in January 2010, and \$8.25 in January 2011.

At the federal level, the minimum wage increased from \$5.15 to \$5.85 in July 2007. While the federal minimum will rise in two more steps to \$6.55 on July 24, 2008, and to \$7.25 on July 24, 2009, it will not subsequently be indexed to inflation.

In contrast, A.9168-A calls for the New York State minimum to be indexed beginning in 2012. This is an important provision if we are to avoid the familiar scenario of seeing low-wage workers' incomes erode while politicians fail to maintain the real value of the minimum wage. During the most recent session, A.9168-A was referred out of the labor, ways & means and rules committees, but the full Assembly has yet to vote on it.

## **How many workers will get a raise?**

About 283,000 New York workers would benefit from the enactment of A.9168-A. Over half (153,000) of these are workers projected to be earning less than \$8.25 in 2011 who would be legally entitled to a raise. Another 130,000 workers with wages slightly above \$8.25 would be likely to see their wage increase since it is known that low-wage employers typically adjust pay scales in response to a minimum wage hike in order to roughly maintain their firm's relative wages.<sup>1</sup>

Of the potentially affected workers, nearly two-thirds (64 percent) are women. This is not surprising since women, while having a slightly lower overall labor force participation rate than men, are much more likely to hold a low-wage job. More than half (55 percent) of the workers are non-Hispanic white, a little more than a quarter (26 percent) are Hispanic, and 13 percent are black, with workers of other groups making up the balance.

The vast majority (77 percent) of these workers are adults (aged 20 and older), contradicting the stereotype that minimum wage jobs are primarily held by teenagers. Nearly half (48 percent) of the workers have full-time jobs, and another 31 percent work between 20 and 34 hours a week.

## **What industries and occupations will be affected?**

With respect to the industry in which these workers are employed, the two largest shares are held by retail trade (23 percent) and by leisure and hospitality (21 percent), which is dominated by restaurants. Many of the industries employing low-wage workers (e.g., retail, restaurants, local services) are not likely to face competition from businesses in other states. So, if higher wages are passed through to customers as higher prices, customers are not likely to travel to a different state to eat dinner or get a haircut. Thus, when the minimum wage rises, the competitors of firms in these industries will face the same labor costs in the local labor market. Therefore, businesses in these industries will not be at a competitive disadvantage because of an increased state

minimum wage. With respect to the occupational profile of affected workers, service occupations by far represent the largest share of workers (42 percent), while nearly a quarter (24 percent) hold sales positions.

Table 1. Female low-wage workers would predominantly benefit from raising the minimum wage to \$8.25 by 2011.

	<u>Affected workers</u>	<u>Total workforce</u>
<b>Number of workers</b>	283,000	8,372,000
<b>Percent of workforce</b>	3%	100%
<b>Gender</b>		
Male	36%	51%
Female	64%	49%
<b>Race/ethnicity</b>		
White non-Hispanic	55%	63%
Black non-Hispanic	13%	14%
Hispanic	26%	16%
Asian & other non-Hispanic	6%	7%
<b>Age</b>		
16-19	23%	3%
20 and older	77%	97%
<b>Work hours</b>		
1-19 hours	22%	5%
20-34 hours	31%	12%
Full-time (35+ hours)	48%	83%
<b>Industry</b>		
Leisure and hospitality	21%	8%
Retail trade	23%	10%
<b>Occupation</b>		
Sales	24%	10%
Service	42%	20%

Source: Economic Policy Institute analysis of 2007 Current Population Survey data. This analysis incorporates projections to 2011 regarding employment and wage growth. Notes: "Affected workers" are those estimated to be eligible for legally-mandated wage increases and those projected to receive wage increases at their employers' discretion subsequent to a minimum wage hike. "Total workforce" includes workers aged 16 and older with valid wages, including workers not covered by minimum wage and excludes self-employed persons.

## **Minimum-wage workers' earnings are vital for tens of thousands of New York State families**

Some have claimed that minimum wage earners' wages do not play an important role in their families' incomes—that these workers incomes are “secondary” and that their contributions to family welfare are therefore insignificant. In fact, of those who stand to benefit from A.9168-A, their earnings on average constitute more than half (58 percent) of their families' incomes. For families with children, this share is even higher (60 percent). More than two in five (41 percent) of affected workers are their families' sole providers, and this figure rises to 45 percent for families with children. This belies the notion that these workers do not play a vital role in their families' economic welfare. The number of children whose parents would benefit from the increase is estimated to be 172,000, and single parents represent about one in seven (40,000) of the affected workers.

