Raising the Minimum Wage in New York:

Helping Working Families and Improving the State's Economy

Fiscal Policy Institute

Acknowledgements

Fiscal Policy Institute

The Fiscal Policy Institute (FPI) is a nonpartisan research and education organization that focuses on the broad range of tax, budget, economic and related public policy issues that affect the quality of life and the economic well-being of New York State residents. Founded in 1991, FPI's work is 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.

Executive Summary

Despite all the changes taking place in our economy, what has not changed is the notion that work has value and that wages should provide an adequate reward for work. People who work, and play by the rules, should not be poor. To make the economy function better, when Congress established the first federal minimum wage in 1938, it sought to stimulate demand by boosting the purchasing power of workers, and to level the playing field among businesses by creating a wage floor that would limit unfair competition.

These values and objectives have been undermined by the serious erosion that has taken place in recent years in the purchasing power of the minimum wage in New York and the U.S. The federal minimum wage, currently $5.15 an hour, is not indexed to preserve its purchasing power and has not been raised since 1997. The inflation-adjusted value of the minimum wage is approaching the lowest point in a half-century and is 40% below the peak level reached in 1968.

Raising the minimum to $7.00 an hour would restore the value of the minimum wage to the level that prevailed for most of the 1960s and 1970s, and would hardly make New York an exception. Twelve states and the District of Columbia have raised their minimums above the $5.15 federal standard. Four states, led by Washington at $7.16 an hour, already have minimums above $7.00.

Despite the fact that New York's economy has richly rewarded many of its workers, wages for low-wage New Yorkers have not improved over the past two decades. In fact, wages for people at the bottom of the economic ladder have fallen, even in times of economic expansion. This has given New York the dubious distinction of having the greatest disparity among the 50 states between the average wage and the minimum wage.

The experience of a large number of New York workers is that work does not pay enough to provide an adequate living standard. The share of all New York workers earning less than $7.00 an hour (measured in 2003 dollars) has tripled from 3.6% in 1979 to 11.7% in 2000. This has contributed to a surge in the ranks of New York working families who are poor. In the late 1970s, the poverty rate among working families with children was 6.4%, by the late 1990s, it was 11.7%.

An increase in the minimum wage to $7.00 an hour would directly benefit nearly 700,000 New York workers now making between $5.15 and $6.99 an hour, and likely would boost the wages of many of the 500,000 workers making between $7 and $8 an hour. The majority of those benefiting directly are adults (74%), and people who work more than half-time (78%).

Because women and people of color tend to be more concentrated in industries and occupations paying lower wages, they are over-represented among those who stand to benefit from a minimum wage increase. Of the workers who would directly benefit from an increase, 61% are women, and 20% are Hispanic.

The earnings of New York's minimum wage workers are vital to the total wage earnings received by their families. Their wages provide half of total family wage earnings in families with minimum wage workers. More than a third of all families with a minimum wage worker rely solely on the earnings from minimum wage employment.

Lower-income households disproportionately will benefit from a minimum wage increase. One third of the earnings gain will accrue to the bottom 20 percent of households although they receive only one-twentieth of all wage earnings. The lowest-earning 40 percent of households, who account for only 15% of total wage earnings, will receive 56% of the added earnings resulting from an increase in New York's minimum to $7.00 an hour.

Increasing the minimum wage is unlikely to reduce employment opportunities for the working-poor. A growing body of both empirical and theoretical work has called into question this long-held prediction and the simplistic supply and demand theoretical model from which it is generated. More sophisticated models of how the economy operates suggest that employers are likely to respond to a wage increase by improving the skills of their workers and becoming more efficient, and that slightly higher wages would be offset by savings from reduced turnover and higher productivity. Recent historical evidence supports this richer understanding of how labor markets operate. Assessments of the 1996 and 1997 federal minimum wage increases, using various analytical methods, found that the employment effects were statistically insignificant.

These findings suggest that modest increases in the minimum wage in three stages to $7.00 an hour are unlikely to have any significant labor displacement effects. As the New York economy begins to recover, employment demand should increase as businesses hire back workers or expand to serve increased consumer and business demand. The context of a recovering economy and growing sales volume will further act to minimize potential displacement.

A minimum wage increase would help improve the functioning of the New York economy. A state minimum wage that serves as a more effective floor under the labor market should encourage more efficient business practices and level the competitive playing field for businesses already paying wages above $5.15. With the large-scale substitution of low-wage jobs for higher-wage jobs in many parts of New York's economy, a more effective wage floor will act to constrain what otherwise could be a more intense "race to the bottom." And in the downstate economy in particular, where many recent immigrants toil at substandard wages, a higher minimum wage, coupled with improved labor standards enforcement will reduce the exploitation of immigrant and other low-wage workers and the potentially ruinous competition such exploitation poses to businesses paying better wages.

There is no evidence that a higher minimum wage would be harmful to New York's economy. Rather, it is likely the increase would have a modestly positive effect on the economy, for the reasons cited above and because the higher wage earnings will increase consumption spending by minimum wage workers. This additional consumption spending would not increase statewide economic activity by a significant amount given the magnitude of the state's economy.

The Decline in the Value of the Minimum Wage in New York

Despite all the changes taking place in our economy, what has not changed is the notion that work has value and that wages should provide an adequate reward for work. People who work and play by the rules should not be poor.

Congress passed the first federal minimum wage law in 1938, setting an official wage "floor". This federal action followed the lead of several states, including New York, which had enacted their own minimum wage laws. Congress very explicitly cited its intent to be not just the elimination of substandard wages, but also an economic benefit that would be created by putting extra money in the pockets of low-wage workers. Henry Ford argued that if you don't pay workers a decent wage, you don't have customers; Congress decided to apply this lesson to all businesses.

These values and objectives have been undermined by the serious erosion that has taken place in recent years in the purchasing power of the minimum wage in New York and the U.S.[1] The federal minimum wage (currently $5.15 an hour) is not indexed, it does not increase along with inflation. Increases in the general price level erode the real value of the minimum wage. It is up to Congress, or individual states, to periodically raise the minimum wage. The federal minimum wage has not been increased since September of 1997, when it was raised to $5.15 an hour. The failure to raise the minimum makes the current period -- at 6 years, 4 months (as of January 2004) and counting -- the second longest in the history of the federal minimum wage without an increase. Only the period from 1981 to 1990 was longer.[2]

With a tradition of leadership for much of its history in protecting workers and in regulating commerce, New York has on two occasions in recent decades raised its minimum wage above the federal level— once in 1967 and again from 1970 to 1974.

As Figure 1 shows, throughout most of the 1960s and 1970s, the purchasing power of the minimum wage exceeded $7.00 an hour in today's dollars. The peak level for the value (in 2003 dollars) of the federal minimum wage was $8.65, reached in early 1968. When it raised its minimum above the federal minimum in 1970, New York lifted the value of its minimum wage to $8.83 (in 2003 dollars).

