Joint Legislative Hearing on the 2016-2017 Executive Budget Proposal
Workforce Development Hearing

Overall Impact of a $15 State Minimum Wage

Albany, New York
February 3, 2016

Testimony Submitted by
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Chairs Young and Farrell and members of the Senate Finance and Assembly Ways and Means Committees, thank you for the opportunity to testify today. My name is James Parrott, Deputy Director and Chief Economist of the Fiscal Policy Institute (FPI), a nonpartisan nonprofit education and research organization focused on New York economic and fiscal policy issues. FPI has been analyzing labor market and economic trends in New York State for nearly 25 years. We have closely followed developments shaping wages, incomes and living standards that affect the well-being of New Yorkers in all regions of the state.

New York's declining real incomes and sky-high child poverty rates

In New York, as is the case nationally, incomes for most workers have stagnated or declined in recent years. Median household incomes in New York State fell five percent on an inflation-adjusted basis over the past decade.[1] Hourly wages, adjusted for inflation, have fallen by 6-10 percent for the typical New York worker since 2001.[2]

Child poverty in the major upstate cities is at crisis levels—47-48 percent in Binghamton, Troy, Utica and Buffalo, and 52 percent in Syracuse and Rochester. See Figure 1. Many of these children are in families with a working parent but for whom his or her wages are not sufficient to lift the family's income above the federal poverty level, widely considered inadequate given New York's cost of living.

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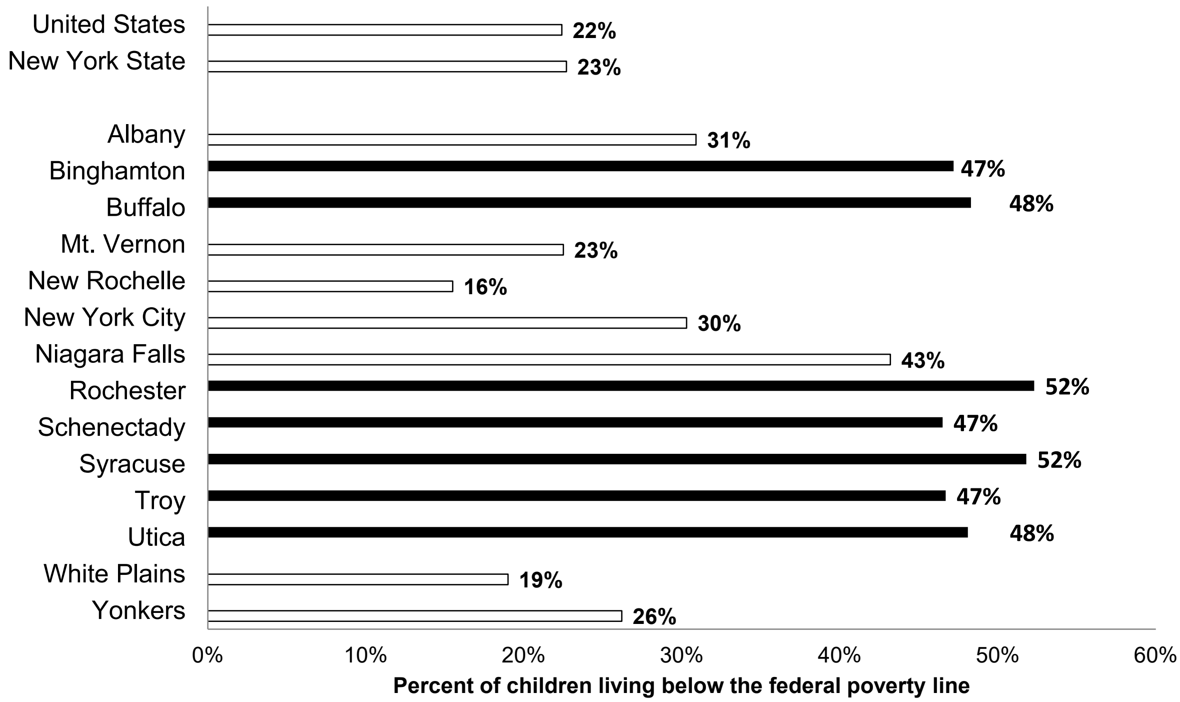
[1] U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements, 2005 to 2014, inflation-adjustment by Census Bureau, September 2015.
[2] Fiscal Policy Institute analysis of Current Population Survey data, 2001-2014.

FIGURE 1

Child poverty rates in many upstate cities are double or more than the national average.



