Economic Policy Institute

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Testimony in Support of SB 387, *An Act Increasing The Minimum Fair Wage*
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Chairwoman Osten and Chairman Tercyak, 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 an independent economic think-tank that strives to improve the well-being of working families. The network I direct, EARN, is comprised of 59 state partners in 44 states, and also encompasses several national partners with whom we work closely on public policies for working families.

I am testifying today in support of SB 387, *An Act Increasing the Minimum Fair 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 ($9.19), Oregon ($8.95), and Vermont ($8.60), 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, 99,000 workers will be directly helped by an increased minimum wage, with another 62,000 workers indirectly benefiting. In the second year, those numbers grow to 154,000 directly affected and 92,000 indirectly affected (for a total of 246,000 total workers benefiting). Of those workers, more than half (58.8%) are female, four in five (83.1%) are 20 years of age or older, and more than three quarters (77.4%) work more than part-time (39.8% work mid-time, between 20 and 34 hours a week, and 37.5% work full-time, 35+ hours a week).

Half (49.7%) of those benefiting from an increase in the minimum wage have some college, an associate's degree, a bachelor's degree, or higher (and another 30.5% have a high school diploma) – and two-thirds (64.6%) 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 $109 million in wages in year one, and $125 million in year two.

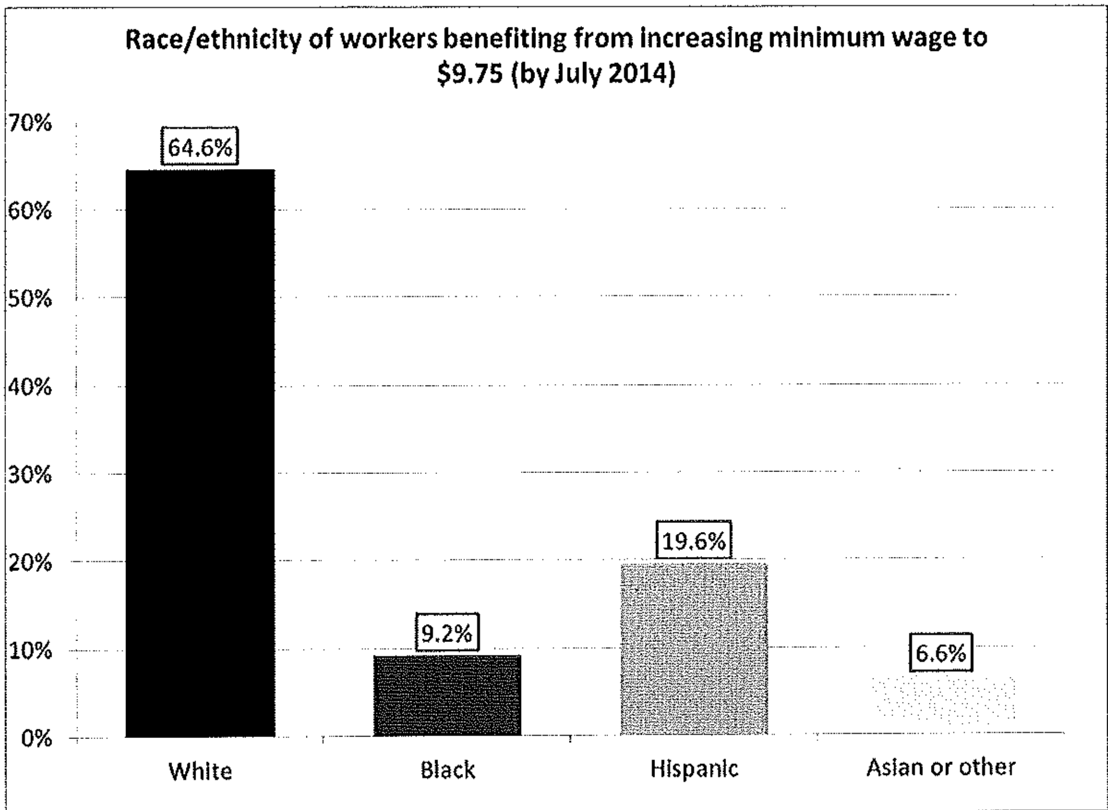

Figure 1: Source: EPI Analysis of Current Population Survey, ORG data.

Over the course of the first two years of minimum wage increase, we estimate a GDP impact of $148 million ($69 million in the first year, and $79 million in the second 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, 600 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 690 in the second year, for 1,290 jobs over the first two years. This employment 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 positive employment effect demonstrated by the multiplier effect is consistent with the most recent case study research.