Table 2. A higher minimum wage helps those who need it.

Share of minimum wage increase to lowest income families	55%
Portion of family earnings contributed by affected workers in families with children	60%
Share of affected families with children relying solely on wages of affected workers	45%
Number of single parents affected	40,000

Source: Economic Policy Institute analysis of 2007 Current Population Survey data. This analysis incorporates projections to 2011 regarding employment and wage growth. Note: “Lowest income families” refers to families in the lowest two income quintiles, i.e., the families in the bottom 40 percent of the income distribution.

## **New York's minimum wage increases have not hurt small businesses or low-wage employment**

Opponents of minimum wage increases argue that an increase will adversely affect employment, particularly among small businesses. In FPI's two reports on the effects of minimum wage increases on small businesses, we compared the states that had minimum wages above the federal level with those that did not.<sup>2</sup> The data showed that both the number of workers employed by small businesses and the number of small businesses grew faster between 1998 and 2003 in the higher-minimum-wage states than in the states paying the federal minimum wage.<sup>3</sup> Higher minimum wages were not associated with adverse economic outcomes.

FPI also has analyzed employment growth in New York State. From December 2004, the month preceding the first New York State minimum wage increase, to December 2007, total employment in the state has grown by 3.0 percent. In the retail trade and food services industries—the largest employers of minimum-wage workers—employment has risen by 3.3 percent. While these figures are smaller than the averages for the entire U.S. (4.4 percent and 4.8

percent, respectively), the ratios of change of low-wage industry employment to overall employment are comparable (1.10 for New York State and 1.09 for the U.S.). In other words, the number of jobs in these heavily low-wage industries rose just as quickly in New York State relative to overall job growth as it did at the national level. These results do not support the prediction that the increases of the state's minimum wage between 2004 and 2007 would stymie growth in New York's low-wage industries.

**Table 3. Low-wage job growth kept pace while the New York State minimum wage rose.**

	Employment in thousands		Change	Ratio of change in low-wage to overall change
	December 2004	December 2007		
<b>New York State</b>				
All non-farm	8,642	8,900	3.0%	
Retail trade	929	947	2.0%	
Food services	461	489	5.9%	
Low-wage	1,390	1,436	3.3%	1.10
<b>U.S.</b>				
All non-farm	133,074	138,934	4.4%	
Retail trade	15,702	16,086	2.4%	
Food services	8,894	9,694	9.0%	
Low-wage	24,596	25,780	4.8%	1.09

Source: New York State Department of Labor and Bureau of Labor Statistics Current Employment Survey.

Notes: Employment data is not seasonally adjusted. Retail trade and food services are the largest employers of minimum-wage workers. "Low-wage" is the sum of retail trade and food services.

### **Raising the minimum wage can benefit employers, too**

An increased minimum wage obviously represents an upfront cost increase for businesses. However, there are important benefits that can offset the cost: a higher wage can decrease employee turnover, producing savings in recruitment and training expenses. Attracting and retaining good employees and boosting employee morale can also increase productivity. In addition, an increase in the minimum wage levels the playing field among businesses, benefiting those employers who already pay higher wages but compete against companies paying lower wages.

## **New York's low-wage workers have been helped by the minimum wage increases enacted since 2005**

The federal minimum wage remained stuck for a decade at \$5.15 until July 2007. Meanwhile, New York State's minimum rose from \$5.15 to \$7.15 between January 2005 and January 2007. Looking at the wages of workers in the bottom 10 percent of the wage distribution between 2004 and 2007, those in New York State averaged wage gains of 1.4 percent, whereas wages of the bottom 10 percent of workers nationally stayed flat.<sup>4</sup> This contrasts with the 1990-2004 period, when the wage growth of New York State's lowest-paid workers dramatically lagged behind that of the comparable group at the national level. In New York, the real wages of the bottom 10 percent of workers grew by only 1.6 percent over this fifteen-year period while the wages of the bottom 10 percent nationally increased by 13.9 percent.<sup>5</sup>

## **An increase is necessary to keep pace with the federal minimum wage**

The federal minimum wage will rise to \$6.55 in July of this year, with a final increase to \$7.25 scheduled for July 2009. Increasing the New York State minimum wage to \$7.75 in January 2009 would mean that within a matter of months the state minimum would be only 7 percent higher than the federal level. Failing to raise the state minimum before the federal increase in July 2009 would entail New York minimum wage workers going more than two and a half years before receiving a mere ten-cent wage increase.