The purchasing power of the minimum wage is now approaching the lowest level in a half-century. The purchasing power of the minimum wage is now well below the levels prevailing during the 1960s and 1970s. Except for two brief periods in the late 1980s and mid-1995 to mid-1996[3], the real value of the minimum wage is at its lowest level since the late 1940s. The current $5.15 minimum wage's real value is now about 40% below the 1968 peak value for the purchasing power of the federal minimum, and 42% below the peak 1970 value when the New York minimum exceeded the federal minimum wage. Another
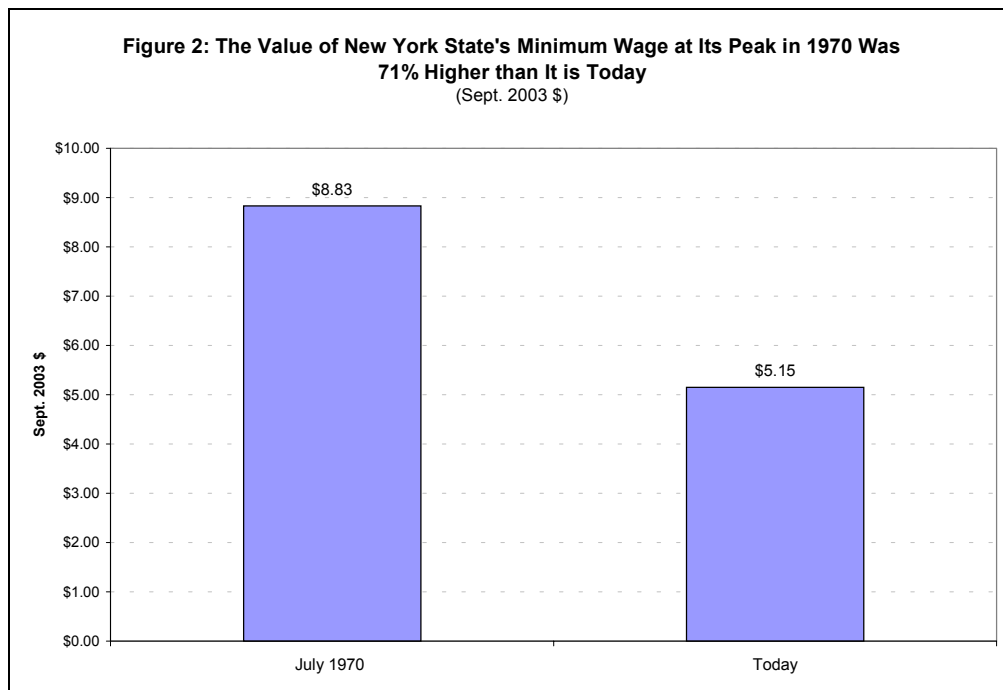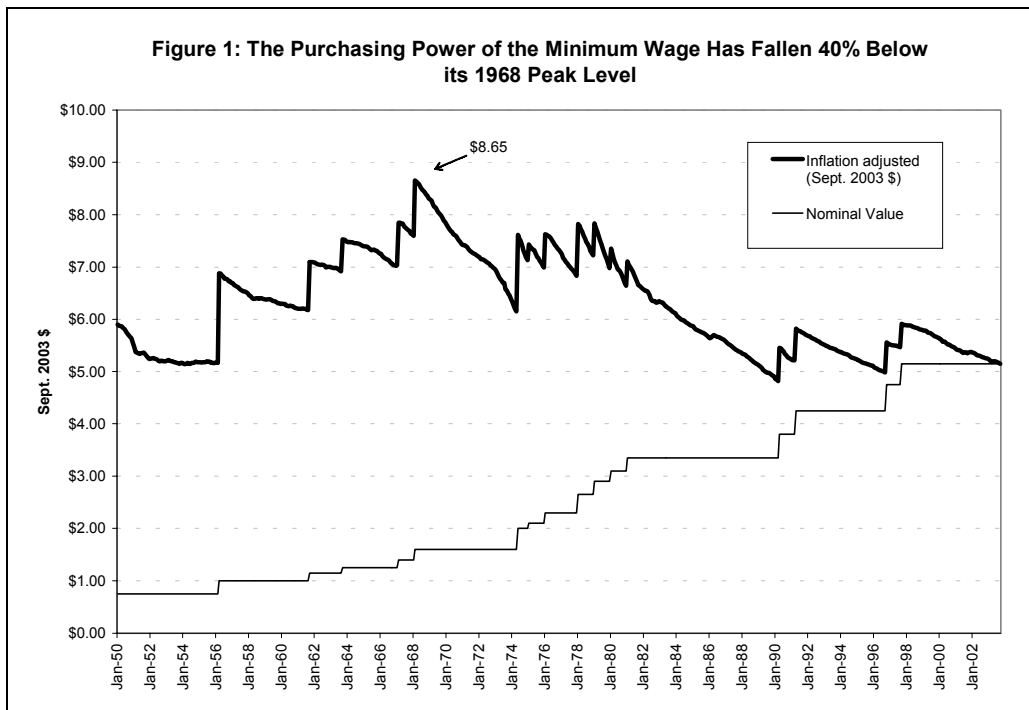
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[1] Over time, increase in the price level, or "inflation", changes the purchasing power of a given amount of dollars. To account for this, economists measure wage gains or losses in "constant" or "inflation-adjusted" dollars. This report looks at changes in the inflation-adjusted value of the minimum wage, or its purchasing power, not changes in the number of dollars a worker is paid, or takes home. The Consumer Price Index for All Urban Consumers (CPI_U) , published by the U.S. Bureau of Labor Statistics, is used to convert nominal dollars into September 2003 constant dollars.

[2] For a chronology of federal and New York State minimum wages since 1950, see Appendix Figure 1.

[3] The two periods when the real value of the minimum wage was below $5.15 (in September 2003 dollars) were from December 1988 to March 1990, and from August 1995 to September 1996.

way to consider this is that, at $8.83, the purchasing power of New York's minimum wage in July 1970 was 71% higher than the current $5.15. (See Figure 2)

Figure 1: The Purchasing Power of the Minimum Wage Has Fallen 40% Below its 1968 Peak Level

$8.65

Inflation adjusted (Sept. 2003 $)

Nominal Value

Sept. 2003 $

$10.00
$9.00
$8.00
$7.00
$6.00
$5.00
$4.00
$3.00
$2.00
$1.00
$0.00

Jan-50 Jan-52 Jan-54 Jan-56 Jan-58 Jan-60 Jan-62 Jan-64 Jan-66 Jan-68 Jan-70 Jan-72 Jan-74 Jan-76 Jan-78 Jan-80 Jan-82 Jan-84 Jan-86 Jan-88 Jan-90 Jan-92 Jan-94 Jan-96 Jan-98 Jan-00 Jan-02

Figure 2: The Value of New York State's Minimum Wage at Its Peak in 1970 Was 71% Higher than It is Today
(Sept. 2003 $)

Sept. 2003 $

$10.00
$9.00
$8.00
$7.00
$6.00
$5.00
$4.00
$3.00
$2.00
$1.00
$0.00

$8.83

$5.15

July 1970   Today

An alternative way to analyze the long-term erosion in the value of the minimum wage in New York is to consider it in relation to the average wage for all workers in the state's economy. In 1975, a full-time

minimum wage worker was paid 38.8% of the average weekly wage in New York.[4]   By 2002, the minimum wage relative to the average wage had dropped to 23.2%. If the minimum wage paid in New York had maintained its 1975 relationship to the average wage, the minimum wage in 2002 would have been $8.61. The actual minimum wage of $5.15 was 40% less than this $8.61 amount.

