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Testimony in Support of HB 5291, *An Act Increasing The Minimum Wage, Removing The Minimum Wage Tip Credit, And Increasing Penalties For Failure To Pay The Minimum Wage.*

By Douglas Hall, Ph.D

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Chairwoman Sprague and Chairman Zalaski, Members of the Labor and Public Employees Committee,

I am Douglas Hall, the Director of the Economic Analysis and Research Network at the Economic Policy Institute. EPI is a DC-based leading progressive economic think-tank. The network I direct, EARN, is comprised of 57 state partners in 43 states, and also encompasses several national partners with whom we work closely on a broad agenda to improve the well-being of working families.

I am testifying today in support of HB 5291, *An Act Increasing the Minimum Wage*, a bill that once again adjusts Connecticut's minimum wage upward. Historically Connecticut has been one of the nation's leaders on the minimum wage. Currently, three states – Washington, Oregon, and Vermont, have minimum wages higher than Connecticut's. Several other states are pursuing minimum wage increases in this legislative session. All three states with current minimum wages higher than Connecticut's also index their minimum wages to inflation.

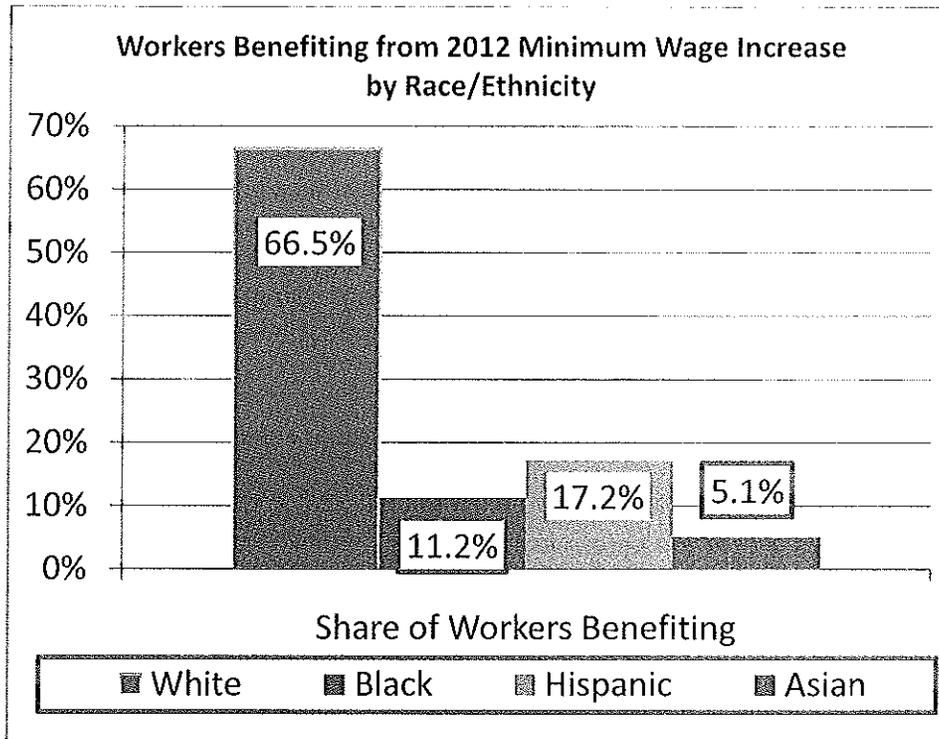
My testimony is intended in part to do some *myth-busting* around the minimum wage, in particular addressing myths around **who** comprises the minimum wage workforce, and **what** the employment impact of increasing the minimum wage is.

EPI's analysis of the Connecticut proposal shows that in the first year of the proposed increase, 106,000 workers will be directly helped by an increased minimum wage, with another 58,000 workers indirectly benefiting. Of those workers, slightly over half are female, four in five are 20 years of age or older, and nearly three in four work more than part-time (38% work mid-time, between 20 and 35 hours a week, and 34% work full-time, 35+ hours a week). Over the course of three years, 226,000 workers benefit from increased wages resulting from the minimum wage increase.

More than 4 in 5 workers benefiting from an increase in the minimum wage have a high school diploma or more – and two-thirds of workers affected are White Non-Hispanic (as seen in Figure 1).

### **GDP Impact and Job Creation**

The EPI minimum wage model shows that those workers benefiting from increased wages (both direct and indirect), will see an additional \$122 million in wages in year one, \$113 million in year two, and \$44 million in year three with current estimates of indexing rates.



