

FISCAL POLICY NOTES

New York's 2005-2007 minimum wage increases: Good for the state's workers, good for the economy

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The federal minimum wage has not increased since September 1997, and its purchasing power is at the lowest level since 1955.¹ In response to this stagnation, in 2004 the New York legislature, overriding a gubernatorial veto, joined twelve other states and the District of Columbia in implementing a minimum above the \$5.15 federal minimum. As of January 1, 2005, the New York minimum went to \$6.00; it became \$6.75 on January 1, 2006, and \$7.15 on January 1, 2007. As of January 2007, 28 states (and D.C.) have minimum wages above the federal level—ten of these with automatic annual adjustment for inflation.

At the federal level, the House of Representatives passed a bill in early January 2007 to raise the federal minimum wage in three steps to \$7.25 by 2009. However, this would restore the purchasing power of the minimum wage only to its 1997 level, still well short of the peak level for the federal minimum reached in 1968.

Minimum wage increases in New York have defied predictions that they would hurt the very low-wage workers they were designed to help. In fact, they have benefited many New Yorkers, and have not led to shrinking employment in low-wage businesses.

Hundreds of thousands of New Yorkers have benefited from the 2005–2007 increases.

FPI estimates that since December 2004, three-quarters of a million New York workers (9.3 percent of the workforce) should have seen their wages rise directly because of the increases in New York's minimum wage.² We say “should” because there is a critical enforcement problem. The State Labor Department needs to significantly increase its enforcement effort to ensure that

¹ *Nine Years of Neglect*, Jared Bernstein and Isaac Shapiro, Center on Budget and Policy Priorities and the Economic Policy Institute. <http://www.epi.org/content.cfm/ib227>.

² This number excludes those covered by lower minimum-wage standards (for example, food servers in restaurants) that may have gotten increases. Using CPS data, we estimate that 225,000 New York workers who, in 2004, had been below the 2006 minimum, had moved above it by 2006—but there were still a substantial numbers of workers below the new minimum.

New York's low-wage workers receive the wages to which they are entitled. Over three-fifths of those who should be directly benefiting are over the age of 22, and half are full-time employees. In addition, such increases often have a “wage-push” effect, increasing wages for those workers whose wages are just above the new minimums. There were about 510,000 New Yorkers earning between \$7.15 and \$8.15 in 2004, and many of these have probably benefited as well (see Appendix 1).

Minimum wages make a real difference for many New York families.

Most of the benefits of increasing the minimum wage go to workers in low-income families.³ This increased income is critical in New York, where families need to earn at least two to three times the federal poverty level to meet basic family needs for housing, food, child care, transportation and health care. For families with children that include a minimum wage worker, the minimum wage worker provides over half (55 percent) of total family wage earnings. In two out of every five (42 percent) of these families, the minimum wage worker is the sole earner.

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.⁴ The data showed that both the number of workers employed by small businesses and the number of small businesses had grown faster since 1998 in the higher-minimum-wage states than in the states paying the federal minimum wage.

FPI's most recent analysis (see Appendix 2) shows that New York's low-wage industries have grown faster than the average for all New York industries, and faster than the average for low-wage industries in four surrounding states, since 2004. While employment in all New York industries grew 1.6 percent from September 2004, to September 2006, retail and food service employment (which have the largest concentration of low-wage workers) grew 2.0 percent during these two years. And in Connecticut, New Jersey, Massachusetts, and Pennsylvania, which might be the best states to compare with New York (neighboring states have the most comparable business climate), retail and food service employment grew at only 1.3 percent during these years.⁵ While low-wage employment grew more slowly in New York than nationally during these two years, low-wage employment growth relative to job growth in the state's economy as a whole was greater (129 percent) than national low-wage growth relative to overall national job growth (80 percent).