A growing number of states have acted to counter the erosion in the minimum wage by raising their minimums above the $5.15 an hour federal standard. Figure 3 shows that 12 states plus the District of Columbia now have minimum wages above the federal level.   The list includes three of New York's neighboring states (Connecticut, Massachusetts and Vermont), two large urban industrial states like New York (California and Illinois), and seven out of the 11 highest wage states (New York has the second highest average wage among states). If New York raised its minimum wage to $7.00 an hour as one of the proposals before the state legislature now calls for, it would have ample company among similarly situated states.

Figure 3: Twelve States and the District of Columbia Already Have Minimum Wages Above the Current Federal Minimum Wage

(as of January 1, 2004)

State	Minimum Wage
Washington**	$7.16
Alaska	$7.15
Connecticut	$7.10
Oregon**	$7.05
California	$6.75
Massachusetts	$6.75
Rhode Island	$6.75
Vermont*	$6.75
Hawaii	$6.25
Maine	$6.25
Delaware	$6.15
District of Columbia	$6.15
Illinois*	$5.50

Illinois' minimum wage will increase to $6.50 on January 1, 2005. Vermont's minimum wage will increase to $7.00 on January 1, 2005.

** *Oregon and Washington index their minimum wages to account for annual increases in the cost of living.*
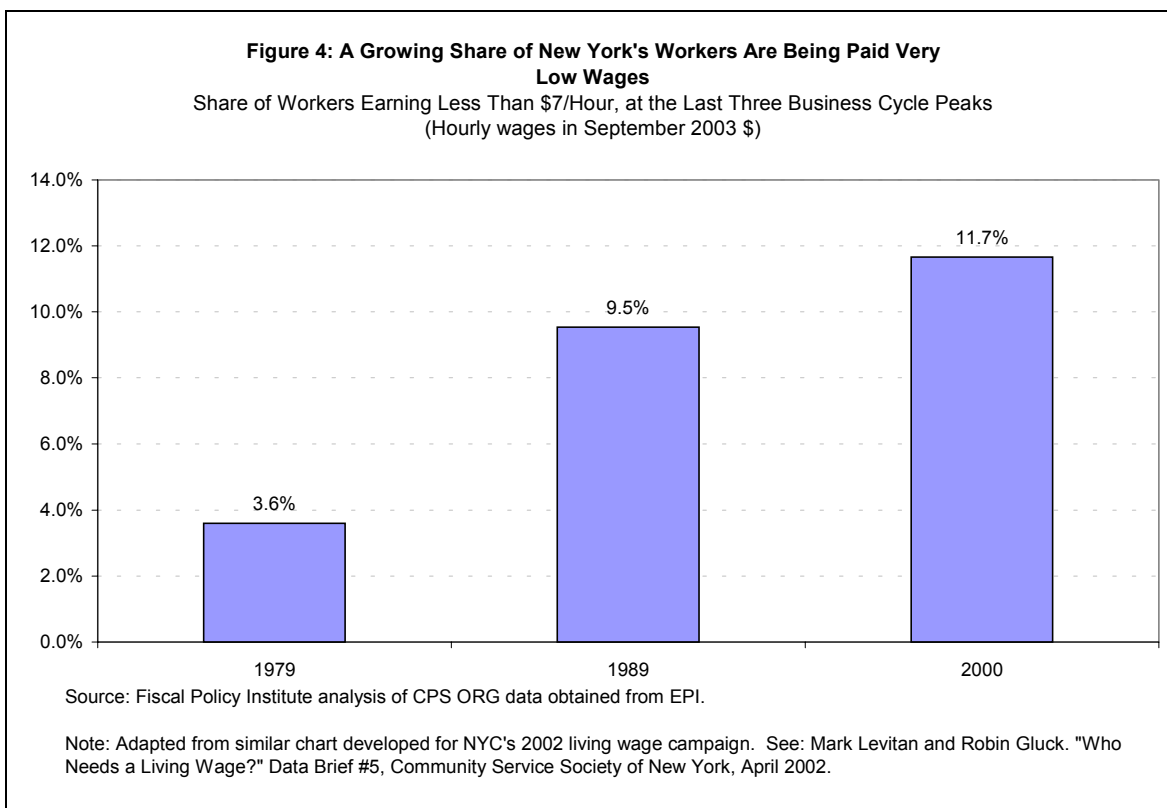

As New York begins consideration of increasing its minimum wage, this report is intended to provide background information on trends in wages and living standards for low-wage workers in New York and to discuss the economic implications of an increase in the state's minimum. Wage trends are reviewed in the next section and data are presented to understand the characteristics of the workers who would be affected by an increase in the minimum wage. The third section discusses the conventional arguments put forth by opponents of minimum wage increases in light of recent empirical and theoretical developments in minimum wage research, and assesses the key factors at work in considering the impact of an increase in the minimum wage on the New York economy.

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[4] The year 1975 is the earliest year for which average weekly wage data are provided on the New York State Labor Department website, http://www.labor.state.ny.us/labor_market/lmi_business/employ/hist202.htm.

Rewarding Work by Raising the Minimum Wage

Overall, New York is a wealthy and highly productive state. The average value produced by a New York worker is 25% higher than the value produced by a worker nationally. Per capita income in the Empire State was 16% higher than the national average in 2000, and the state's average annual wage exceeded the national average by 27% in that year. In addition to having the widest-in-the-nation gap between the rich and the poor, New York has the dubious distinction of having the greatest disparity between its average wage and the earnings of a full-time minimum wage worker. Wages for low-wage workers in New York have not improved over the past two decades and in fact, have fallen. On its own, the labor market has failed to ensure that all New York workers enjoy an adequate standard of living from the wages they receive.   The erosion of wages at the bottom of New York's labor market means that the ranks of the state's working poor have mushroomed.