## **New York should restore the purchasing power of the minimum wage**

A.9168-A is a step in the right direction, but it leaves minimum-wage workers far short of what is necessary to restore the purchasing power of the New York state minimum wage—which reached its peak in July 1970. Since that time, the real value of the state minimum wage has been eroded by inflation, and it is currently 16 percent below its 1970 level. Raising the wage floor to \$9.50 by 2011, and then indexing it for inflation, would put the state's minimum wage workers back on par with their 1970 counterparts. By raising the minimum wage to only \$8.25 in 2011, the Assembly bill would leave the minimum wage at 13 percent less than its peak value.

While A.9168-A would only benefit about 283,000 workers (about 3 percent of the state's workforce), raising the minimum wage to \$9.50 by 2011 would raise the wages of 1.2 million workers (14 percent of the workforce). In addition to restoring the minimum wage's purchasing power, raising the minimum wage to \$9.50 by 2011 and then indexing it to inflation would also ensure that future minimum wage workers, who are employed full-time, year round, would earn enough to keep a family of three above the federal poverty threshold. Given the barebones budget entailed by the poverty threshold (\$17,160 for a family of three in 2008) and the fact that it does not account for regional differences in the cost of living,<sup>6</sup> meeting this standard is a modest goal. (Recent analysis from the Economic Policy Institute shows that the amount required to cover a basic family budget for three varies within the state between \$34,380 in rural New York to \$54,852 on Long Island.<sup>7</sup>)

Again, the number of workers to benefit under the alternative proposal includes those who would receive mandated wage increases (695,000 workers) and those whose wages would likely rise

due to “ripple effects,” as employers adjusted pay scales to maintain wage differentials (507,000). The characteristics of the pool of potentially affected workers are roughly similar to those of the workers who would benefit from A.9168-A, but some differences emerge. Women are still in the majority (60 percent) of beneficiaries. The racial/ethnic distribution is approximately the same, although the percentage of affected workers who are black increases from 13 to 16 percent.

The number of adult workers increases significantly from 77 to 87 percent. Full-time workers' share is much larger under the alternative proposal, rising from 48 to 61 percent.

Table 4. Increasing the minimum wage to \$9.50 by 2011 would raise wages for 1.2 million low-wage New York workers.

	<u>Affected workers</u>	<u>Total workforce</u>
<b>Number of workers</b>	1,202,000	8,372,000
<b>Percent of workforce</b>	14%	100%
<b>Gender</b>		
Male	40%	51%
Female	60%	49%
<b>Race/ethnicity</b>		
White non-Hispanic	54%	63%
Black non-Hispanic	16%	14%
Hispanic	24%	16%
Asian & other non-Hispanic	6%	7%
<b>Age</b>		
16-19	13%	3%
20 and older	87%	97%
<b>Work hours</b>		
1-19 hours	14%	5%
20-34 hours	25%	12%
Full-time (35+ hours)	61%	83%
<b>Industry</b>		
Leisure and hospitality	17%	8%
Retail trade	21%	10%
<b>Occupation</b>		
Sales	19%	10%
Service	38%	20%

Source: Economic Policy Institute analysis of 2007 Current Population Survey data. This analysis incorporates projections to 2011 regarding employment and wage growth.

Notes: “Affected workers” are those estimated to be eligible for legally-mandated wage increases and those projected to receive wage increases at their employers’ discretion subsequent to a minimum wage hike. “Total workforce” includes workers aged 16 and older with valid wages, including workers not covered by minimum wage and excludes self-employed persons.

The distribution of workers across industries becomes a bit more diverse, with the shares in retail trade (21 percent) and leisure and hospitality (17 percent) declining, while other industries represent almost two-thirds (62 percent) of affected workers. Likewise, with the occupational mix, the percentage of workers in sales (19 percent) and service (38 percent) drops as the scope of occupations affected broadens.

