News from the

Fiscal Policy Institute

Embargoed for use after12:01 am Friday, March 31
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Small business and retail job growth faster in states with minimum wages above the $5.15 federal level

New York (March 30, 2006) -- As more and more states act to raise their minimum wage, a new report from the **Fiscal Policy Institute (FPI)** shows that a diverse set of states with minimum wages above the federal $5.15 level have had faster job growth among small businesses and in the retail trade sector than states where the lower federal minimum prevailed. The federal minimum wage was last raised in September of 1997, and a few months from now, this will be the longest span without an increase in the wage floor since the establishment of a federal minimum wage in 1938. Since 1997, 19 states and the District of Columbia have raised their own minimum wage levels above the federal $5.15 hourly wage. Michigan joined this group of states two days ago when Governor Granholm signed into law a three-step increase that will raise Michigan's minimum to $7.40 in July 2007.

Opponents of an increase in the minimum wage have long argued that because many small businesses are labor intensive and largely employ low-wage workers, such businesses will experience sharp cost increases in the wake of a minimum wage increase, with the result that they will reduce employment levels. To test this claim, FPI compared small business job growth and economic performance between the higher minimum wage states and the remainder of states from 1998 to 2003, the latest year that an analysis for small business is possible. FPI's results consistently contradicted the standard argument of minimum wage opponents. In fact, small businesses in the higher minimum wage states as a group had faster job growth (6.7%) than for the other 40 states combined (5.3%). The higher minimum wage states also saw a greater gain in the number of small businesses, and greater growth in total payrolls and average pay per worker for small employers.

FPI's Chief Economist, James Parrott, offered this explanation for these results: "Faced with an increase in the minimum wage, rather than cut jobs or the number of hours worked, small businesses may have benefited from some combination of higher productivity through improved worker retention and savings from recruitment and training." Parrott added, "There may also be a 'Henry Ford' effect at work: if you pay workers more, they can buy more, boosting the overall economy, especially among small, neighborhood retailers."

Overriding Governor Pataki's veto, the state legislature raised New York's minimum wage in January 2005. In the first year following the increase, retail employment in New York increased faster than overall employment, while retail's growth was slower than total job growth in the U.S. as a whole. There was also an increase in the hours worked for low-wage workers, suggesting that their total wages rose.

The findings of the new FPI report are consistent with a growing body of economic research that has called into question the long-held prediction that a higher minimum wage will reduce the number of jobs or the number of hours worked by low-wage workers.

Overall, based on its extensive data analysis, the report concludes that higher minimum wages have helped workers get a fairer wage while small businesses have continued to grow.

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The Fiscal Policy Institute report, ***"States with Minimum Wages above the Federal level have had Faster Small Business and Retail Job Growth,"*** is available at:
http://www.fiscalpolicy.org/FPISmallBusinessMinWage.pdf

FPI is a nonpartisan research and education organization that focuses on the broad range of tax, budget, and economic and related public policy issues that affect the quality of life and the economic well being of New York State residents. FPI's analyses are intended to further the development and implementation of public policies that create a strong, sustainable economy in which prosperity is broadly shared by all New Yorkers. FPI has offices in Albany and new York City. The FPI website may be found at: www.fiscalpolicy.org.