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[1] – 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.[2] 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

Connecticut 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). In November, the Economic Policy Institute and the Center on Budget and Policy Priorities released a report, *Pulling Apart: A State-by-State Analysis of Income Trends*[3]. This report highlights two noteworthy things about Connecticut. Connecticut has seen the greatest increase in income inequality of all states since the late 1970s. Real incomes of those in the bottom 20 percent have <u>declined</u> by 4 percent since the late 70s. This trend has continued in more recent years, 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

Decisions made in state houses across the nation impact children. Connecticut made headlines in 2004 by being the first state to commit to a targeted reduction of child poverty within ten years. It is now nine years later and the child poverty rate in Connecticut has gone from 10% in 2004 to 15% in 2011, according to the US Census Bureau's American Community Survey data. Instead of *reducing* child poverty by 50 percent, as Connecticut's Child Poverty Council committed to in 2004, Connecticut has instead *increased* child poverty rates by 50 percent in the intervening years.

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

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[1] 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.

[2] 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/

[3] Elizabeth McNichol, Doug Hall, David Cooper, Vincent Palacios, *Pulling Apart: A state-by-state analysis of income trends*, (CBPP and EPI, 2012). http://www.epi.org/files/2012/Pulling-Apart-Connecticut.pdf.

changes that we are considering today to Connecticut's minimum wage would benefit Connecticut's children – nearly a quarter (23 percent) of workers directly or indirectly benefiting from an increase in the minimum wage are parents. Moreover, the affected parent accounts for half (50.6 percent) of the family income in families with a parent affected by increasing the minimum wage, and in 19.9 percent of affected families with children, the affected parent's income is the sole source of family income.

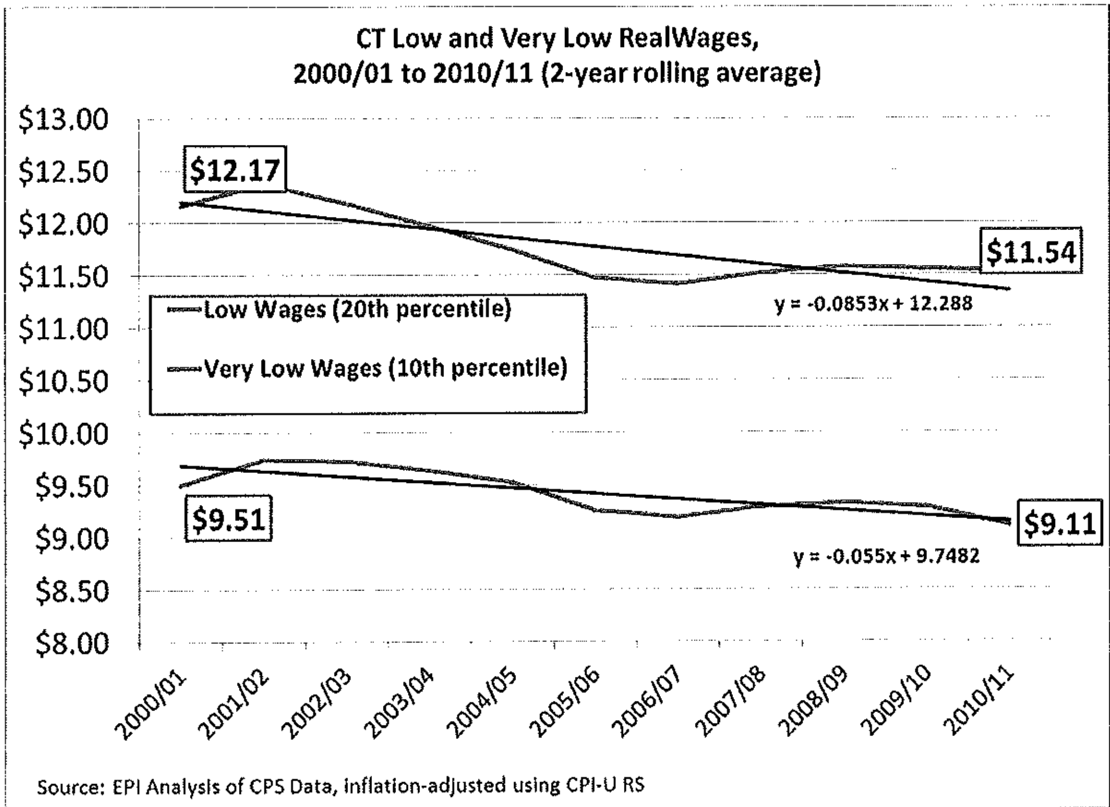

Figure 2

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 who have yet to recover from the Great Recession.

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