Raising New York State's Minimum Wage

Testimony Presented to the New York Assembly Labor Committee
By James A. Parrott, Deputy Director and Chief Economist
April 23, 2012

Raising New York's minimum wage to $8.50 an hour in January 2013 would directly benefit 880,000 New York workers who earned below $8.50 an hour as of 2011. This number is much greater than the number of workers now paid right at or below the New York and federal minimum wage of $7.25 an hour. In addition, two hundred thousand or so workers who earn slightly more than $8.50 an hour likely would see a wage increase as a result of a spillover effect as employers seek to maintain relative wage patterns among their employees.

Women, blacks and Latinos would be among the main beneficiaries of a higher New York minimum wage since they are disproportionately represented in low-wage jobs. Statewide, women account for over 55 percent of those affected; blacks and Latinos together represent about 40 percent. (See Appendix Figure 1 for the demographic characteristics of New York resident workers earnings less than $8.50 an hour in 2011.)

In New York City, two thirds of those directly affected are blacks and Latinos. Immigrants account for nearly three out of every five city resident workers who would benefit. Contrary to the oft-cited claim that a minimum wage increase mainly benefits teenage workers, the overwhelming majority of workers directly affected are adults age 20 and older. In New York City, more than nine out of every ten workers earning less than $8.50 an hour are adults, and over two thirds are full-time workers.

There are numerous reasons that increasing New York's minimum wage makes good economic sense. Ten reasons readily come to mind.

Ten reasons an increased minimum wage makes sense for New York State

1. **An increase is needed to restore the minimum wage's lost purchasing power.**

The New York State minimum wage reached its all time high in purchasing power on July 1, 1970, when it was increased to $1.85 per hour. This is the equivalent of $10.70 an hour in today's dollars, a level 48 percent greater than the current $7.25 minimum. In the 1960s and 1970s, a minimum wage job made it possible for a worker to get his or her feet on the ground, to support a family and to lay the foundation for a better future. For nearly two decades from 1962 to 1979, the earnings of someone working full-time, year-round at the minimum wage were enough to lift a family of three above the poverty line. That is no longer true. Someone working full-time, year-round at the current minimum wage level of $7.25 now earns less than 82 percent of the poverty line for a family of three, and has only two thirds of the purchasing power of a similar worker in 1970. (See Appendix Figure 2 for the relationship of New York's minimum wage to the 3-person federal poverty line.)

2. An increase in the minimum is needed to raise New York's wage floor.

Raising New York's wage floor will help address the fact that a growing share of the labor force works in low-wage jobs. From their inception, minimum wage laws have been designed to ensure that all workers receive some minimally acceptable level of compensation without subjecting responsible employers to unfair competition from employers seeking to compete based on keeping wages unreasonably low.

- Continuing the trend that has prevailed for more than a decade in New York, most of the job growth in New York State since the recession began has occurred in industries paying wages in the bottom third of the wage distribution. Since mid-2008 when the recession began in New York, the state had a net loss of 31,000 jobs in high-wage industries, and a net loss of 157,000 jobs in middle-wage industries, but a gain of 134,000 jobs in low-wage industries.[1]

- In the years ahead, of the ten occupations expected to gain the most jobs in New York over the 2008-to-2018 period, half are low-wage. These low-wage jobs account for two thirds of the jobs expected to be added by the ten occupations adding the most jobs. These occupations include personal and home health care aides, food preparation and serving workers, child care workers, and waiter/waitresses. Together, these five occupations are forecast by the State labor department to increase employment by 23 percent from 2008 to 2018.[2]

- Within New York City, real wages for low-wage workers have fallen by eight percent over the past two decades despite the fact that these workers' educational attainment has risen dramatically. In 1990, 23 percent of workers earning less than $10 an hour in inflation-adjusted 2010 dollars had a minimum of some college attendance, if not a college degree or higher. By 2010, 39 percent of workers paid less than $10 an hour had at least some college attendance.[3]

3. A minimum wage increase is well-targeted to help low-income families.

Opponents would like people to believe that raising the minimum wage mainly helps suburban teenagers from high-income families. The facts suggest otherwise:

- First of all, teenagers make up a very small portion of those earning low wages. Eighty-four percent of workers earning less than $8.50 an hour are adults 20 years of age and older; in New York City, adults are 92 percent of those who would be directly affected by an increase to $8.50 an hour.