³ *Setting the Record Straight: An Increase in New York's Minimum Wage Will Help Those Who Need It*, Fiscal Policy Institute, July, 2004. <http://www.fiscalspolicy.org/FPIminimumwage19July2004.pdf>.

⁴ *State Minimum Wages and Employment in Small Businesses*, Fiscal Policy Institute, April, 2004, <http://www.fiscalspolicy.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.fiscalspolicy.org/FPISmallBusinessMinWage.pdf>.

⁵ Massachusetts and Connecticut had a higher minimum wage during this period than New York.

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There are many possible explanations for why doomsayers' predictions have not come true. Many low-wage jobs are in industries (restaurants, retail, local services) that cannot move to other states, and employers' profit margins have been able to absorb these small increases. Higher wages may have encouraged more experienced workers to apply for (and stay at) these jobs, reducing hiring, training, and supervision costs for employers. Employers may have decided that since they had to pay their low-wage workers more, they would invest more in training and other ways to increase productivity, keeping their margins high enough to prosper.

New York's minimum wage should be raised again: At \$7.15, it is still below the poverty level for a family of three. Moreover, lack of indexing means the issue will have to be revisited repeatedly.

New York's experience with raising the minimum wage shows that there can be real benefits to low-wage workers without hurting the economy. But, while \$7.15 an hour is within striking distance of a reasonable standard, it is still significantly below either what it takes to support a family, or the peak purchasing power of the minimum wage in the past.

Someone earning \$7.15 an hour, working full-time, year-round, still earns much less (\$14,872) than the federal poverty guideline for a family of three (\$17,100⁶). That level—a reasonable standard, especially since New York has a cost of living that is higher than the national average—would require an hourly wage of \$8.22.

A different way of looking at a standard by which to fix the minimum wage is the peak purchasing power of the minimum wage in the past. That calculation brings us to virtually the same level. For New York, the peak was reached in July 1970. In today's dollars, the equivalent minimum wage would have to be \$8.30 an hour.⁷

Whether the target level is \$8.22 or \$8.30 (in 2007 dollars), that level could be reached in moderate increments over a four-year period. Because of inflation, the appropriate target level would be higher with each year that goes by. Assuming a 3 percent annual increase in the Consumer Price Index, the hourly wage necessary for a person working full time to earn the 3-person federal poverty guideline would be \$9.25 in January 2011. In other words, \$9.25 in 2011 is the same level as \$8.22 in 2007, assuming inflation of 3 percent. (The federal poverty level is adjusted annually based on the change in the Consumer Price Index.) Assuming the same pace of inflation, New York's minimum wage would have to be \$9.34 an hour by 2011 to match the purchasing power of the July 1970 minimum wage.

The graph below projects the proposed target levels on an annual basis through 2011. From \$7.15 in January 2007, four annual increases of 55 cents would take the New York minimum wage to \$9.35 an hour in January 2011. This would return the purchasing power of New York's

⁶ 2007 level estimated by FPI using the change in the average monthly CPI-U level for the 12 months of 2006.

