Testimony on

S.B. NO. 387

AN ACT INCREASING CONNECTICUT'S MINIMUM FAIR WAGE

before the Labor and Public Employees Committee of the General Assembly

Jeannette Wicks-Lim, Ph.D.

Assistant Research Professor

Political Economy Research Institute,

University of Massachusetts, Amherst

January 31, 2013

Legislative Office Building

300 Capitol Avenue

Hartford, Connecticut

Thank you Chairwoman Osten, Chairman Tercyak, and Vice Chairs Gerranta and Santiago, of the Labor and Public Employees Committee for the opportunity to testify before you on the merits of the proposal to raise Connecticut's minimum wage to $9.75 by 2014, and then annually adjust it to reflect changes in the local area's cost-of-living.

My name is Jeannette Wicks-Lim. I am an assistant research professor at the Political Economy Research Institute of the University of Massachusetts-Amherst. My research primarily focuses on the low-wage labor market in the United States. I have specifically studied the impact of minimum and living wage proposals for over ten years, including state minimum wage laws in Arizona and Florida. Much of this research appears in a 2008 book titled A Measure of Fairness, published by Cornell University Press, and co-authored by Robert Pollin, Mark Brenner, Stephanie Luce, and I. I am pleased to say that this compilation of our work earned high praise from Richard Freeman of Harvard University, arguably the most distinguished labor economist alive in the U.S. today. In his words, "The volume defines the issues and provides a glow of empirical sunshine on an economic topic traditionally shrouded with ideology instead of evidence."

In my testimony I will address three concerns about raising Connecticut's minimum wage:

(1) That raising Connecticut's minimum wage will cause job losses,

(2) That indexing the minimum to a cost-of-living index will cause inflation to spike, and;

(3) That proposed minimum wage hike is needless since those who would benefit are mostly teenagers or young adults who hold minimum wage jobs primarily to get experience and/or to earn "spending" money.

1. Minimum wage hikes and the potential for job losses.

One of the primary concerns over any minimum wage increase is that they will cause job losses. This is a serious concern. After all, if low-wage workers lose their jobs instead of getting a raise, the minimum wage hike hurts the very workers it is intended to help. The basic logic behind this concern is straightforward: if businesses have to pay their workers more, their businesses costs will rise so much that they will have to offset their cost increases by laying off their workers or cutting back on their hours. Or, they would have to raise their prices so much that they would lose customers, and then, in response to their declining sales, they would have to lay off workers.

The good news is that Connecticut's business should be able to adjust to a roughly 20 percent minimum wage hike without shedding jobs. The reason for this is that minimum wage hikes such as the one being considered today actually amounts to a very modest cost increase for businesses. This is true even while including the higher payroll taxes employers must pay on their larger wage bill, as well as, ripple-effect raises. Employers may give some of their workers earning a little bit more than the minimum ripple-effect raises – also called "spillover" raises—in order to preserve the same wage hierarchy before and after a minimum wage increase.

What I mean by a *modest* cost increase is the following. Over the course of the more than 10 years that I have been researching minimum and living wage hikes, we have repeated this exercise: we directly estimate how much businesses costs would rise by using Labor Department data on the number of workers who we would expect to receive raises, the size of these raises given their current pay rates, and the number of hours they work. Based on these figures, we can calculate how much these businesses' labors costs increase. This is a labor-intensive but fairly straightforward exercise. What my colleagues and I have repeatedly found is that a minimum wage hike of this size—20%--typically imposes, on an average business, a cost increase in the range of two-tenths of one percent of that business's sales revenue. What this means is this average business could cover the entire cost of the minimum wage hike by raising their prices by two-tenths of one percent.[1] This amounts to raising the price of a $20 item by four pennies, or $20.04. A cost increase of this size, I think can be reasonably described as extremely modest.

Now that is for the average business. But it turns out that the cost increase remains modest for restaurants as well -- a low-wage labor-intensive industry. What we have found is that the cost of a minimum wage hike of 20 percent amounts to 1 percent of the average restaurant's sales revenue. In other words, the average restaurant would need to raise the price of a $20 meal by just two dimes to $20.20 to cover the entire cost increase from a 20 percent minimum wage hike. It is hard to believe that a price increase this small would chase off any consumers even in the midst of today's slow recovery.