Despite rich gains for some New York workers, the proportion of New York workers receiving very low wages has grown substantially. At the peak of the late 1970s business cycle in 1979, only 3.6% of New York's workforce earned less than $7.00 an hour (in 2003 dollar terms). The share of workers earning very low wages less than $7.00 an hour increased to 9.5% at the end of the 1980s expansion in 1989, and then increased to 11.7% in 2000, at the end of the late 1990s expansion. (See Figure 4.)
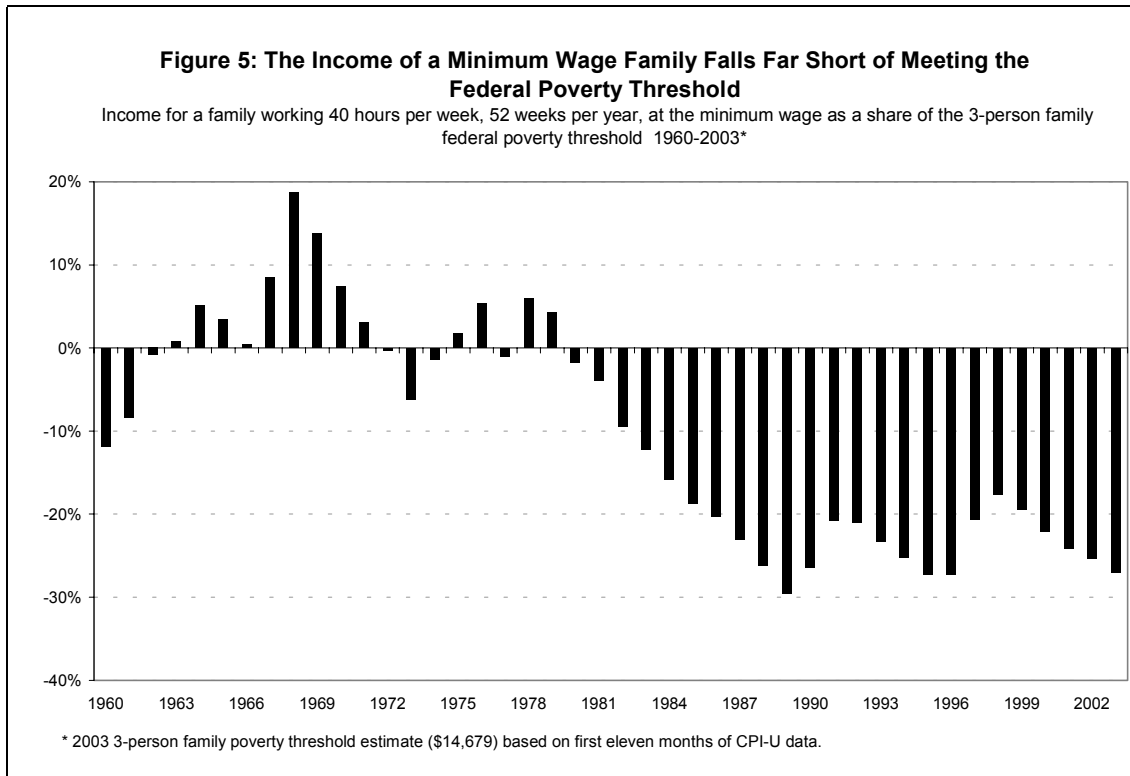
Figure 4: A Growing Share of New York's Workers Are Being Paid Very Low Wages
Share of Workers Earning Less Than $7/Hour, at the Last Three Business Cycle Peaks
(Hourly wages in September 2003 $)

Source: Fiscal Policy Institute analysis of CPS ORG data obtained from EPI.

Note: Adapted from similar chart developed for NYC's 2002 living wage campaign. See: Mark Levitan and Robin Gluck. "Who Needs a Living Wage?" Data Brief #5, Community Service Society of New York, April 2002.

The number of working poor families climbs while their incomes fall

The plight of low-wage workers in New York means that thousands of families have one or more worker but remain poor. The poverty rate rose in New York (by 1.4 percentage points) over the past decade while it declined for the nation (by 0.7 percentage points.)[5] The poverty rate among working families with children rose from 6.4% in the late 1970s in New York to 12.2% in the late 1990s.[6]

During most of the 1960s and 1970s, the minimum wage was sufficient to enable a full-time worker to earn enough to sustain a three-person family above the federal poverty threshold. (See Figure 5.) Since the mid-1980s, however, a minimum wage worker has only managed earnings amounting to 20% or greater <u>below</u> the 3-person poverty threshold. Today, the minimum wage puts a worker at 27% below that level.

Figure 5: The Income of a Minimum Wage Family Falls Far Short of Meeting the Federal Poverty Threshold

Income for a family working 40 hours per week, 52 weeks per year, at the minimum wage as a share of the 3-person family federal poverty threshold 1960-2003*

* 2003 3-person family poverty threshold estimate ($14,679) based on first eleven months of CPI-U data.

The EITC is not a substitute for a minimum wage increase

An increased minimum wage, combined with the Earned Income Tax Credit (EITC), represents part of a broad strategy to make work pay and fight poverty. The amount of the federal EITC depends on marital status and the number of children, and rises with wage earnings to a maximum of $4,300 for a married couple with two or more children and earnings between $10,750 and $15,040 (this range is referred to as

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[5] New York's poverty rate rose from 12.6% to 14% from 1989 to 2002. New York has the 13th highest poverty rate among states. The 12 states with greater poverty than New York are all in the South.
[6] Analysis of Current Population Survey data by the Center on Budget and Policy Priorities.

the EITC "plateau", then gradually phases out as earnings increase.[7] New York State instituted a state EITC in 1994 that is calculated as a percent of the federal EITC. New York's EITC increased in several steps from 7.5% in 1994 to 30% of the federal EITC for 2003 and subsequent years. With the federal EITC and the New York State EITC, a 3-person family with a full-time, year-round minimum wage worker will receive a combined amount close to or slightly more than the poverty threshold.   The combination of full-time minimum wage earnings and the federal and state EITCs is still not enough to lift a 4-person family (2 adults and 2 children) above the poverty threshold.

While some minimum wage workers will see the amount of their family's EITC decline under a higher minimum wage (particularly if the family has another source of earnings that puts them over the $14,500 mark), minimum wage workers employed less than full-time will likely receive greater EITC benefits (in cases where there are limited other sources of earnings). But it is never the case that a higher minimum will leave a worker with a lesser amount after combining wages and EITC. Additionally, as a family passes the EITC earnings "plateau," they become eligible for a refundable federal child tax credit.[8] Beyond the EITC earnings "plateau", each dollar of increased wage earnings reduces the EITC by a fraction of a dollar.[9] The worker always comes out ahead for each incremental dollar of earnings.

The EITC effectively rewards work by those at the lower end of the earnings spectrum. However, because it is taxpayer financed, it may help subsidize employers paying low wages. Failure to adequately raise the minimum wage places additional pressure on taxpayers in general to pay for the various forms of means-tested public subsidies (food stamps, health care, housing, etc.) needed by workers whose wage earnings fall short of that needed to maintain their families.

