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Sent: Friday, March 30, 2018 3:00 PM

Subject: Committee testimony follow-up

When I testified to the House General Committee on Wednesday on S. 40, the question came up whether there was any research indicating that minimum wage increases lead to a decrease in income inequality. I wanted to follow up with some information that I think might be helpful to the committee.

There is clear evidence that increases in the minimum wage decrease wage inequality. As we discussed in committee, for most Vermonters wages are the only income they have. Unearned income - capital gains and other investment sources - primarily goes to those whose wages already put them at the top. Minimum wage research tends to focus on the impact of the changes on low-wage workers, and the vast body of research shows that those workers as a whole are better off. While the minimum wage is a critical part of the package, to really address income inequality we would also need to tackle those factors that have caused the wealthy to pull away from the middle - things like preferential tax treatment for capital gains, excessive CEO pay, etc. Links to some relevant research are below.

1. Policy brief on the topic of the minimum wage and inequality generally here:

<http://equitablegrowth.org/research-analysis/reversing-inequality-at-the-bottom-the-role-of-the-minimum-wage/>

2. Dinardo, Fortin, Lemieux (1995) - <http://www.nber.org/papers/w5093>

- shows that the declining value of the minimum wage from 1979 to 1988 was responsible for more than a quarter of the growth in wage inequality for men and for 30 percent of the growth in wage inequality for women over that period.

3. Autor, Manning, and Smith (2016) -

<http://economics.mit.edu/files/3279> - demonstrates that increasing the minimum wage reduces wage inequality.

Found that about 75 percent of the increase in low-end inequality from 1979 to 1991 is due to the decline in the value of the minimum wage, but the decline explains only 45 percent of the increase from 1979 to 2009.

Two recent papers (one just published two days ago) that show that higher minimum wages lead to sizable increases in family incomes at the bottom of the income distribution.

4. Dube (2017): <http://ftp.iza.org/dp10572.pdf> - finds that the decline in the real value of the minimum wage substantially explains the increase in wage inequality.

5. Rinz and Voorheis (2018):

<https://www.census.gov/content/dam/Census/library/working-papers/2018/adrm/carra-wp-2018-02.pdf>

They find that not only do minimum wage increases raise family incomes, they also raise family income growth rates - so 5 years after a MW increase, those lower income families' incomes have grown faster than they would have otherwise.

I hope this is helpful. Please let me know if there are any other questions I can answer as you continue your work on S. 40.

Thank you,

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