[1] Fiscal Policy Institute analysis of seasonally adjusted payroll employment data, July 2008 - February 2012.
[2] See Figure 5 in Fiscal Policy Institute, "A Welcome Boost for New York: The Case for Raising the Minimum Wage," http://www.fiscalpolicy.org/FPI_BoostTheEconomyBoostTheMinimumWage_20120130.pdf, January 30, 2012.
[3] Fiscal Policy Institute analysis of Current Population Survey data.

- More than a quarter of all low-wage workers are raising children, and an estimated 375,000 New York children have a parent making low wages. In such families, the low-wage earning parent is responsible for 51 percent of family income, underscoring the importance of raising wages for these families.

- Even if the income of a family with a very low-wage worker is not below the federal poverty line, that hardly means they have an adequate income to meet basic family needs, particularly given the state's high cost of living. For example, in Brooklyn, a single parent with a pre-school child needs an income that is three and a half times the full-time minimum wage ($51,500) to meet the Self-Sufficiency Standard (SSS) a measure that determines the income for working individuals and families to adequately meet basic needs for shelter, child care, food, clothing, transportation, and health care. In Syracuse, a single parent with a pre-schooler needs an income that is more than two and a half times the full-time minimum wage ($39,224) to meet the SSS level for Syracuse.

4. Minimum wage increases don't reduce employment.

There is considerable evidence from around the country and in New York to indicate that modest minimum wage increases do not reduce total employment.

- Most minimum wage workers are employed in industries like retail, food service or personal services that primarily serve neighborhood consumer markets not subject to cross-state competition. Nor is it likely that businesses in such industries would relocate in response to minimum wage increases. If they did, it would be relatively easy for other businesses to take their place. Rather, businesses employing many low-wage workers adjust to minimum wage increases through a combination of nominal price increases and savings associated with greater worker retention, higher productivity and lower expenses for recruitment and training.

- Recent research zeroing in on adjacent, cross-state counties with differing minimum wages found that higher minimum wages did not reduce employment. In ground-breaking research that analyzed employment and earnings data for over 500 counties from around the country, economists Dube, Lester and Reich controlled for local trends and other factors to isolate the possible effect of minimum wage differences between neighboring counties across state lines. Their research looked at every pair of neighboring counties in the U.S. over a 16-year period.[4]

- New York last acted to raise its minimum wage in 2004 with the first of three increases occurring in 2005. In the three years following the first stage of that increase, low-wage industries did not suffer employment losses. In fact, employment in low-wage industries like retail and restaurants in New York State grew just as fast

[4] Arindrajit Dube, T. William Lester, and Michael Reich, "Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties," *Review of Economics and Statistics*, November 2010.

relative to total job growth as at the national level.[5]

5. A minimum wage increase will not adversely affect teenagers.

- Teen employment is declining everywhere, mainly because young people are much more likely to be in school than a decade ago. This is true in New York City, other large cities and in states across the country. The share of NYC young people employed (the "employment-to-population" or EPOP, ratio) has declined significantly since 2000. From a forthcoming FPI report on the young adult New York City labor market in which we look at those 18-20 and 21-24 year-olds, the EPOP for 18-20 year-olds in NYC has fallen from 34 percent in 2000/2001 to 22 percent in 2010/2011.6 This difference is more than accounted for by an increase in the share of 18-20 year-olds who are not in the labor force because they're in school (usually college). The student-to-population ratio increased dramatically over the past decade, from 46 percent to 61 percent. (While the unemployment rate for NYC 18-20 year olds is 25 percent, relative to the overall city unemployment rate it is roughly the same as it was in the early 2000s.)

- Young workers did not lose ground in New York City in retail and food service employment as a result of the last general increase in New York State's minimum wage. Half of New York City 18-20 year olds work in food services and retail, the two industries employing the greatest number of low-wage workers. Employment has grown in both industries in recent years, and 18-20 year olds accounted for the same 13 percent of New York City employment in retail and food services in 2005 and 2009, a period that included the full phase-in of the last state minimum wage increase.