$7.00 Not a "Self Sufficiency" Wage

A full-time worker making $7.00 an hour would earn $14,560 in a year. This would be close to the federal poverty threshold of $14,679 for a family of 3 in 2003. Does the poverty threshold represent a reasonable approximation of the income needed to ensure an adequate standard of living? A 1995 National Academy of Sciences study concluded that the methodology used by the Census Bureau to determine the poverty threshold was out-dated and did not reflect the changes that have occurred in household income, consumption and expenditure patterns since the methodology was first used in the early 1960s. More over, the current method does not take into account regional cost of living differences, a fact that is critically important to New York given its high cost of living.[10]

In 2000, a research team headed by Prof. Diana Pearce of the University of Washington developed a "Self-Sufficiency Standard" for each of the counties in New York State. The standard reflects the income level necessary in a given place to adequately meet basic family needs (i.e., housing, child care, food, transportation, health care, and taxes) without public or private subsidy. The standard also takes family structure and the age of children into consideration. Figure 6 provides, for selected counties in New York, the hourly wage needed to provide for economic "self-sufficiency" for two common family types. For example, in Albany County, a 3-person family requires an hourly wage of $16.38 to achieve self-

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[7] The income cut-off for 2004 for a married couple with two or more children is $35,458. The maximum federal EITC for married one-child families is $2,604 and phases out at about $31, 338 in earnings.

[8] The refundable child tax credit is equal to 10% of the amount that their income exceeds $10,750, up to a maximum of $1,000 per child (the calculation is different for families with 3 or more children).

[9] The "phase-out rate" – the amount by which the EITC declines for every additional dollar of earnings – is 16% for one-child families, and 21% for families with 2 or more children.

[10] Constance F. Citro and Robert T. Michael, eds., Measuring Poverty, A New Agenda, National Academy Press, 1995.

sufficiency. In Nassau and Suffolk Counties, where housing costs are much higher, an hourly wage of $28.66 is needed for self-sufficiency.[11] Thus the "self-sufficiency wage" required to support a three-person family is two to four times greater than the poverty level wage of about $7.00 an hour.

Figure 6: Hourly Self-Sufficiency Wage*, Selected New York State Counties, 2000

County	3-person family**	4-person family***
Albany	$16.38	$8.97
Broome	$14.96	$8.84
Erie	$16.58	$9.64
Monroe	$17.49	$10.09
Nassau & Suffolk	$28.66	$15.42
Queens	$22.34	$12.23

* Hourly wage per adult.
** Adult, infant and preschooler.
*** Two *working* adults, infant, and preschool children.

Source: Diana Pearce and Jennifer Brooks. "The Self-Sufficiency Standard for the City of New York" Women's Center for Education and Career Advancement, September, 2000.

The Economic Policy Institute developed a similar measure, a Basic Family Budget, using more widely available data to more readily develop comparisons among all states. EPI calculated that in the late 1990s, 37.5% of New York families had incomes below a New York-specific Basic Family Budget level. This was a full 10 percentage points higher than the national average of 27.6% and considerably higher than the share of families who do not have sufficient income to meet their basic needs in 6 other major states.[12]

A minimum wage increase would help over 1 million New Yorkers

As Figure 7 shows, an increase in the state minimum wage to $7.00 an hour would *directly* benefit an estimated 691,000 workers, or 8.8% of the state workforce. This reflects the number of workers making between $5.15 and $6.99 an hour. An additional 509,000 workers (those making between $6.99 and $7.99 an hour) would likely benefit due to the spillover effects resulting from the fact that most employers would maintain existing wage differentials among their employees.

A minimum wage increase would particularly help working adults

Opponents of raising the minimum wage often describe minimum wage workers as overwhelmingly teenagers or second- or third-earners in a family whose wages are not critical to supporting household needs. However, 74% of the legislation's direct beneficiaries would be adults, 20 and older, not

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[11] These self-sufficiency hourly wages are based on price data from early 2000; updated self-sufficiency wages for 2004 would be higher based on increases in the prices of health care, housing, transportation, etc.
[12] See, FPI, The State of Working New York, 2001: Working Harder, Growing Apart, 2002, pp. 13-14.

teenagers. Moreover, 51% of those who stand to directly benefit work full time while another 28% work between 20 and 34 hours per week. Teenagers working part-time, after-school jobs <u>would</u> <u>not</u> be the primary, or even substantial, beneficiaries of an increase in the minimum wage.

Figure 7: Characteristics of New York State Workers Who Would Benefit From Raising the Minimum Wage to $7/Hour			
	$5.15-$6.99	$7.00-$7.99*	Total workforce**
Number of workers	691,000	509,000	7,814,000
Percent of workforce	8.8%	6.5%	100.0%
Gender			
Male	38.8%	41.3%	50.9%
Female	61.2%	58.7%	49.1%
Race / ethnicity			
White non-Hispanic	58.6%	53.1%	66.4%
Black non-Hispanic	15.2%	17.5%	13.2%
Hispanic	19.6%	21.2%	13.5%
Asian and other Non-Hispanic	6.5%	8.2%	6.9%
Immigrant status			
Native	69.6%	63.5%	73.7%
Immigrant	30.4%	36.5%	26.3%
Age			
16-19	25.9%	11.5%	4.4%
20 and older	74.1%	88.5%	95.6%
Work hours			
1-19 hours	21.8%	10.2%	5.7%
20-34 hours	27.5%	24.4%	12.4%
Full-time (35+ hrs.)	50.7%	65.4%	81.9%
Industry			
Retail trade	40.0%	28.7%	15.4%
Occupation			
Sales	23.0%	15.3%	10.4%
Service	34.8%	30.2%	14.5%

*Various studies have found that, due to the so-called "spill-over effects," the group of workers earning just above the minimum wage (perhaps as much as a dollar above) also receive a wage gain as a result of an increase. For example, William Spriggs and Bruce Klein, 1994, Raising the Floor: The Effects of the Minimum Wage on Low-Wage Workers, Washington, D.C,Economic Policy Institute.

**Total employment shown includes workers not covered by minimum wage and excludes self-employed persons, those earning above $142/hour and less than $0.71/hour, and persons employed without pay.
Source: EPI analysis of 2002 Current Population Survey data.

A minimum wage increase would particularly benefit women, people of color, and immigrants

Women, who account for 49% of New York's workforce, would comprise 61% of those with such low wages that they would directly benefit from a minimum wage increase.

Because Hispanics are over-represented among very low-wage workers, they would particularly benefit from an increase in the minimum wage. As Figure 7shows, Hispanics represent 13.5% of the state's overall workforce, but would constitute 19.6% of all direct beneficiaries of a higher minimum wage. To a lesser degree, Black non-Hispanics and the Asian and other Non-Hispanic category are also over-represented at the bottom end of the wage spectrum.