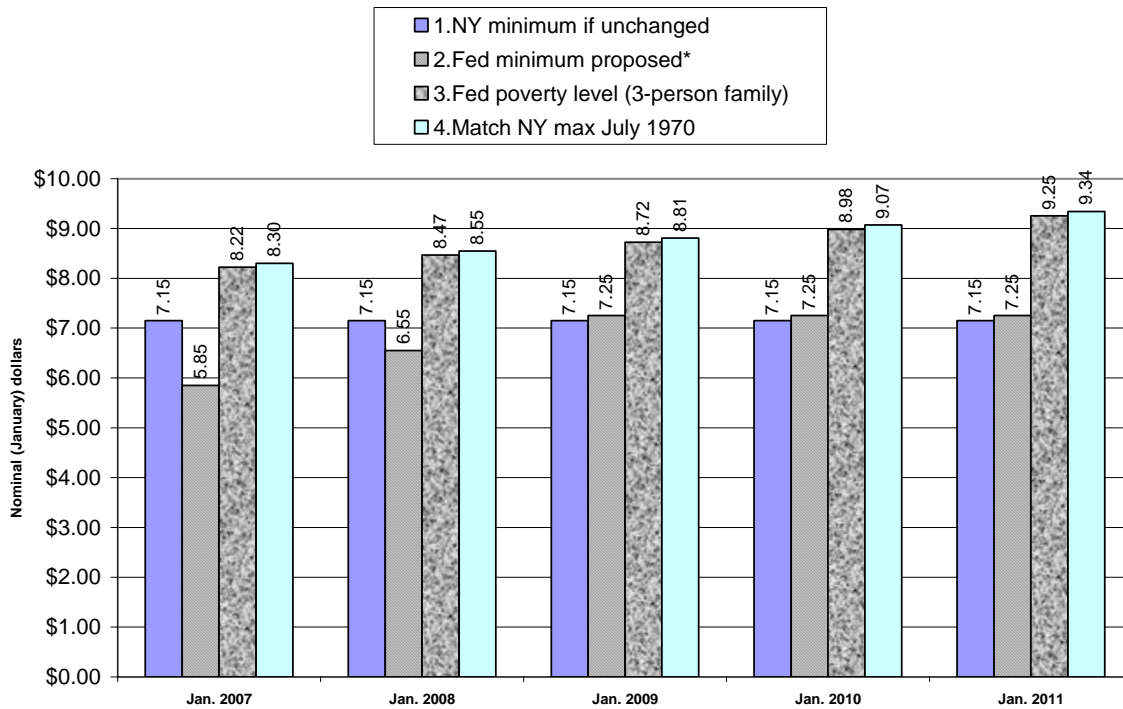
⁷ In July 1970, New York's minimum wage was raised to \$1.85, 25 cents above the federal minimum wage of \$1.60. FPI calculates the equivalent purchasing power in today's dollars by using the monthly estimates of the Research Series for the Consumer Price Index. Adjusting using the more publicly available CPI-U would push the estimate even higher.

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minimum wage to its peak level and to a level right around the projected 3-person federal poverty threshold for 2011.⁸

Once the target level has been reached, it would be important to index the minimum wage to inflation, so that the issue does not need to be addressed repeatedly. Ten states now tie their minimum wage to the cost of living, and voters in six of these states approved higher minimum wages, indexed to cost of living, in November, 2006, referenda. Indexing through inflation means the purchasing power of the minimum wage is not allowed to erode through inaction.

To restore New York's minimum wage based on two reasonable standards, it should reach \$9.35 in January 2011 and be indexed thereafter.



Year-to-year projections assume 3% annual increase in CPI. FPL for 2007 calculated by FPI following HHS methodology.
 *House bill passed 1/07: Increases not as of January of each year but effective 60 days after enactment, and on 2 anniversaries of that date.

⁸ The \$9.35 level in 2011 would also make New York's minimum wage roughly 50% of the national non-supervisory average wage. Fifty percent of the non-supervisory average hourly wage is sometimes mentioned as a target standard for the statutory hourly minimum wage. For example, see *Nine Years of Neglect*, Jared Bernstein and Isaac Shapiro, Center on Budget and Policy Priorities and the Economic Policy Institute. <http://www.epi.org/content.cfm/ib227>.

Appendix 1. 740,000 New Yorkers should have benefited directly from the 2005 - 2007 minimum wage increases. Most are adults, half of them full-time workers.