Businesses also tend to experience some labor cost *savings* when the minimum wage goes up. This is because when workers get a raise, they tend to stay at the job longer and this lowers a business's employee turnover rate – the rate at which a business needs to replace workers who have left. This saves businesses money in recruiting and training costs. This labor cost savings offsets, in part, the cost increase from a higher minimum wage. In other

---

[1] For example, see PERI minimum wage impact studies for Arizona in 2006 (http://www.peri.umass.edu/236/hash/d712f24f9c05c160a8535cad0b1a014f/publication/238/), and Florida in 2004 (http://www.peri.umass.edu/236/hash/f847fe31697e70fbafc69f137aea7061/publication/178/).

words, the price increases they would need to adopt to cover their actual cost increases would be even smaller than what I just described.

To sum up, the current proposed minimum wage hike will not likely cost jobs because the cost increases that it would impose on businesses, even restaurants, are very modest. Part of the costs will be offset by a more productive workforce, and the remaining costs can be covered by price increases so small that consumers will not likely notice. This explains why many businesses can and do adjust to minimum wage hikes by slightly raising their prices.[2] Of course, businesses have other ways to adjust as well. They can also accept lower profit margins and/or offer smaller raises to high-wage earners.

This helps explain why the most rigorous research on the question of whether minimum wage hikes costs jobs has found no discernible reduction in employment. Much of this work has been co-authored by Professor Arindrajit Dube who testified before this Committee nearly one year ago.

In a nut shell, Dube and his colleagues looked to see how a higher state minimum wage might affect jobs by comparing employment growth in restaurants and retail stores between pairs of neighboring counties along a state border so that the businesses in each county are potentially required to comply with different state minimum wage rates. For example, their study included restaurants and retail outlets operating in 2004 in counties along the New York-Connecticut border when Connecticut's $7.10 state minimum wage exceeded New York's $5.15 minimum by nearly two dollars. If job growth lagged in

---

[2] See, for example, Barry T. Hirsch, Bruce E. Kaufman, and Tetyana Zelenska. 2011. "Minimum Wage Channels of Adjustment," *Andrew Young School of Policy Studies Working Paper 2011-11-1*; and Daniel Aaronson, Eric French, and James MacDonald. 2005. "The Minimum Wage, Restaurant Prices, and Labor Market Structure." *Federal Reserve of Chicago Working Paper No. 2004-21.*

Connecticut's stores and food establishments compared to New York's that would be evidence in support of the argument that higher state minimum wages cost jobs. They looked at exactly these types of comparisons over a 17-year period across all 50 states and the District of Columbia. In Dube's words, they 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.[3]

And in fact a judicious review of over 30 years of past minimum wage research, including 64 studies, documents how the most reliable estimates of the minimum wage's impact on employment center on an estimate of zero, i.e., no effect.[4]

It is also worth noting that raising Connecticut's minimum wage can help to protect businesses in Connecticut that are striving to pay their low-wage workers something that more approximates a living wage, which is typically substantially higher than the minimum, from businesses that choose to pay the minimum. It can do this by keeping the difference in labor costs between so-called "high-road" employers and "low-road" employers modest.

2. Cost-of-living indexing and inflation.

Now that we have the business cost increases produced by a 20 percent minimum wage hike in perspective, I think it is easy to set aside any fear of inflation from indexing the minimum wage to a cost-of-living measure. The fact is that the potential impact of minimum

---

[3] See written testimony on H.R. No. 5291 submitted to the Labor and Public Employees Committee of the Connecticut General Assembly by Prof. Arindrajit Dube, February 28, 2012.
[4] Hristos Doucouliagos and T.D. Stanley. "Publication Selection Bias in Minimum-Wage Research? A meta-regression analysis," *British Journal of Industrial Relations*, 2009, June.

wage hikes on the overall price level is simply too small to have any appreciable impact on inflation.

Let's go back to the estimated impact of the 20 percent minimum wage hike. For the average business, they could cover the entire cost of this minimum wage increase by raising their prices by about two-tenths of one percent. Again, this amounts raising the price tag of a $20 item by four cents.

COLA increases however are much, much smaller than 20 percent. The annual rate of inflation, as measured by the Bureau of Labor Statistics' Consumer Price Index for urban wage earners and clerical workers in the Northeast urban area of New York-Northern New Jersey-Long Island, NY-NJ-CT-PA, averaged 2.9 percent over 2002 to 2012. The average business therefore could easily cover the cost increase from a typical COLA by raising prices by three-hundredths of one-percent (0.03%).[5] This amounts a price tag of $20 going up by less than one penny. Price increases this small would have a negligible impact on a 2.9 percent average inflation rate.