Immigrants, who account for 26% of the state's workforce, would constitute 30% of all beneficiaries. As Appendix Figure 2 shows, immigrants would constitute a considerably greater share (65%) of direct beneficiaries in New York City compared to the state overall. (See Appendix Table 2.)

A minimum wage increase would particularly benefit low-wage retail and service employees

Often underpaid retail workers comprise 15% of the state's workforce, but would account for 40% of all direct beneficiaries of a minimum wage increase. Figure 8 provides a list of the lowest wage occupations in New York that would encompass many of the workers who would benefit from a higher minimum wage. In these occupations, 25% or more of the workers were paid less than $7.00 an hour in 2002. A million workers are employed in these 32 low-wage occupations in New York.

Food service workers are one of the largest groups of workers receiving low wages in New York. Food service workers who regularly receive tips are covered by a special provision of New York's minimum wage law that allows their employers to count a "tip credit" of $1.85 against the $5.15 minimum wage, thereby reducing the employer's obligation to this category of "tipped workers" to a minimum base wage of $3.30 per hour. Prior to March of 2000, the base wage for tipped employees was "linked" to the overall minimum wage such that the base wage would rise by the same percentage increase in the state minimum wage. Legislative action at that time "de-linked" the base wage for tipped workers in the food service industries.[13] Seven states, including California, Washington, Oregon and Minnesota, do not have a "tip allowance" provision, thus requiring food service employers to directly pay the state minimum wage.

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[13] Richard Perez-Pena, "Restaurant and Bar Workers Who Get Tips May Also Get Lesser Increase in Minimum Wage," New York Times, March 29, 2000.

Figure 8: Occupations in New York State Where at Least 25% of Workers Received Under $7.00 an Hour in 2002

Occupational Title	25th percentile hourly wage
Manicurists and pedicurists	$6.02
Waiters and waitresses	$6.06
Bartenders	$6.10
Dishwashers	$6.11
Combined food preparation and serving workers, including fast food	$6.16
Barbers	$6.19
Cashiers	$6.23
Dining room and cafeteria attendants and bartender helpers	$6.26
Service station attendants	$6.27
Shampooers	$6.28
Door-to-door sales workers, news and street vendors, and related workers	$6.29
Cooks, fast food	$6.30
Counter attendants, cafeteria, food concession, and coffee shop	$6.36
Amusement and recreation attendants	$6.39
Sewing machine operators	$6.45
Food batchmakers	$6.59
Meat, poultry, and fish cutters and trimmers	$6.64
Photographic processing machine operators	$6.66
Cooks, short order	$6.69
Counter and rental clerks	$6.71
Hosts and hostesses, restaurant, lounge, and coffee shop	$6.71
Recreation workers	$6.73
Hairdressers, hairstylists, and cosmetologists	$6.79
Packers and packagers, hand	$6.80
Motion picture projectionists	$6.80
Retail salespersons	$6.81
Funeral attendants	$6.82
Graders and sorters, agricultural products	$6.86
Nonfarm animal caretakers	$6.87
Pharmacy aides	$6.87
Library assistants, clerical	$6.95
Cleaners of vehicles and equipment	$6.99

Source: U.S. Bureau of Labor Statistics, 2002 wage surveys.

A minimum wage increase will help low-income families

While some workers from higher income families may see their wages rise with a minimum wage increase, the main beneficiaries of an increase will be lower-income households. Figure 9 indicates that the lowest-earning 20 percent of households, who receive only one-twentieth of all wage earnings will receive one-third of the earnings gain from an increase in New York's minimum to $7.00 an hour. Together the two lowest-earning quintiles of households (the bottom 40% of households) account for only 15% of total wage earnings, but will receive 56% of the increased earnings resulting from a minimum wage increase.

Figure 9: Distribution of New York Minimum Wage Gains by Total Household Earnings

Weekly household earnings quintile	Average weekly earnings	Share of total earnings	Share of gain from increase
1st (bottom 20%)	$273	4.9%	33.2%
2nd	$569	10.2%	23.0%
3rd (middle 20%)	$888	16.3%	22.3%
4th	$1,343	24.4%	12.3%
5th (top 20%)	$2,430	44.1%	9.1%

Source: EPI analysis of Current Population Survey data.

The earnings of New York's minimum wage workers are vital to the total wage earnings received by their families. The wages of minimum wage workers provide half of total family wage earnings in families with minimum wage workers. More than a third (35%) of all families with a minimum wage worker rely solely on the earnings from minimum wage employment.[14]

The President's Council of Economic Advisers reached similar conclusions in evaluating the benefits of the 1996 and 1997 increases in the federal minimum wage that raised it, in two steps, from $4.25 to $5.15 an hour. In the 1999 Economic Report of the President, the Council wrote: "Almost half (46%) of the affected workers worked full time, and most lived in low-income households. Over half the benefits from the higher minimum wage went to households in the bottom 40 percent of the income distribution. In 1997 the earnings of the average minimum wage worker accounted for 54 percent of his or her family's total earnings."[15]

Welfare reforms provide an additional reason for why the minimum wage should be increased

The adoption of an employment-based welfare system during the latter part of the 1990s has placed new demands on the state's labor markets. The state has seen its public assistance caseloads cut by more than half since 1995. This means significant numbers of welfare recipients or former recipients joined the low-wage labor force. In order for work to be a path out of welfare and poverty, it must provide adequate income. Pay must be adequate to provide an effective incentive to work and an acceptable standard of living. Raising the minimum wage would contribute to these goals.

As welfare reform forces more poor families to rely on their earnings from low-wage jobs, a minimum wage increase is likely to have a greater impact on reducing poverty.

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[14] EPI analysis of Current Population Survey data.
[15] Council of Economic Advisers, Economic Report of the President, February 1999, p. 111.

Improving New York's Economy

Despite the fact that the national recession officially ended in November of 2001, New York only started to emerge from the recession in mid-2003. New York's job loss was more severe than the nation's and was compounded by the economic dislocation resulting from the September 11, 2001, attack on the World Trade Center. In addition, many areas of the upstate economy experienced only modest job growth during the national expansion of the late 1990s.[16]

Policy makers need to consider the likely economic and employment implications of an increase in the minimum wage. Illinois suffered a recession job loss as great as that of New York, and acted to raise the minimum wage to $5.50 beginning this January 1, with a further increase to $6.50 an hour scheduled for January 1, 2005. The Governor of Wisconsin also recently proposed to increase that state's minimum wage.[17] Is there any reason to think that New York's economy would be ill-served by an increased minimum wage at this time? This section takes up this question.

The simplest supply and demand economic model says that an increase in the price of low-wage labor will reduce, everything else being equal, the demand for low-wage labor and hence lead to increased unemployment. But in the real world of businesses and workers, everything else is, of course, not equal. A considerable body of empirical and theoretical economic research emerging over the past decade suggests that the basic theoretical textbook model is incomplete and does not accurately reflect the workings of the low-wage labor market. The Appendix briefly summarizes this more sophisticated economic research.

