House General, Housing & Military Affairs Committee
Re: H.552, Minimum Wage
March 28, 2014

Good morning. My name is Jack Hoffman. I'm an analyst with Public Assets Institute, a non-profit, non-partisan organization based in Montpelier that focuses on state fiscal policy. Thank you for the opportunity to be here today.

I'm here today in support of H.552. However, I would urge the committee to view this bill not so much as raising the minimum wage as beginning to move Vermont toward ensuring that a full-time job produces a decent standard of living. I would suggest the ultimate goal should be that a full-time worker in Vermont can earn at least enough to support a family and meet basic needs.

I've read the report prepared for the Joint Fiscal Office that analyzes the effect of increasing the minimum wage to $10.10 and also to $12.50. I know that report raises some questions about going to the higher minimum wage. But I would refer you to the study done by two economists at the Political Economy Research Institute (PERI) at the University of Massachusetts at Amherst, Jeannette Wicks-Lim and Jeffrey Thompson. It's titled "Combining Minimum Wage And Earned Income Tax Credit Policies To Guarantee A Decent Living Standard To All U.S. Workers." Public Assets has worked with PERI, and these economists in particular, for several years. They are both well regarded, and we have cited PERI's reports on such subjects as tax flight, economic development and tax credits, and income inequality. Jeffrey Thompson has left PERI and now works with the Federal Reserve in Washington, D.C.

I won't pretend to speak for Jeannette or Jeff. But I can try to highlight some points they make in their paper that could bear on your discussion:

- The authors describe the minimum wage and the Earned Income Tax Credit as working in tandem "with the strengths of one policy making up for the weaknesses of the other."
- The goal of their proposal is to "guarantee decent living standards for all full-time U.S. workers and their families."

- A critical factor the authors identified and analyzed was what they called the “minimum wage tipping point”—the point at which a hike in the minimum wage pushes businesses to reduce hours or lay off employees.
- This report was done in October 2010. At that time, the authors concluded that the once the country had recovered from the Great Recession, the federal minimum wage could be increased to $12.30 from $7.25 “before hitting the tipping point.”
- To complement what would be a 70 percent increase in the federal minimum wage, the authors also recommended an 80 percent increase in the maximum federal earned income credit and an increase in the amount of income a family could earn and still qualify for the credit.

We had arranged to make Jeannette available to answer questions from the committee on Tuesday. Unfortunately, she has other commitments and is not available today. I did speak with her about this proposal. Her suggestion was that you do some further Vermont specific-analysis, which I believe Tom Kavet also recommended. But Jeannette said she wouldn’t reject an increase to $12.50 unless analysis showed it would hit the tipping point. Another option would be to phase in a larger increase, along with other adjustments to Vermont’s EITC, in order to insure a livable income for people working full-time jobs.

I would like to make two other points.

The governor has proposed raising the minimum wage to $10.10 by 2017. Going to $10.10 would be an improvement over the inflation-adjusted minimum wage we have now. As noted in the report by Tom Kavet’s and Deb Brighton, our minimum wage would rise to about $9.35 in 2017 based on current inflation projections. So $10.10 would be a bit better. But if we look at Vermont’s minimum wage in 1968 and adjust it to 2017 dollars, it would be worth $10.14. In other words, with the governor’s proposal, Vermont would have gone 50 years without a real increase in the minimum wage.

Finally, Vermont, like the rest of the country, is suffering from the growth in income inequality. The chart below shows that for 50 years following the Great Depression we saw a steady narrowing of the income gap between rich and poor. In 1981 in Vermont, the top 1 percent of taxpayers was receiving about 6 percent of the income. Since then, the gap has widened. In 2006, the share going to the top reached a new high—more than 20 percent.

Raising the minimum wage alone isn't going to close the income gap. There are many other steps that need to be taken. But a higher minimum wage can play a part, especially if policy makers and political leaders talk about providing a livable income as part of a broader discussion aimed at reducing income inequality.