This basic conclusion is supported by a 2008 study that reviewed the economic studies on the impact of minimum wage hikes on prices and inflation.[6] The estimates from these studies cover a relatively wide range, suggesting that a 10-percent increase in the minimum causes overall prices to rise somewhere between 0.2 percent and 2.16 percent, with most estimates falling below 0.4 percent These estimates are larger, but in the range of how much businesses' costs increase as discussed above. Even the higher estimate of a 0.4 percent rise

[5] (0.1%/10%) x 2.9% = 0.029%
[6] "A Survey of the Effects of Minimum Wages on Prices," by Sara Lemos, *Journal of Economic Surveys* 22(1): 187–212, 2008.

in price level with a 10-percent minimum wage hike suggests that a typical COLA adjustment of 2.9 percent to the minimum wage rate would only push up the price level by about one-tenth of one-percent (0.12%).[7] Recall that this amounts to adding just two cents to a $20 price tag.

To sum up, the potential contribution of the minimum wage COLAs to inflation would be to raise the rate of inflation by 0.1 percent or less. This would raise, for example, the average annual inflation rate of 2.9 percent to 3.0 percent—a change so small that the rate is effectively unchanged in any meaningful way. In fact, this potential impact on inflation is smaller than the margin of error for the Department of Labor's estimate of inflation.[8]

If Connecticut adopts S.B. 387, it would become one of nearly one dozen states to insure that the purchasing power of its minimum wage does not erode over time. I have not heard of any reports from the states that index their minimum wage rates are suffering from bouts of inflation.

3. Who would benefit from this minimum wage hike?

Based on my own analysis of Labor Department data[9] from 2011, I estimate that the large majority of workers who benefit are adults, not teenagers or young adults in school. 75 percent of the potentially affected workers – i.e., those earning between $8.00 and $11.00 – are older than 25 years old and not enrolled in school. Teenagers (16-19 yrs. old) and young

---

[7] (0.4%/10%) x 2.6% = 0.12%
[8] For 2011, the margin of error for the national estimate of inflation, as measured by the CPI-U was +/- 0.14%. The margin of error for any regional estimate would be larger.
[9] The data I use come from the Current Population Survey (CPS), a standard data set used by labor economists studying the U.S. labor market.

adults in school (20-24 yrs. old and enrolled at least part-time) make up the remaining 25 percent. In other words, the large majority of workers who would potentially benefit from raising Connecticut's minimum wage to $9.75 have begun their work careers in earnest.

More important, however, is the extent to which these workers' earnings support the households that they are part of, regardless of whether they are young, students, or adults out of school. Again, based on my own analysis of Labor Department data, I find that Connecticut's low-wage workers contribute crucial earnings to maintain a relatively modest standard of living in their households: the typical affected worker (workers earning $8 to $11/hr.) contributes over one-third (34%) of their families earnings.[10] Even if we take a broader measure of the family's resources—family income that includes income subsidies such as Social Security, child support, etc.—the typical affected worker contributes one-quarter (26%) of his/her family's income. [11]

In Conclusion

The economic situation among Connecticut's low wage workers has been deteriorating as part of a longer-term trend that precedes the Great Recession. A higher minimum wage would make a real difference.

Even before the onset of Great Recession, Connecticut's low-wage workers saw their wages, after adjusting for inflation, decline. From 2000 to 2007, the 25th wage percentile—the wage rate at which 25 percent of workers earn less and 75 percent earn more—declined from

---

[10] The average figure reported here is the median as of 2011. The mean figure, which is more sensitive to extreme cases, is 50%.
[11] Again, this average figure is the median as of 2011; mean figure is 40%.

$13.04 to $12.95, a one-percent drop. The same thing happened to the 10th wage percentile – that wage fell from $9.49 to $9.40. Clearly, a minimum wage set at $9.75 would help these workers. These declines in pay took place even while the state's economy produced 10 percent more goods and services per capita over the same time period.

This underscores the significance of the minimum wage in preventing a further decline in the living standards of Connecticut's low-wage workers. In today's economic climate where compensation for the average and low-wage worker is generally declining such labor standards have become more relevant.

And in fact, Connecticut's state minimum wage lags behind where it stood 45 years ago in 1968. If Connecticut's 1968 minimum wage had kept up with inflation it would be $10.00 today. Raising Connecticut's minimum wage to $9.75 by 2014 will help make up some of this lost ground. Adjusting the minimum to reflect rising living costs in the area will prevent it from further falling behind.

The current proposal to raise Connecticut's minimum wage from $8.25 to $9.75 would strengthen the backstop to the deteriorating position of its low-wage workers. This is of important economic consequence to the workers who would see their wages go up from the minimum wage hike since they typically contribute a significant share to the earnings and incomes of their households they help maintain. Moreover, once we consider the actual costs of raising the state minimum to Connecticut's businesses, it becomes clear that the proposal poses no real threat of inflation or employment losses.

Thank you for the opportunity to testify before you today. I would be happy to answer any of your questions.