When the President's Council of Economic Advisers reviewed this body of research dealing with the employment effects of raising the minimum wage, they concluded:

> Many studies have examined this issue, and 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.[18]

These findings suggest that modest increases in the minimum wage in three stages to $7.00 an hour are unlikely to have any significant labor displacement effects. As the economy begins to recover, employment demand will increase as businesses hire back workers or expand to serve increased consumer and business demand. The context of a recovering economy and growing sales volume will further act to minimize potential displacement. In addition, the cost to employers of slightly higher wages would be offset to some degree by reduced turnover costs, savings in training requirements, and the benefits of higher productivity that come from more experienced and motivated workers. The National Restaurant Association reported in 2001 that the biggest challenge facing table service and fast food operators was recruiting and retaining employees. The food service industry is by far the largest single employer of minimum wage workers.

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[16] See FPI, The State of Working New York 2003: Unbalanced Regional Economies through Expansion and Recession, 2003, and FPI, "New York State 'continues to outpace the national economy' in terms of job growth BUT the current national recovery is creating jobs at an unprecedentedly low rate," December 31, 2003.

[17] Governor Jim Doyle,, "Grow Wisconsin: Governor Jim Doyle's Plan to Create Jobs," September 10, 2003. Available at: http://www.wisgov.state.wi.us/.

[18] Economic Report of the President, 1999, p. 112. Also, see Jared Bernstein and John Schmitt, Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase, Washington, D.C., Economic Policy Institute, 1998.

A state minimum wage that serves as a more effective floor under the labor market should encourage more efficient business practices and level the competitive playing field for businesses already paying wages above $5.15. A higher state minimum wage is an essential step in improving the functioning of New York's labor market. The editors of a compilation of new studies on the low-wage labor market state:

> Raising the real (minimum) wage … would create a level playing field for those employers who want to invest in workers' skills and compete on the basis of service or product quality. A higher minimum wage would not only reduce the possibility that these firms will be undermined by competitors engaged in a race to the bottom but also reduce the incentives for subcontracting and outsourcing to low-wage suppliers.[19]

A state minimum wage that serves as a more effective floor under the labor market should encourage more efficient business practices and level the competitive playing field for businesses already paying wages above $5.15.

With the large-scale substitution of low-wage jobs for higher-wage jobs in many parts of New York's economy, a more effective wage floor will act to constrain what otherwise could be a more intense "race to the bottom." And in the downstate economy in particular, where many recent immigrants toil at substandard wages, a higher minimum wage, coupled with improved labor standards enforcement will reduce the exploitation of immigrant workers and the potentially ruinous competition such exploitation poses to businesses paying better wages.

On balance, there does not appear to be any evidence that a higher minimum wage would be harmful to New York's economy. In fact, the above discussion suggests several factors that indicate ways that the state economy would benefit. In addition, higher wage earnings will increase consumption spending by minimum wage workers, although not by a significant amount given the magnitude of the state's economy. With higher incomes, these workers would, on balance, most likely utilize fewer government income supports and would pay more in local and state taxes.

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[19] Eileen Appelbaum, Annette Bernhardt, and Richard J. Murnane, editors, <u>Low-Wage America: How Employers are Reshaping Opportunity In the Workplace</u>, New York: Russell Sage Foundation, 2003, p. 24.

Appendix

Economic Research on the Minimum Wage

New Economic Research Calls into Question the Competitive Model's Job Loss Prediction

Beginning with work conducted in the early 1990s, the economics profession began to develop a more sophisticated assessment of minimum wage laws. The traditional basic textbook model long held that such laws reduced the number of low-wage jobs due to conventional supply and demand forces. Thus, increases in the minimum wage (the price of low-wage labor) would reduce the demand for low-wage labor and lead to the unemployment of the very workers it was intended to help.

Using a natural experiment type methodology, David Card and Alan Krueger, two labor economists, investigated the effect of an increase in New Jersey's minimum wage on employment in the fast-food industry in 1992, and discovered that employment actually *increased.* They concluded:

> "Contrary to the central prediction of the textbook model of the minimum wage, but consistent with a number of recent studies based on cross-sectional time-series comparisons of affected and unaffected markets or employers, we find no evidence that the rise in New Jersey's minimum wage reduced employment at fast-food restaurants in the state."[20]

Despite research that challenged Card and Krueger's findings, there is now a growing consensus that the traditional theoretical textbook model is incomplete and does not accurately reflect the workings of the low-wage labor market. [21]

Card and Krueger and many others have developed and refined alternative models that provide answers to why the evidence on job losses associated with minimum wage increases is ambiguous. Most of these alternatives abandon the traditional competitive assumptions that firms have no discretion in setting their wages, i.e., the idea that firms are price-takers.[22] Card and Krueger write,

> "The turnover rate among low-wage workers is especially high . . . These high turnover rates mean that low-wage employers are fighting a constant "war of attrition." Unlike the idealized situation of the standard model, in which an employer can announce a job opening at the going market wage and instantly fill the position, low-wage employers spend a great deal of time and energy recruiting and

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[20] David Card and Alan B. Krueger. "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania" The American Economic Review, 84, no. 4 (Sept., 1994): 772-793. For the earlier articles see: David Card, "Using Regional Variation in Wages to Measure the Effects of the Federal Minimum Wage" Industrial and Labor Relations Review, 46, no. 1 (October, 1992): 22-37. And, in the same volume, David Card and Alan B. Krueger. "Do Minimum Wages Reduce Employment? A Case Study of California, 1987-1989" pps. 38-54.

[21] See David Neumark and William Wascher. "Employment Effects of Minimum and Subminimum Wages: Panel Data on State Minimum Wage Laws" Industrial and Labor Relations Review, 46, no. 1 (October, 1992): 55-81. See, David Card, Lawrence F. Katz, and Alan B. Krueger's subsequent response in: Industrial and Labor Relations Review, 47, no. 3 (April, 1994): 487-497.

[22] This class of models is based on variants of the traditional monopsony model. It should be noted that the abandonment of the "price taking" assumption ultimately reflects the abandonment of the competitive model's "perfect information" assumption.

training new workers . . . Low-wage employers use several different incentive mechanisms to reduce turnover and increase recruiting rates, including hiring bonuses and transportation assistance. . . It is difficult (although not impossible) to justify the existence of these programs and the corresponding attention paid to vacancies and recruiting in a model in which as many workers as needed can always be found at the going wage."[23]

By recognizing that some firms have discretion in setting wages, these models show that wage policies can systematically differ across firms. Some may choose "low road" and others "high road" wage policies. Firms choosing the high road experience higher direct labor costs but lower indirect labor costs, e.g., those related to recruitment, training, and supervising. High road firms can fill vacancies more quickly and reduce their turnover costs, for example. By contrast, low road firms have lower direct labor costs but higher indirect costs. Thus, these new labor market models suggest that due to the offsetting nature of the direct and indirect labor costs, both low and high road labor policies may be equally profitable. In this context, an increase in the minimum wage would simply compel firms to choose the high road rather than the low.