Source: ACS 2011-2013 3-yr estimates

Many economic factors support the need to raise New York's minimum wage

Given the cost of living in New York, $15 comes close to the amount that workers need to sustain a modest, no-frills household budget. In the Buffalo metro area, e.g., a single adult will need an hourly wage of $15.72 or more by 2021 to meet her basic needs, according to the Economic Policy Institute's Family Budget Calculator. Parents who are raising children will need an hourly wage much greater than $15 an hour in 2021, even if both parents are working. In the New York City area, a single adult working full-time will need $22.52 to meet basic budget needs in 2018.[3]

Adjusting the 1970 peak level for the state's minimum wage for inflation and the higher cost of living in New York would translate into a state minimum wage of $15.01 per hour in 2018, the level the governor proposed for New York City for the end of that year.[4]

[3] National Employment Law Project, *How Much Do New York's Workers Need? At Least $15 per hour—Both Upstate and Down, Fact Sheet*, January 2016.Other upstate metro areas have higher family budget requirements than the Buffalo area.
[4] Adjustments using the CPI-U-RS and Regional Price Parity data from the Bureau of Economic Analysis, Real Personal Income for States and Metropolitan Areas, Regional Price Parities, 2015.

Alternatively, had the state's 1970 minimum wage level risen along with the average growth in U.S. productivity, it would be $21.40 today, more than two-and-a-third times greater than the current $9.00 state minimum wage.[5]

The failure of worker pay to keep pace with the growth in productivity or business profits suggests that public and private policy choices have depressed living standards in spite of overall economic growth. New York business profits per worker increased by 61 percent from 2001 to 2013, while labor compensation per worker rose by only 34 percent (not adjusted for inflation).[6] The composite New York Consumer Price Index rose by 36 percent over this period, meaning that inflation-adjusted labor compensation fell.[7] As noted earlier, real hourly wages for typical New York workers fell by 6 to 10 percent over this period.

Another way to gauge the economic impact of a phased-in $15 minimum wage is to consider it in relation to the median wage for a full-time worker. By 2021, New York's $15 minimum wage would equal 57 percent of the projected median wage of full-time workers in the state—52 percent in New York City, 54 percent in the downstate suburbs, and 65 percent upstate. It is important to keep in mind that in the past individual states have had minimum-to-median ratios in the mid-60 percent range with no adverse economic consequences.[8]

The number and characteristics of workers affected by a phased-in $15 minimum wage

The nationally-prominent Economic Policy Institute (EPI) recently released a detailed analysis of the workforce impact of a phased-in $15 minimum wage in New York State.[9] Among the highlights of the EPI analysis:

- Raising the minimum wage to $15 an hour at the end of 2018 in New York City and my mid-2021 throughout the rest of the state would directly and indirectly lift wages for 3.2 million workers, about 37 percent of the state's wage and salary workforce.
    - In New York City, 1.4 million workers would be affected, 35 percent of the total.
    - Outside of New York City, the increase would lift the pay for 1.7 million workers, 38 percent of the workforce.
- Total wages would rise by $15.3 billion for affected workers; that works out to an annual average of roughly $4800 for each worker.

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[5] David Cooper, *Raising the New York state minimum wage to $15 by July 2021 would lift wages for 3.2 million workers*, Economic Policy Institute, EPI Briefing Paper #416, January 5, 2016.
[6] Both figures are in nominal terms without adjustment for price changes; 2013 is the latest year these data are available. State Gross Domestic Product data from the Bureau of Economic Analysis, U.S. Commerce Department. Fiscal Policy Institute, *Business profits in New York State have grown much faster than wages since 2001; minimum wage hike is a good corrective,* Data Brief, December 1, 2015.
[7] Composite CPI as estimated by the NYS Division of the Budget, November 2015.
[8] The minimum-to-median ratio is known as the Katiz index. See Cooper, 2016, pp. 5-6; and Ben Zipperer and David Evans, *Where Does Your State's Minimum Wage Rank Against the Median Wage?* Washington Center for Equitable Growth, 2014. The New York minimum-to-median ratios were estimated by the Berkeley Labor Center.
[9] Cooper, *Raising the New York state minimum wage to $15 by July 2021 would lift wages for 3.2 million workers,* 2016.

- Statewide, roughly half of all affected workers are persons of color, and more than half of all Latino workers in the state would receive a raise, as would 40 percent of all black workers.
- The majority of affected workers (nearly 53 percent) are women,
- Ninety-five percent of the workers who would benefit are 20 years old or older, more than three-quarters are 25 or older. Teenagers are a very small portion of the total, in fact, three times as many workers 55 and older would benefit from the minimum wage increase as the number of affected teenagers.
- Two-thirds work full time and more than half (52 percent) have some college experience.