- Newly-published research by leading academic economists finds no adverse impact on teen employment from minimum wage increases. In an April 2011 article in the journal *Industrial Relations*, University of California and University of Massachusetts economists demonstrate that raising the minimum wage does not hurt teen workers: it does not cause them to lose their jobs, and it does not lead to a reduction in the amount of hours they work. Drawing on 20 years of state-level data, this study shows the critical importance of accounting for differences in economic activity across states when testing for the impact of a minimum wage increase on teens. The researchers explicitly demonstrate how failure to control for state and regional economic trends has biased previous research on the topic and produced misleading results. This study shows that minimum wage increases not only do not harm teen workers, but that this finding holds even during economic downturns.[7]

---

[5] See Table 3, Fiscal Policy Institute, "Restoring the Purchasing Power of New York State's Minimum Wage," http://www.fiscalpolicy.org/FPI_NewYorkShouldRaiseTheMinimumWage_July2008.pdf, July 10, 2008.

[6] We don't include 16-17 year-olds in our labor market analysis, since 95 percent of them are not in the labor force because they are in school.

[7] Sylvia A. Allegretto, Arindrajit Dube and Michael Reich, "Do Minimum Wages Really Reduce Teen Employment? Accounting for Heterogeneity and Selectivity in State Panel Data," *Industrial Relations*, April 2011: http://www.irle.berkeley.edu/workingpapers/166-08.pdf.

6. A minimum wage increase will boost consumer demand, helping neighborhood businesses and creating a net positive job impact.

Increasing the minimum wage helps the workers who see their paychecks go up, but it helps the broader economy as well. It's well known that one of the best ways to generate more economic activity is to increase the incomes of those at the lower end of the income scale. This is because low-income people spend a larger share of any new increment of income than do those at higher income levels. And that is why programs such as Food Stamps and the Earned Income Tax Credit (EITC) are not just viewed as policies that improve the well-being of low-income people and their families—they are also known to be smart policy tools that quickly generate new spending and boost demand and jobs. Similarly, an increase in the minimum wage puts money into the pockets of low-wage workers and increases demand for the goods and services they and their families purchase.

With high unemployment and a weak economy, there could not be a better time to raise the incomes of low-wage workers and thereby pump some much-needed demand into the state's economy. For three years running, when the National Federation of Independent Business has polled its members on a monthly basis about the most important problem faced in running their small businesses, respondents have ranked poor sales as their top problem.[8] Raising the incomes of low-wage workers will help businesses with their own sales and in turn boost their demand for the products of their suppliers, creating a multiplier effect as the impact of the new increment of income works its way through the economy.

As the increased demand ripples through the state's economy, it will stimulate job creation. We estimate that a minimum wage increase to $8.50 an hour will generate an estimated 7,500 jobs across the state, with the bulk of this occurring in the lower-income communities where minimum wage workers live and shop. Seventy-five hundred jobs is not a huge gain, but those jobs are badly needed in the current economy. The important thing is that increased spending by minimum wage workers will help many small and neighborhood businesses, including those who will need to pay their lowest-paid workers a little more.

7. The minimum wage and the Earned Income Tax Credit are complementary policies; one is not a substitute for the other.

Some opponents argue that an increase in the state minimum wage is not necessary because New York has an Earned Income Tax Credit (EITC) that is 30 percent of the federal EITC. However, the minimum wage and the EITC are not mutually exclusive. In fact, they are complementary policies, and they each help offset weaknesses of the other. The minimum wage is needed to provide an effective wage floor under the labor market, deterring some businesses from trying to compete by paying lower wages. The EITC is valuable because it targets households with low incomes and provides a benefit that is scaled to the number of children in a family.

[8] FPI analysis of National Federation of Independent Business data, http://www.nfib.com/research-foundation/surveys/small-business-economic-trends.