Other monopsony-like models recognize that workers have discretion over the level of effort they exert. As a result, firms may use a combination of direct monitoring (and the threat to fire employees caught shirking) and "efficiency" wages to induce higher effort levels. Similar to the standard monopsony model, these models show that a firm that is forced to increase its offered wage as a result of a minimum wage hike will *increase* employment, at least for small-enough wage increases. [24]

These newer models also relax the traditional textbook model's assumption that firms are strict profit-maximizers. That is, they recognize that firms may operate with "slack" for a variety of reasons. In these cases, a minimum-wage increase may compel firms to seek out and implement non-labor related cost-savings measures and productivity improvements. Card and Krueger note that company annual reports regularly highlight managerial-led productivity-enhancing initiatives—an indication that firms rarely cost-minimize on every margin.

Still other models suggest that owing to capital-labor requirements of many plants/facilities, the optimal employment response to an unexpected increase in wages is zero, at least for wage increases below a certain threshold. These capital-labor requirements are conceptually akin to sunk training investments made by firms.[25]

These new labor market models are theoretically more refined than the traditional competitive model, and their predictions appear to be more in line with the mixed empirical findings on the disemployment effects of minimum wage increases. According to the authors of EPI's *Making Work Pay*, a report that focuses on the impact of the1996-97 federal minimum wage increases, "Our findings on the employment effects of the 1996-97 increases in the minimum wage, which are consistent with a large body of recent research on the topic, argue that the competitive model has not been particularly helpful in predicting the job impact of the minimum wage." (p. 40)

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[23] Card, David and Alan B. Krueger. Myth and Measurement: The New Economics of the Minimum Wage Princeton: Princeton University Press, 1995, pp. 374-375.

[24] It should be noted that even under these models, there is a so-called "tipping point" which, if reached, may trigger employment losses, as predicted in the standard competitive model. See, Oren M. Levin-Waldman, The Case of the Minimum Wage: Competing Policy Models Albany: State University of New York Press, 2001. p. 182. For additional citations on various types of monopsony-oriented models see Card & Krueger (1995) pps. 379-384.

[25] See Card and Krueger's (1995) discussion on p. 367 in which they cite, Walter Y. Oi, "Labor as a Quasi-Fixed Factor of Production" Journal of Political Economy, 70, 538-55

The most revealing commentary on the current state of research regarding the minimum wage is presented in the *1999 Economic Report of the President.* This report, which is submitted to Congress annually together with the report of the Council of Economic Advisers stated:

> Many studies have examined this issue [disemployment thesis], and 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.[26]

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[26] Economic Report of the President Washington, D.C.: US Government Printing Office, 1999, p. 112

Appendix Figure 1: Changes in the Federal and New York State Minimum Wage
1950 to the Present

	Chronology of Changes in Federal Minimum Wage	Chronology of Changes in State Minimum Wage
1950	Increased from $0.40 to $0.75 on Jan. 1, 1950	
1951		
1952		
1953		
1954		
1955		
1956	Increased from $0.75 to $1.00 on March 1, 1956	
1957		
1958		
1959		Prior to October 1, 1960, NYS minimum wage rates
1960		varied from industry to industry.
1961	Increased from $1.00 to $1.15 on September 3, 1961	
1962		Increased from $1.00 to $1.15 on October 15, 1962
1963	Increased from $1.15 to $1.25 on September 3, 1963	
1964		Increased from $1.15 to $1.$25 on October 15, 1964
1965		
1966		
1967	Increased from $1.25 to 1.40 on February 1, 1967	Increased from $1.25 to $1.50 on January 1, 1967
1968	Increased from 1.40 to $1.60 on February 1, 1968	Increased from $1.50 to $1.60 on February 1, 1968.
1969		
1970		Increased from $1.60 to $1.85 on July 1, 1970
1971		
1972		
1973		
1974	Increased from $1.60 to $2.00 on May 1, 1974	Increased from $1.85 to $2.00 on May 1, 1974
1975	Increased from $2.00 to $2.10 on January 1, 1975	Increased from $2.00 to $2.10 on January 1, 1975
1976	Increased from $2.10 to $2.30 on January 1, 1976	Increased from $2.10 to $2.30 on January 1, 1976
1977		
1978	Increased from $2.30 to $2.65 on January 1, 1978	Increased from $2.30 to $2.65 on October 6, 1978
1979	Increased from $2.65 to $2.90 on January 1, 1979	Increased from $2.65 to $2.90 on January 1, 1979
1980	Increased from $2.90 to $3.10 on January 1, 1980	Increased from $2.90 to $3.10 on January 1, 1980
1981	Increased from $3.10 to $3.35 on January 1, 1981	Increased from $3.10 to $3.35 on January 1, 1981
1982		
1983		
1984		
1985		
1986		
1987		
1988		
1989		
1990	Increased from $3.35 to $3.80 on April 1, 1990	Increased from $3.35 to $3.80 on April 1, 1990
1991	Increased from $3.80 to $4.25 on April 1, 1990	Increased from $3.80 to $4.25 on April 1, 1990
1992		
1993		
1994		
1995		
1996	Increased from $4.25 to $4.75 on October 1, 1996	
1997	Increased from $4.75 to $5.15 on September 1, 1997	
1998		
1999		
2000		Increased from $4.25 to $5.15 on March 31, 2000.
2001		
2002		
2003		
2004		

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Appendix Figure 2: Characteristics of New York City Workers Who Would Benefit From Raising the Minimum Wage to $7/Hour			
	$5.15-$6.99	$7.00-$7.99*	Total workforce**
Number of workers	287,000	218,000	3,049,000
Percent of workforce	9.4%	7.2%	100.0%
Gender			
Male	41.9%	47.0%	50.5%
Female	58.1%	53.0%	49.5%
Race / ethnicity			
White	18.5%	21.1%	38.5%
Black	29.0%	24.4%	23.0%
Hispanic	40.6%	40.3%	26.1%
Asian and other Non-Hispanic	12.0%	14.2%	12.5%
Immigrant status			
Native	35.1%	35.9%	49.4%
Immigrant	64.9%	64.1%	50.6%
Age			
20 and older	86.1%	95.5%	97.2%

*Various studies have found that, due to the so-called "spill-over effects," the group of workers earning just above the minimum wage (perhaps as much as a dollar above) also receive a wage gain as a result of an increase. For example, William Spriggs and Bruce Klein, 1994, Raising the Floor: The Effects of the Minimum Wage on Low-Wage Workers, Washington, D.C,Economic Policy Institute.

**Total employment shown includes workers not covered by minimum wage and excludes self-employed persons, those earning above $142/hour and less than $0.71/hour, and persons employed without pay.
Source: EPI analysis of 2002 Current Population Survey data.