Turning to the impact on families' incomes, the workers in this pool contribute to their family's incomes at the same rate as those affected by A.9168-A. In all families with an affected worker, the worker contributes 58 percent of family income on average. For those families with children, the share contributed by the affected worker is again an average of 60 percent. The percentage of families who get 100 percent of their earnings from affected workers remains at 41 percent, and it is again 45 percent for families with children. However, because of the much greater coverage of the alternative proposal with respect to the number of workers affected, the number of children with an affected parent more than triples, rising from 172,000 to 643,000. The number of single parents affected also more than triples to 133,000.

Raising the state minimum wage in three steps to \$7.15 represented a 39 percent increase over the previous level of \$5.15. Reaching a target wage of \$9.50 through three staggered increases would involve a smaller percentage increase of 33 percent over the current minimum. Moderate increases such as these have not been shown to be disruptive to the labor market.

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<sup>1</sup> In looking at the workers who stand to benefit from these minimum wage increase proposals, it is worth noting that the estimated number of New York State workers does not include those who report earning less than of \$7.00 an hour. These workers—who *do not* include tipped employees who are subject to a lower statutory minimum—number several hundred thousand according to the Current Population Survey. Various factors could account for sub-minimum reported wages: rounding and reporting errors, employment under a youth sub-minimum provision of federal law, or a certain provision of state law governing the employment of minors engaged in farm labor alongside their parents. However, employers' failure to pay the legal minimum must also be taken into consideration. A recent publication by the Brennan Center for Justice at New York University School of Law describes the numerous ways in which low-wage employers in New York City avoid paying the minimum wage. (See *Unregulated Work in the Global City: Employment and Labor Law Violations in New York City*, Annette Bernhardt, Siobhán McGrath, and James DeFilippis, Brennan Center for Justice at New York University Law School, April 2007, [http://brennan.3cdn.net/d6a52a30063ab2d639\\_9tm6bgaq4.pdf](http://brennan.3cdn.net/d6a52a30063ab2d639_9tm6bgaq4.pdf).) Increased enforcement efforts will help bring employers into compliance, and increasing the mandated minimum can also exert some pressure. While these employers may disregard the law itself, they are subject to economic forces, and they may be compelled to pay more when there is an increase in the wages of low-wage workers in the larger economy.

<sup>2</sup> *State Minimum Wages and Employment in Small Businesses*, Fiscal Policy Institute, April 2004, <http://www.fiscalpolicy.org/minimumwageandsmallbusiness.pdf>; *States with Minimum Wages above the Federal Level Have Had Faster Small Business and Retail Job Growth*, Fiscal Policy Institute, March 2006, <http://www.fiscalpolicy.org/FPISmallBusinessMinWage.pdf>.

<sup>3</sup> Fiscal Policy Institute, March 2006, op. cit.

<sup>4</sup> Fiscal Policy Institute and Economic Policy Institute analysis of Current Population Survey data.

<sup>5</sup> Fiscal Policy Institute and Economic Policy Institute analysis of Current Population Survey data.

<sup>6</sup> The cost of living varies between regions of the country, with the Northeast typically having higher costs than the South or Midwest, for example. For further discussion of the federal poverty threshold and an alternative measure, see page 21 of *State of Working New York 2003*, Fiscal Policy Institute, September 2003, <http://www.fiscalpolicy.org/SOWNY2003/swny2003.pdf>.

<sup>7</sup> EPI's results are available at <http://www.epi.org/budgetcalc.cfm> and were discussed in detail in *Working Families and Economic Security in New York: How Effectively Do Work Supports Bridge the Gaps?* by the Fiscal Policy Institute, June 2008, [http://www.fiscalpolicy.org/FPI\\_NewYorkWorkingFamiliesAndEconomicSecurity.pdf](http://www.fiscalpolicy.org/FPI_NewYorkWorkingFamiliesAndEconomicSecurity.pdf).



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**[www.fiscalpolicy.org](http://www.fiscalpolicy.org)**

**One Lear Jet Lane  
Latham, NY 12110  
518-786-3156**

**11 Park Place, Suite 701  
New York, NY 10007  
212-414-9001**