**Figure 1:** Source: EPI Analysis of 2011 Current Population Survey, ORG data.

Over the course of the first three years of minimum wage increase, we estimate a GDP impact of over \$177 million (\$74 million in the first year, \$72 million in the second year, and \$28 million in the third year). Economists widely recognize that GDP impacts translate into jobs through the *multiplier effect*. In estimating the employment impact of a minimum wage increase, we recognize that a minimum wage increase results in a modest re-allocation from corporate profits to wages. This reallocation results in increased employment, exactly because lower income workers spend a larger share of their wages in the economy than would have resulted from corporate profits. Our model shows that in the first year, 670 full-time equivalent (FTE) jobs would be created as a result of the GDP impact of Connecticut’s minimum wage increase. The proposed minimum wage increase would create 630 jobs and 240 jobs, respectively, in years two and three. While the GDP model shows these jobs created at a national scale, the job creation impact would be disproportionately concentrated in Connecticut’s communities, since lower-income workers are more likely to spend their wages locally to meet the immediate needs of their families. The resulting modestly positive employment effect demonstrated by the multiplier effect is consistent with the most recent case study research (summarized in Dr. Dube’s testimony earlier today).

### **Increased Minimum Wage and State EITC Are Complementary**

One unintended consequence of the EITC is that by drawing more people into the workforce, it can have a modestly negative impact on lower- wage rates. Ideally, the EITC (state or federal) and minimum wage (state or federal) work in tandem to ensure that lower income workers are adequately paid. A 2010 study by UC Berkeley’s Jesse Rothstein shows that a portion of EITC payments is effectively transferred

to employers<sup>1</sup> – through a minimum wage increase, we can transfer those payments back to low wage workers, the intended recipients of the EITC.

Moreover, a study by Jeannette Wicks-Lim and Jeffrey Thompson, from the University of Massachusetts' Political economy Research Institute, shows that both the minimum wage and the EITC would need to be substantially expanded in order to provide a decent living standard to low-income working families.<sup>2</sup> Connecticut's state level EITC takes an important step in this direction – increasing and indexing the minimum wage is another step towards a decent living standard for Connecticut's low wage workforce.

### **The Minimum Wage and Income Inequality**

Committee members no doubt have been following the growing national attention to matters of income inequality. Connecticut as you know is a state of considerable wealth, but also a state in which the capital city's child poverty rate consistently falls in the top five large cities nationally (with Bridgeport and New Haven falling not far behind). Connecticut Voices for Children has studied this issue extensively over the years, both with periodic reports of the "Pulling Apart" of family incomes<sup>3</sup>, and annual reports showing wage trend data (in both cases incorporating data provided by the Economic Policy Institute). US Census Bureau data show that Connecticut is the state with the second highest level of income inequality in the nation (behind only New York), as measured by the gini coefficient, the most common measure of income inequality. As seen in Figure 2 below, low and very low wage earners in Connecticut have seen a steady erosion in real wages over the past decade, earning less in 2010/11 than at the beginning of the decade. Increasing the minimum wage modestly and the indexing it will help turn that trend around.

### **The Minimum Wage and Children**

It is far too easy to lose sight of the fact that the decisions that are made in state houses across the nation impact children. Connecticut made headlines in 2004 by being the first state to commit to reducing child poverty within ten years. It is now eight years later and the child poverty rate in Connecticut has gone from 10% in 2004 to 13% in 2010, according to the US Census Bureau's American Community Survey data. Most children who live in poverty do so because their parents do not earn sufficient income to push them over the federal poverty level (which, is widely acknowledged to be a woefully inadequate measure of what it costs to make ends meet, particularly in a high-cost state like Connecticut). The changes that we are considering today to Connecticut's minimum wage would benefit Connecticut's children – more than one in five workers directly or indirectly benefiting from an increase in the minimum wage are parents.

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<sup>1</sup> Jesse Rothstein. "Is the EITC as Good as an NIT? Conditional Cash Transfers and Tax Incidence" *American Economic Journal: Economic Policy* 2.1 (2010): 177-208.