8. Raising the minimum wage is an important means to address growing income inequality.

New York has the dubious distinction of having the most extreme income inequality in the United States, with the wealthiest one percent receiving 35 percent of the state's income in 2007, a share that dropped in the recession to 31 percent in 2008, but is likely rising again. Wage disparities between high- and low-income households are a major contributor to New York's income polarization. The failure to raise the state's minimum wage has heightened that disparity. In New York, someone working 40 hours per week at the minimum wage of $7.25 earns about 25 percent of the state average weekly wage. In no other state is this percentage as low. In 1979, before New York's income polarization began to rise precipitously above the national average, a full-time minimum wage worker earned 42 percent of New York's average weekly wage. If the minimum wage had maintained that 42 percent relationship to the average wage, it would be $12.88 an hour today, 78 percent higher than the $7.25 level.

9. Raising the minimum wage would help restore New York's place among progressive states.

New York State used to be a leader in labor protections for vulnerable workers. But we have failed to maintain our progressive orientation. Eighteen states all across the country and the District of Columbia now have state minimum wage levels above the federal minimum wage. And in eight of those states, the minimum wage went up on January 1st as a result of an automatic cost of living adjustment provision. There has not been a meaningful increase in the minimum wage in New York for over five years since January 2007.

10. Raising the minimum wage is particularly important in a high unemployment economy since high unemployment otherwise will depress wages and living standards.

Prolonged high unemployment has pushed down the incomes of thousands of New York families. One indication of this is that there has been a very sharp 65 percent increase in the number of New Yorkers receiving food stamps since the recession began over four years ago. Unemployment in New York has remained at eight percent or higher for nearly three years, and the current 8.5 percent unemployment rate is the highest since the fall of 2010.

High unemployment, however, does not only hurt the unemployed. Even those with jobs can feel its effects, as it depresses their ability to secure the wage gains needed to maintain the purchasing power of their wages. In an environment of job insecurity, when there are several unemployed workers for every job opening, those who still have jobs are less likely to rock the boat and press for improved wages or even resist rollbacks in their compensation and working conditions. With economists projecting that the national unemployment rate will remain high for several more years as the tepid economic recovery continues, we face the prospect of a sluggish labor market in which low-wage and middle-wage workers see their earnings and standard of living further eroded. A legislated minimum wage increase helps serve as a needed corrective to this bleak outlook for improvement on the wage front.

How significant is the spillover effect likely to be from those earning above $8.50?

Some opponents, particularly large employers, have argued that a minimum wage increase would in effect require them to raise wages for a large share of their workforces. We believe there would certainly be benefits to the broader economy from the upward wage pressure that would result at the lowest end of the wage scale. But the reality is that the spillover effect would likely only amount to, at most, about a fifth of the 17 percent increase that going from $7.25 to $8.50 an hour represents. Any spillover effect would taper off such that it would only apply to workers making between $8.50 and $9.50 or $9.75 an hour.[9]

---

[9] This is based on analysis by the Economic Policy Institute. Economist Jeannette Wicks-Lim, Assistant Research Professor at the University of Massachusetts-Amherst Political Economy Research Institute recently submitted this statement to the New York State Senate Democratic Conference:

> Based on my analysis of wages from the years of 1982 to 2002, it is clear that minimum wage ripple effects do not extend the same size raises from a minimum wage hike up the wage hierarchy. Instead, workers earning just above the minimum wage receive raises, what I call ripple effect raises, that are much smaller than what workers earning the minimum wage receive. For example, if the minimum rises by say, 20 percent—a slightly bigger increase than what New York is considering—you can expect that workers earning just above the new minimum of $8.50 would experience a raise of less than five percent. That would be a raise of about 30 to 40 cents, not the $1.25 that a minimum wage worker would receive. In other words, ripple effect raises dissipate quickly as you move up the wage hierarchy. As a result, minimum wage hikes compress the wage distribution at the bottom end, but the average worker does not, in fact, experience any raise at all.
>
> Ripple effect raises do increase meaningfully the number of workers who benefit from minimum wage hikes since many more workers earn wages $1 to $2 above the minimum. The fact is, however, that even when you combine the costs to businesses of both mandated and ripple effect raises, they are modest. For example, for an average restaurant, a 20 percent minimum hike typically increases costs by between 1 and 2 percent of the restaurant's sales revenue. Again, this figure includes both mandated and ripple effect raises. This restaurant, in other words, could cover the entire cost of a 20 percent minimum wage increase by raising their prices by between 1 and 2 percent, assuming that their level of business activity remains the same. This would be equal to raising the price of a $20.00 meal to say, $20.40.

