Testimony on

H.B. No. 5291

Proposing to Raise Connecticut's Minimum Wage

before the

Labor and Public Employees Committee of the

Connecticut General Assembly

Arindrajit Dube, Ph.D.

Assistant Professor of Economics

University of Massachusetts-Amherst

February 28, 2012

Legislative Office Building

300 Capitol Avenue

Hartford, Connecticut

Thank you Chairman Zalaski, Chairwoman Prague, and Vice Chairs Santiago and Gomes, of the Labor and Public Employees Committee for the opportunity to testify here today on the proposal to raise Connecticut's minimum wage to $9.75 by 2013 and then index it each year based on the cost of living. My name is Arin Dube. I am an assistant professor of economics at the University of Massachusetts-Amherst.

Together with colleagues at the University of California and the University of North Carolina, I have recently published two extensive national studies on the effects that higher minimum wage rates have had on job growth. (My full C.V. is available at http://people.umass.edu/adube/) In my testimony today I'll start by putting the current proposal to raise Connecticut's minimum wage to $9.75 by 2013 in context by comparing it some national and historical benchmarks, including how much the U.S. and Connecticut minimum wage would be worth today if they had kept pace with inflation over the last forty years. Then I will discuss the key question that is raised by proposals to increase the minimum wage, "Won't a higher minimum wage cost jobs?"

This is an important question, and it is a possibility that I take very seriously. In this testimony, I'll outline what our studies—as well as other recent research--have found when it comes to the question of jobs. To give you a preview, we do not find any evidence that raising the minimum wage leads employers to cut jobs or reduce employees' hours to any appreciable degree for the range of minimum wage increases that have been enacted in the U.S. Equally significant, we found that those same patterns hold even for minimum wage increases implemented during recessions or weak labor markets generally.

Background: Connecticut's Minimum Wage Proposal in Perspective

The bill before you today would raise Connecticut's minimum wage from its current level of $8.25 to $9.75 per hour. This would entail two 75 cent increases – the first in July 2012, and the second in July 2013. Starting in July 2014, the minimum wage would then be adjusted each year to keep pace with the rising cost of living using the Consumer Price Index (technically, the "CPI-U"), as ten other states currently do.

Here are some reference points to allow you to compare how $9.75 by 2013 stacks up:

- The federal minimum wage, which currently is $1.00 lower than Connecticut's at $7.25, would be projected to be approximately $10.60 by 2013, if it had been adjusted each year to keep up with inflation since 1968 using the CPI-U.
- Washington State's minimum wage, which currently the nation's highest state minimum wage at $9.04, is projected to be approximately $9.22 by 2013.

These reference points show that the current proposal would give Connecticut the highest minimum wage in the country, roughly 50 cents higher than Washington State. But at the same time, it would leave the minimum wage roughly $1.00 lower than it would have been if it had been indexed for inflation since 1968.

Economic Research on the Impact of Raising the Minimum Wage

With that background, I'll now turn to the economic research on the key question of whether raising the minimum wage costs jobs. As recently as 25 years ago, most economists believed that

increases in the minimum wage led to moderate but clear reductions in employment. This understanding reflected a simple supply and demand model of the labor market: an increase in the price of low-wage labor as the result of a higher minimum wage would lead employers to choose to purchase less of it, by cutting jobs.

In 1994, however, this consensus on the economic impact of the minimum wage was challenged by research from Princeton economists David Card and Alan Krueger. (Krueger is today the Chair of President Obama's Council of Advisors.) Card and Krueger surveyed fast food restaurants in New Jersey and nearby eastern Pennsylvania both before and after New Jersey increased its minimum wage. They found that the expected employment reductions in New Jersey did not materialize (in fact, they found slight employment gains there). Their research shook the economics profession.

Since Card and Krueger's 1994 study, there has been a large volume of follow-up research on the economic impact of raising the minimum wage. While time does not allow me to walk through this literature in detail, a substantial body of rigorous research confirmed and built on Card and Krueger's findings that increases in the minimum wage have not led to any appreciable loss of jobs.

However, there some research have continued to argue that minimum wage policies have caused job losses while other research have shown no such effects or have even shown job gains. This brings us to about five years ago. At that time, in conjunction with a group of other economists—Michael Reich and Sylvia Allegretto at the University of California-Berkeley, and

William Lester now at the University of North Carolina-Chapel Hill —I set out to conduct a new set of studies to make sense of this discrepancy in the minimum wage literature. That period – the late 2000's was an ideal time to conduct such research. During the period from 1997-2007, dozens of states across the United States had raised their minimum wages. Many of them like Connecticut did so several times during that period. As a result, there were tremendous numbers of differing minimum wage rates during that period between neighboring states. In some cases, the difference was quite large – as much as $3.00 per hour. This pattern provided an opportunity to test the effects of minimum wages across otherwise similar economies.