<sup>2</sup> Jeanette Wicks-Lim, Jeffrey Thompson. *Combining Minimum Wage and Earned Income Tax Credit Policies to Guarantee a Decent Living Standard to All U.S. Workers* (Political Economy Research Institute, 2010), <http://www.peri.umass.edu/236/hash/9b8a787cfa16226190e4f96e582348cd/publication/428/>

<sup>3</sup> Douglas Hall and Shelley Geballe, *Pulling Apart in Connecticut: Trends in Family Income, Late 1980s to mid 2000s* (Connecticut Voices for Children, 2008). <http://www.ctkidslink.org/publications/econ08pullingapartrel.pdf>

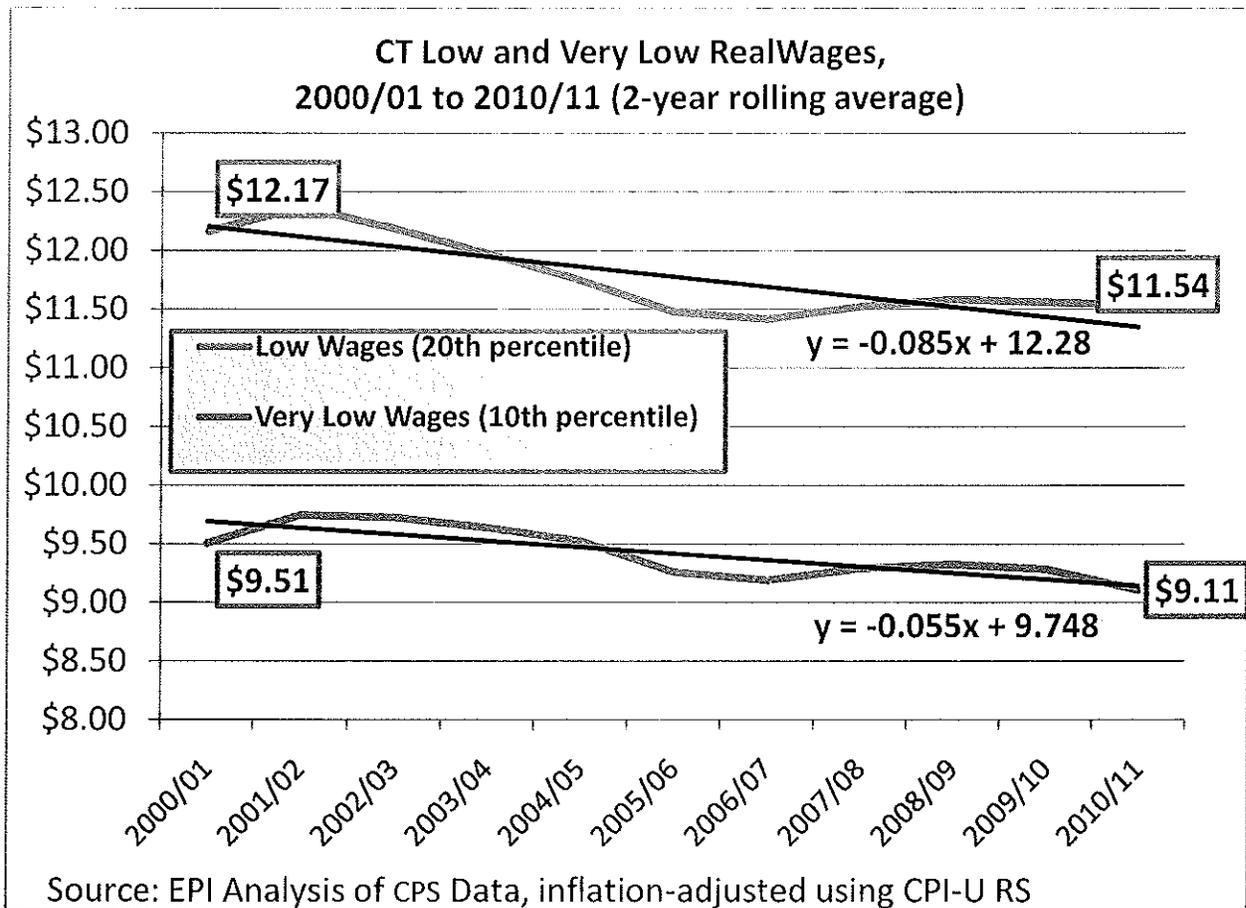


Figure 2

### Conclusion

Increasing Connecticut's minimum wage is the right thing to do for several reasons. It is smart economics, it helps to close Connecticut's nation-leading levels of income inequality, and it improves the well-being of working families still reeling from the effects of the Great Recession and the lackluster national recovery.

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