Many working parents and low-income households would benefit from a $15 minimum wage

More than 35 percent are a parent, and 45 percent of female single parents would benefit. Over a third of all children of working parents in the state have a parent who would benefit from a minimum wage increase to $15 an hour.

Low-income households would benefit disproportionately from the minimum wage increase. More than a third (37 percent) of affected workers come from families either in poverty or “near poverty” (i.e., income less than 200 percent of the federal poverty line.) Over three-fourths of all workers in or near poverty would get a raise.[10]

Three sectors each have over 400,000 workers who will benefit

While low-wage workers who stand to benefit are found in every sector of New York’s economy, three sectors stand out in terms of affected workers, each with more than 400,000 workers who would benefit from a $15 minimum wage. These are retail trade, restaurants (including fast-food chains already subject to the state’s wage order for that industry), and the group of human service workers and care providers in the home-based and residential care, social assistance and child care sector.

The government-funded human services sector one of the largest low-wage employers

I would like to focus a little more on this broad human services sector. Statewide, this sector encompasses nearly 870,000 workers, and nearly half (over 48 percent)—420,000—would benefit from an increase in the minimum wage to $15. This sector’s affected workforce is roughly evenly divided between New York City and the rest of the state (206,000 and 214,000, respectively.)[11]

Most of this workforce works directly under government-funded contracts or provides services reimbursed by Medicaid funding. This workforce includes a broad range of human service

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[10] Ibid.

[11] Cooper, *Raising the New York state minimum wage to $15 by July 2021 would lift wages for 3.2 million workers*, 2016, Appendix Tables A-5, 6 and 7.

workers, including home health aides, personal care assistants, alcohol and substance abuse counselors, foster care case workers, afterschool program leaders, homeless shelter workers, preschool teachers, and home-based childcare providers.

Women comprise over 80 percent of the workers in this sector. Many of these occupations have been traditionally held by women and underpaid for reasons we understand all too well. This is despite the fact that services such as those provided by home health care aides, personal care aides or substance abuse counselors allow clients to function better on their own, saving taxpayers millions of dollars each year. This is the best opportunity to right a wrong that has been permitted to exist for far too long.

My organization, the Fiscal Policy Institute, together with the Federation of Protestant Welfare Agencies and the Human Services Council, two umbrella groups that represent hundreds of nonprofits employing tens of thousands of human service workers, recently issued a report documenting the importance of including the social assistance and child care component of the broader human services sector in a statewide $15 an hour minimum wage.[12] Because wages are so low, and fringe benefits are bare bones, employee turnover is very high in this sector, often such that it compromises the quality of service delivery.

Most of the employers in this sector are non-profit organizations providing services under government contract or that are reimbursed under Medicaid. Non-profits do not sell their services, which are essential public services after all, so they cannot raise prices. Also, local and state governments have mostly under-funded human service contracts in the wake of the recession despite an increase in hardships. State human services contracts and Medicaid reimbursement rates need to be adjusted so that these organizations can pay higher wages.

Using data from the State Comptroller's website, it appears that the state contracts out roughly $1.5 billion annually to nonprofit organizations around the state to provide a range of human services (specified here as not including home health care or developmental disability services that are Medicaid-reimbursable.) We estimate that raising the wage floor in the state-funded human services sector would cost $60-$75 million in the first year and approximately $250-$300 million yearly when fully phased in over the next six years. These estimates assume some spill-over wage increases are provided to workers slightly above $15 an hour to avoid an undue compression of an organization's overall wage scale.[13]

Specific adjustments will be needed in child care area. Child care workers are among the lowest paid workers all across the state. Those child care workers not on the payroll of an organization

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[12] Federation of Protestant Welfare Agencies, Fiscal Policy Institute, *Human Services Council, A Fair Wage for Human Services Workers: Ensuring a government funded $15 per hour minimum wage for human services workers throughout New York State*, December 2015. http://fiscalpolicy.org/wp-content/uploads/2015/12/15andFunding-Report-Dec2015.pdf

[13] Ibid., p. 8. About half of the overall estimate is due to a spillover increase.

paid under State contract also deserve to be included in any across-the-board increase but this will mean that state-funded child care subsidies should be adjusted to reflect the wage increases. In addition, since many moderate-income families are not eligible for child care subsidies and pay for care out of their own pocket, the State should explore how to enhance the State's Child and Dependent Care Tax Credit to help offset higher private pay child care fees that may result.