	Those earning less than \$5.15 in 2004	Those earning \$5.15 to less than \$7.15	Those earning \$7.15 to less than \$8.15**	All employed	Share of those earning \$5.15 to less than \$7.15
Number of workers	222,300	737,100	510,900	7,889,000	
Percent of workforce	2.8%	9.3%	6.5%	100%	100%
<i>Gender</i>					
Males	1.2%	4.0%	2.9%	51.2%	43%
Females	1.7%	5.4%	3.5%	48.8%	57%
<i>Race/ethnicity</i>					
White non-Hispanic	1.7%	5.5%	3.2%	63.8%	58%
Black non-Hispanic	0.4%	1.4%	1.3%	14.3%	15%
Hispanic	0.6%	1.7%	1.5%	14.4%	19%
Asian and other non-Hispanic	0.2%	0.7%	0.5%	7.5%	8%
<i>Immigrant status</i>					
Native	1.9%	6.7%	4.2%	74.1%	71%
Immigrant*	0.9%	2.7%	2.3%	25.9%	29%
<i>Age</i>					
22 and under	0.7%	3.6%	0.5%	9.9%	38%
22-64	1.9%	5.5%	1.2%	87.1%	58%
65 and over	0.2%	0.3%	0.3%	3.1%	3%
<i>Education</i>					
Less than high school	0.7%	3.1%	1.8%	11.5%	33%
High school	0.9%	2.9%	2.4%	30.9%	31%
At least some college	1.2%	3.3%	2.2%	57.6%	36%
<i>Part time/full time</i>					
Part time (< 35 hrs a week)	1.5%	4.7%	2.4%	17.9%	50%
Full time (>= 35 hrs)	1.4%	4.6%	4.0%	82.1%	50%
<i>Industry</i>					
Retail trade	0.3%	2.6%	1.5%	11.4%	28%
Food services	0.7%	1.4%	0.7%	5.4%	15%
<i>Occupation</i>					
Sales	0.3%	2.1%	1.2%	10.7%	23%
Services	1.1%	2.1%	1.2%	8.9%	22%

*Immigrated at any time; includes naturalized citizens

**Those most likely to benefit from "wage-push" effects

All numbers and percents are 12-month averages.

Universe: employed (other than self-employed) ages 16 and up.

Estimates assume the 2004 workforce is representative of those who have worked each year since, and includes those who may have

received raises or changed jobs to above \$7.15 "independently" of the minimum-wage changes.

Those earning below \$5.15 in 2004 may be subject to lower minimums, or may represent errors in the data, and are not included in the 740,000 estimate.

Source: Current Population Survey ORG files for 2004. Analysis by FPI.

Appendix 2. Since New York's 2005 and 2006 minimum-wage increases, job growth in NY has been as strong as in neighboring states, and low-wage jobs have grown even faster.

	Employment (000s)*		Change	Ratio of change in low-wage to overall change
	September 2004	September 2006		
New York State				
All non-farm	8,481.8	8,614.7	1.6%	
Retail trade	870.1	884.4	1.6%	
Food service	466.6	479.4	2.7%	
Low-wage	1,336.7	1,363.8	2.0%	1.29
Four neighboring states (NJ, PA, MA, CT)**				
All non-farm	14,557.1	14,789.6	1.6%	
Retail trade	1,661.4	1,669.6	0.5%	
Food service	880.6	904.7	2.7%	
Low-wage	2,542.0	2,574.3	1.3%	0.80
United States				
All non-farm	132,069.0	136,078.0	3.0%	
Retail trade	14,992.1	15,099.2	0.7%	
Food service	8,975.5	9,454.0	5.3%	
Low-wage	23,967.6	24,553.2	2.4%	0.80

Note: Retail trade and food services are the largest employers of minimum-wage workers.

*Not seasonally adjusted

**New Jersey increased its minimum in October, 2005. Connecticut had a small increase in January, 2006. Massachusetts has had a \$6.75 minimum through this period, and Pennsylvania has had a \$5.15 minimum.

"Low-wage" is the sum of retail trade and food service

Source: Bureau of Labor Statistics Current Employment Survey

The Fiscal Policy Institute (FPI) is a nonpartisan research and education organization that focuses on tax, budget, and economic issues that affect the quality of life and the economic well being of New York State residents.

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