

NEWS from the Fiscal Policy Institute

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Increasing New York's Minimum Wage will help many struggling low-income families and improve the State's economy, according to new report from the Fiscal Policy Institute

Albany -- The purchasing power of the federal and New York State minimum wage is approaching its lowest level in a half century, according to a report released today by the Fiscal Policy Institute. The federal minimum wage, now \$5.15 an hour, was last raised in 1997, and because it is not indexed to rise with inflation, its value has steadily fallen since then. This is the second longest period (exceeded only by the 1981-90 period) without an increase in the minimum wage since the passage of the historic Fair Labor Standards Act establishing the federal minimum in 1938.

"New York would have a lot of company among other states if it raised its minimum wage above the federal level," stated Frank Mauro, FPI Executive Director. "Twelve states and the District of Columbia have minimums greater than the federal minimum, a list that includes three neighboring states (CT, MA, and VT) and two other large urban industrial states (CA and IL)," added Mauro.

"New York's struggling low-wage workers need a boost," noted James Parrott, FPI's Deputy Director and Chief Economist and one of the principal authors of the report. "There has been a dramatic rise over the last 20 years in the portion of New York's workforce paid very low wages. In 1979, less than 4% of New York workers had wages under \$7 an hour (in 2003 dollars); today, that figure is three times greater, nearly 12%," pointed out Parrott. He went on to observe that New York has the greatest disparity among all states between the minimum wage and the average wage statewide.

Contrary to what many opponents of an increased minimum wage contend, the report found that raising the minimum wage is an effective way to boost the incomes of low-income families. One-third of the earnings gain from an increase in the New York minimum wage to \$7.00 an hour would accrue to the bottom 20 percent of households although they receive only 5% of all wage earnings. When the second lowest-earning fifth of households is included, the report said that 56% of the added earnings from a higher state minimum would be received by the lowest-earning 40 percent of households.

The report examined the economic research literature regarding the effects of minimum wage increases on jobs and concluded that increasing the New York minimum wage is unlikely to reduce employment opportunities for the working poor. The report also notes that assessments of the 1996 and 1997 federal minimum wage increases, using various analytical methods, found that the employment effects were statistically insignificant.

Economist Parrott stated that a minimum wage increase would help improve the functioning of the New York economy because a higher minimum wage would be a more effective floor under the labor market. This would encourage more efficient business practices and level the competitive playing field for businesses already paying wages above \$5.15. Parrott stated, "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."

Other highlights of the FPI report included:

- Nearly 700,000 workers (the number earning from \$5.15 to \$6.99 an hour) would directly benefit from an increase in the New York minimum wage.
- An additional 500,000 workers (those earning from \$7.00 to \$7.99) would likely benefit from a "spillover" effect that would raise their pay.
- The beneficiaries of a minimum wage increase would overwhelmingly be adults (74%) and those working more than half time (78%).
- The poverty rate among New York's working families has doubled over the last 20 years to 12.2%.
- 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.
- On two occasions in recent decades – in 1967 and from 1970 to 1974 -- New York's minimum wage exceeded the nation's. The purchasing power (in 2003\$) of New York's minimum wage in July 1970 reached \$8.83, 71% greater than today's \$5.15.

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