Other groups representing workers providing home health and personal care services and services to the developmentally disabled have estimates of the costs of Medicaid reimbursement rate changes that need to be made as a higher minimum wage is phased in. When these estimates are combined and placed on a similar basis with a focus on the amounts needed to bring all workers up to $15 an hour, and when likely budget savings and net increases in state and local tax collections are factored in, the phased-in net budget costs are manageable given the administration's current tax forecasts. I do not believe that tax increases will be needed to provide the budget funding to cover all workers in the non-profit human services areas.

The fiscal dividend from raising the minimum wage

The increased governmental cost associated with a $15 minimum wage will be partly offset by a fiscal dividend stemming from the wage increase. More than half of New York workers paid below $15 an hour receives some form of public assistance, or a family member does.[14] In total, public assistance expenditures to New York's low-wage families are an estimated $9.1 billion, with an estimated $2.9 billion of that paid by New York State and local governments. The fiscal dividend involves likely state government savings on public assistance costs as workers' wages rise, and increased state and local income and sales tax collections. A recent report from the Urban Institute simulates the impact of several policy options on reducing poverty in New York City. Among the policy options they studied were an increase in the minimum wage to $15 an hour. According to the Urban Institute analysis, the net fiscal savings to all levels of government from an increase in the minimum wage to $15 represented roughly 43 percent of the rise in aggregate earnings as a result of the minimum wage increase.[15] Raising the minimum wage is an effective way to reduce the extent of taxpayer subsidy to low-wage employers, and improve government's fiscal balance.

Minimum wage increases and the economics literature

There have been many studies of the impact of minimum wage increases over the past twenty years, and considerable evolution in the sophistication of the research methods utilized. A good way to make sense out of this burgeoning literature is to look at "meta-studies" that survey and

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[14] Ken Jacobs, Ian Perry and Jenifer MacGillvary, The Public Cost of Low Wages in New York, UC Berkeley Center for Labor Research and Education, January 2016.

[15] Linda Giannarelli, Laura Wheaton and Joyce Morton, *How Much Could Policy Changes Reduce Poverty in New York City?* Urban Institute, February, 2015. Prepared for the Federation of Protestant Welfare Agencies, Catholic Charities, and UJA Federation. Appendix Tables D-5 and D-6.

aggregate the findings of several independent studies that focus on different time periods and geographies. The two leading meta-studies show that the vast majority of recent studies find minimum wage increases have little to no effect on employment levels or job growth. The most rigorous studies found close to zero effect on jobs.[16]

In a recent address at the City University of New York, Nobel prize-winning economist Paul Krugman noted that the new body of minimum wage research is "one of the most compelling sets of empirical results I've ever seen in economics."[17] By the way, at the CUNY event, Krugman went on to conclude, "There's absolutely no reason to think that a fifteen dollar minimum wage will be a problem for New York."

Regarding the report by the Empire Center and the American Action Forum predicting job losses from a $15 minimum wage in New York, together with the National Employment Law Project, we prepared an extensive point-by-point critique. The Empire Center/American Action Forum report was based on three studies: one that was misconstrued, one that implausibly found that small minimum wage increases produced large job losses in industries with few minimum wage workers, and one that purported to show that relatively small increases in the federal minimum wage resulted in large job losses at the height of the 2008-09 recession. Such a curious analysis is a tenuous foundation on which to argue anything.[18]

A thoughtful analysis of the potential impact of a phased-in $15 minimum wage should consider the impact on business operating costs on a sector-by-sector basis. Such a state-of-the art economic impact analysis was commissioned by the Los Angeles City Council as that city considered a $15 minimum wage proposal. This analysis, prepared by a team of economists from the University of California at Berkeley, found that a $15 minimum wage would raise business operating costs by just 0.9 percent. The modest price rises that cost increase would entail (after accounting for savings from reduced turnover and without reducing profitability) would be associated with some reduction in employee hours, but that reduction would be effectively offset by the increased consumer demand associated with higher wages for 41 percent of the city's workforce. Affected workers would receive an average raise of about $4,800.

The bottom line from the Los Angeles impact study: wages rise considerably and livelihoods are enhanced for a significant portion of the workforce, some middle- and higher-income consumers

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[16] Hristos Doucouliagos and T. D. Stanley, "Publication Selection Bias in Minimum-Wage Research? A Meta-Regression Analysis," *British Journal of Industrial Relations*, vol. 47, no. 2, 2009, pp. 406-428; Paul Wolfson and Dale Belman, *What Does the Minimum Wage Do?* Kalamazoo, MI: Upjohn Press, 2014; and John Schmitt, *Why Does the Minimum Wage Have No Discernible Effect on Employment?* Center for Economic and Policy Research, February 2013.