Concluding thoughts

Restoring the purchasing power of the minimum wage to its 1970 level would require a higher minimum wage than the Congress or the State Legislature is going to implement overnight. But even if the minimum wage legislation were increased to that level in several "reasonable" steps, its value would be eroded by inflation by the time that phase-in was completed. An alternative would be:

- to establish a target minimum wage of $10.70 an hour,
- to adjust that target annually for inflation or for changes in the average hourly wage,
- to increase the actual minimum wage by a reasonable, fixed amount each year, until it reaches that moving target, and thereafter
- to have the actual minimum wage equal the target.

Indexing the target minimum wage to changes in average hourly earnings, rather than to a measure of inflation such as the Consumer Price Index, would have the advantage of ensuring that low-wage workers share in the overall growth in the economy generated by productivity improvements. A minimum wage increase to $8.50 an hour is an important step in the right direction, but we need to recognize that achieving broadly shared prosperity will require additional catch-up increases to reach a reasonable level, and an effective means to preserve the purchasing power rather than see that eroded in the years ahead.

The Fiscal Policy Institute (www.fiscalpolicy.org) is an independent, nonpartisan, nonprofit research and education organization committed to improving public policies and private practices to better the economic and social conditions of all New Yorkers. Founded in 1991, FPI works to create a strong economy in which prosperity is broadly shared.

Appendix Figure 1

Characteristics of New York residents earning less than $8.50 an hour in 2011

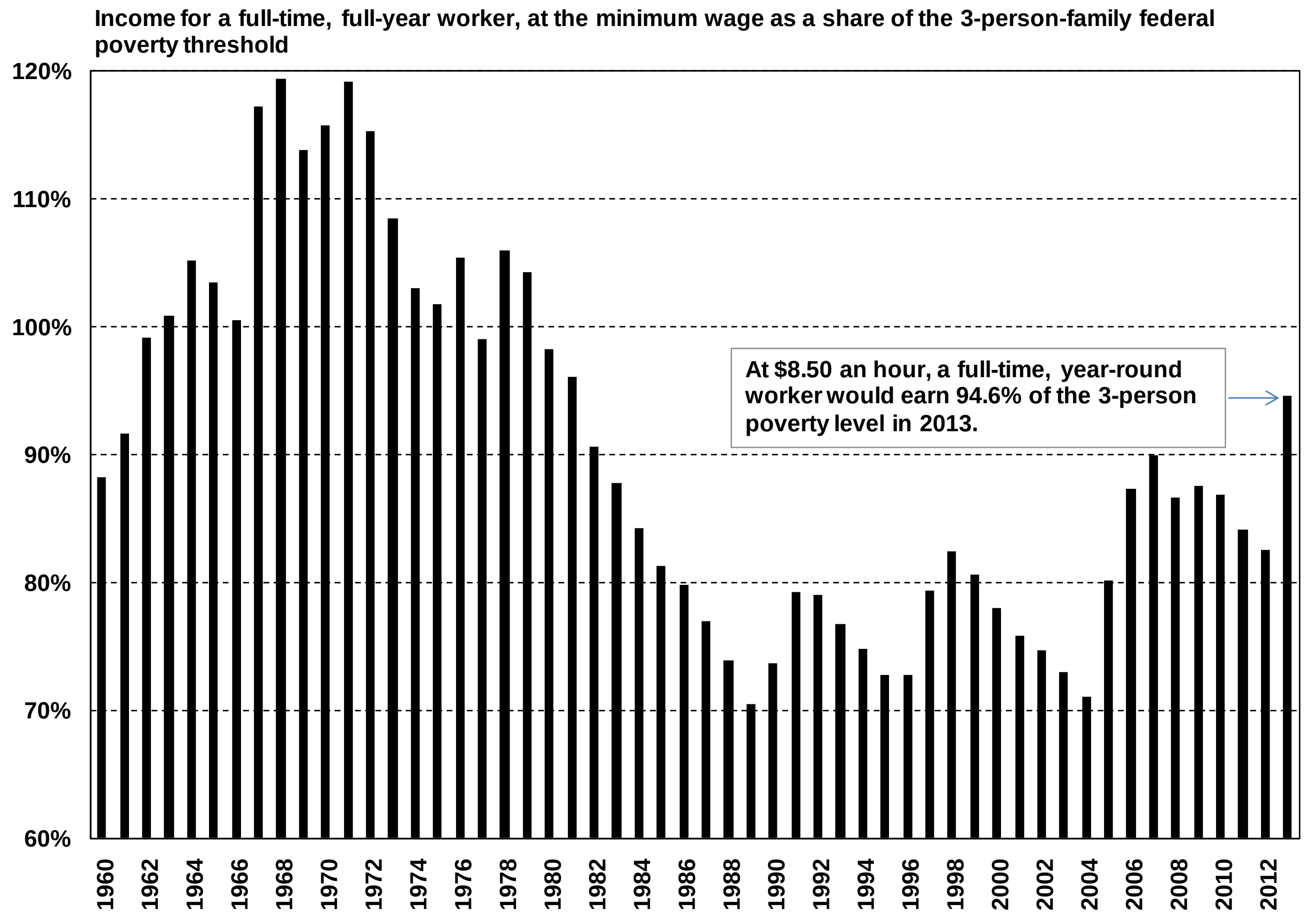
	New York State residents	New York City residents	Balance of state residents
All employed	8,740,800	3,656,100	5,084,700
All workers earning less than $8.50 an hour	880,100	352,000	528,600
Percent of all employed that earn less than $8.50	10.1%	9.6%	10.4%