My colleagues and I conducted two separate studies to probe these questions. The first study focused on every pair of neighboring counties in the United States that were on different sides of a state line where the two states had different minimum wage rates. In total, we examined over 300 pairs of counties, 504 counties in all. For example, our study compared job growth trends here in Hartford County with those in Hampden County in Massachusetts to the north (where the minimum wage has sometimes been a little lower). And we compared job growth in Litchfield and Fairfield Counties with that in the adjacent New York counties, where the minimum wage has almost always been lower. And we compared rates in New London and Windham Counties with those in neighboring Rhode Island. Of course, there are many specific circumstances when considering any *single* county-pair comparison. For this reason, it is essential to pool across a large number of such comparisons to obtain precise estimates.

This county-level approach allowed us to make sure that regional or national trends in low-wage job growth did not cloud the picture, since neighboring counties generally have relatively similar

economies. We compared job growth in low-wage sectors such as restaurants and retail industry in these more than 300 pairs of counties across the country over a period of many years. To put this in perspective, while the original Card and Krueger study compared job growth over two years across a single border, between New Jersey and Pennsylvania, we compared 64 such state-border segments over a 17-year period. We found no evidence of reduced employment in low-wage sectors when the minimum wage went up. In other words, the counties in the states with the higher minimum wages, overall, had the same job growth patterns as the neighboring counties in the lower minimum wage states.

In another study, we decided to take a closer look at the research conducted by economists who were finding evidence of job losses. These researchers have usually used household survey data, and have typically looked at employment pattern of teens to discern the impact of different minimum wages across different states. We were concerned that the controls used in these studies were inadequate. This is because there are many regional factors behind the job trends in low-wage sectors that were not being accounted for in these studies. For example, the nation's population and jobs are generally shifting from the rust belt, which has been losing population with the decline of manufacturing, to the sunbelt, where populations have been growing rapidly—leading to a boom in low-wage jobs. But most economists don't believe that differences in minimum wages are driving that job shift.

So we conducted a study that used the same data and the same general research approach used by economists who have tended to find job losses from minimum wage increases. Our first analysis, like theirs, initially appeared to show job losses in the higher minimum wage states and

regions of the country. However, once we accounted for regional patterns, the evidence of job loss disappeared. We showed—as in our first study—that research finding evidence of job loss were incorrectly attributing factors affecting the state economies to minimum wage policies.

Because our study spanned nearly twenty years from 1990-2009, it covered a wide range of economic periods, including several national recessions. Therefore, we decided to additionally analyze whether minimum wage increases were more likely to lead to job losses if they were made during periods of high unemployment. Our analysis found that even during such periods, including the recent Great Recession when the federal minimum wage was increased in 2007 and 2008, wage increases did not result in any detectable job losses.

Explanation of the Results

The findings that moderate raises in the minimum wage do not result in job losses—even during weak economic periods—may seem surprising and counter-intuitive. And I do not mean to suggest that individual employers may not respond to a higher minimum wage by cutting jobs or hours. But the data show that overall, that does not happen to any substantial degree.

How can that be? Let me walk through an explanation. There are several ways that low-wage firms accommodate the costs of minimum wage increase besides lowering employment.

First, there are typically some offsetting savings that result when businesses raise their wages. Many low-wage businesses such as restaurants that pay close to the minimum wage have very

high rates of employee turnover. They find it difficult to attract and retain workers, even during periods of high unemployment. One of the things that we find in another recent study of ours is that the turnover rate in restaurants falls sharply when the minimum wage rises. After a minimum wage increase, employers find it easier to recruit and retain workers, reducing vacancies and recruitment expenses. Additionally, there is evidence that higher wages tend to raise labor productivity by increasing worker morale and effort. All of these additional factors tend to partly offset the higher labor costs from an increase in the minimum wage.

Second, a portion of the higher wages gets passed on in the form of somewhat higher prices for the products and services. As labor costs are a relatively small portion of overall costs in low-wage sectors such as retail and hospitality, such price increases are not particularly large. And since all low-wage businesses in a state see the same cost increases when the minimum wage goes up, such price increases do not place them at a competitive disadvantage.

Finally, the remainder of the cost increase is absorbed through somewhat lower profit margins.

The Economic Stimulus Impact of Raising the Minimum Wage

To the degree that raising the minimum wage shifts firm revenue towards frontline workers, it is likely to boost consumer spending in the economy. This is because low-wage workers typically spend a greater fraction of their income than shareholders and executives, or even typical consumers. Recent research by economists at the Federal Reserve Bank of Chicago shows that minimum wage increases lead to a significant increase in purchases of durable goods and the

implied multipliers are substantial. At a time when there is a shortfall in aggregate demand, increased consumer spending from higher minimum wages can contribute to an economic recovery..

Overall, the evidence from recent research shows that for the type of wage increases we have experienced in the U.S., there have not been any discernable job losses for the low-wage workforce. This is true even when we consider periods of higher unemployment as we are currently in.

I have appreciated the opportunity to testify before you today. I would be happy to answer any questions that members of the committee may have.