[17] Paul Krugman at CUNY Equality Forum, October 1, 2015. For a video tape of Krugman's remarks, see http://equalityindicators.org/media/.

[18] National Law Employment Project and Fiscal Policy Institute, Fact Checking the Empire Center/American Action Forum Analysis of New York's Proposed $15 Minimum Wage: Flawed Methods Produce Erroneous Results, November 2015. http://fiscalpolicy.org/wp-content/uploads/2016/01/NELP-FPI-Fact-Check-of-Empire-Ctr-AAF-Min-Wage-Report-2015-11-19.pdf

pay very slightly higher prices, and total employment and business profits are little changed.[19] That hardly sounds calamitous; and nothing suggests we would see materially different impacts in New York.

There is a growing recognition on the part of businesses and institutional investors that higher wages are key to reducing turnover, improving customer service, and enhancing profitability.[20] Several large employers including Walmart, Target, T.J. Maxx, Marshalls, Aetna, IKEA and the Gap are starting to raise wages as a result. Walmart is an interesting case in point. Across the country, the giant retailer raised its entry wage to $9 an hour last April and just bumped it up to $10 on February 1. The Economist magazine recently noted that "the pay rise is also a strategic investment. Walmart wants to boost its productivity and give its workers more freedom to innovate, as it seeks to make its stores more pleasant and, perhaps, appealing to more affluent customers. That requires motivated staff." The Economist went on to cite Walmart's CEO to the effect that "the firm now says that higher wages come before price cuts."[21]

A higher minimum wage is an incentive to invest in a more skilled workforce

Finally, I would like to speak to the issue of workforce training and development. Not all low-paid workers are less-skilled. For example, many care-givers and others working for human service non-profits are skilled but in occupations that just pay low wages. In cases where low-wage workers truly are less skilled, economists would expect to see businesses respond to higher wages by increasing their investment in workforce training in order to increase the productivity and skill level of such workers. This might entail, for a given level of demand for goods and services that employee hours decline on the margin. But keep in mind that overall consumer demand will be rising as wages rise for lower-paid workers so there's not likely to be a net reduction in hours worked. It would be very positive, for workers and employers alike, for the State to aid these skill-building investments as the higher minimum wage is phased in.

Conclusion

In light of these facts, it would be sound public policy for New York State to phase in a $15 an hour minimum wage. Considerable economically sound research supports the conclusion that the business can accommodate such an increase. A higher wage floor would generate significant cost savings due to reduced turnover and there is room for modest price increases to ease the adjustment without jeopardizing overall employment levels or profitability. Moreover, a $15 wage floor would boost consumer spending for over three million New York workers. It will aid

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[19] Michael Reich, Ken Jacobs, Annette Bernhardt and Ian Perry, *The Proposed Minimum Wage Law for Los Angeles: Economic Impacts and Policy Options,* Institute for Research on Labor and Employment, University of California-Berkeley, March 2015.

[20] Lauren Weber, "Why Fund Managers Want Better HR," The Wall Street Journal, September 8, 2015. http://www.wsj.com/articles/why-top-fund-managers-want-better-hr-1441749764

[21] "High expectations, Walmart and low-wage America, *The Economist*, January 30, 2016, pp. 21-22. The article noted that the store closings Walmart announced recently were not a result of wage costs, but rather because the firm was abandoning its small "Walmart Express" stores.

struggling families, benefit one-third of the state's children, reduce poverty, and will have positive overall economic consequences throughout New York State. Research is very clear that additional parental income improves low-income children's educational outcomes.[22]

An increase in the minimum wage would reduce companies' ability to shift costs to government programs, and would result in considerable savings at all levels of government in spending on various forms of public assistance as well as generate increased individual income and sales taxes paid by workers. Contrary to what some have claimed, workers whose wages rise almost universally will be better off, even if they may receive less from the Earned Income Tax Credit or lose eligibility for some public benefits. In almost every instance, their disposable income will be greater. In the very rare cases where someone may face a "benefit cliff," we should adjust the EITC, the income tax system, or program eligibility to fix that. It is just untenable to pretend that the status quo with certain employers having their low-wages subsidized by taxpayers is somehow better for anyone.

Finally, to prevent the degradation of the delivery of important human services, it will be essential for the State to increase human services contract funding and Medicaid reimbursement rates for certain services to enable non-profits to pay higher wages to tens of thousands of underpaid human services workers in non-profits throughout New York.

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[22] Chuck Marr, Chye-Ching Huang, Arloc Sherman, and Brandon Debot, *EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development, Research Finds*, Center on Budget and Policy Priorities, October 1, 2015.