	New York State residents		New York City residents		Balance of state residents	
	Number earning less than $8.50/hour	Percent of all earning less than $8.50	Number earning less than $8.50/hour	Percent of all earning less than $8.50	Number earning less than $8.50/hour	Percent of all earning less than $8.50
Gender						
Male	392,900	44.6%	171,300	48.7%	221,400	41.9%
Female	487,200	55.4%	180,600	51.3%	307,200	58.1%
Race/ethnicity						
White non-Hispanic	458,500	52.1%	77,400	22.0%	384,500	72.7%
Black non-Hispanic	125,000	14.2%	78,200	22.2%	46,000	8.7%
Hispanic	224,900	25.6%	157,600	44.8%	65,400	12.4%
Asian and other	71,700	8.1%	38,700	11.0%	32,700	6.2%
Nativity						
Born in the U.S.	599,700	68.1%	143,000	40.6%	459,900	87.0%
Immigrant	280,400	31.9%	209,000	59.4%	68,700	13.0%
Age						
16 - 19	137,400	15.6%	28,400	8.1%	109,900	20.8%
All 20 and older	742,700	84.4%	323,700	92.0%	418,800	79.2%
Work hours						
1 to 19 hours	148,000	16.8%	19,500	5.5%	129,800	24.6%
20 to 34 hours	297,200	33.8%	93,400	26.5%	204,700	38.7%
35 hours and up	435,000	49.4%	239,100	67.9%	194,200	36.7%
Retail & food service inds.	407,000	46.2%	132,500	37.6%	275,600	52.1%
Service & sales occupations	520,100	59.1%	187,900	53.4%	333,100	63.0%

Note: Estimates for NYS, NYC and Balance of State developed separately; thus, combined total of NYC and
Source: FPI analysis of Current Population Survey microdata for 2011 provided by the Economic Policy Institute.

Appendix Figure 2

The full-time, full-year income of the New York State minimum wage falls far short of the federal poverty threshold, and is far below its peak 40 years ago. An $8.50 minimum will bring the income of a full-time minimum wage worker to nearly 95% of the poverty level.



Note: Annual income calculated assuming full time work, 40 hours per week, 52 weeks per year at the minimum wage. 2012 and 2013 thresholds estimated using NYS Division of the Budget forecasts for inflation. Assumes an $8.50 minimum as of January 1, 2013.