

Understanding the Need for Higher Wage Standards

Testimony before the Vermont Senate Economic
Development, Housing, and General Affairs Committee

January 17, 2018

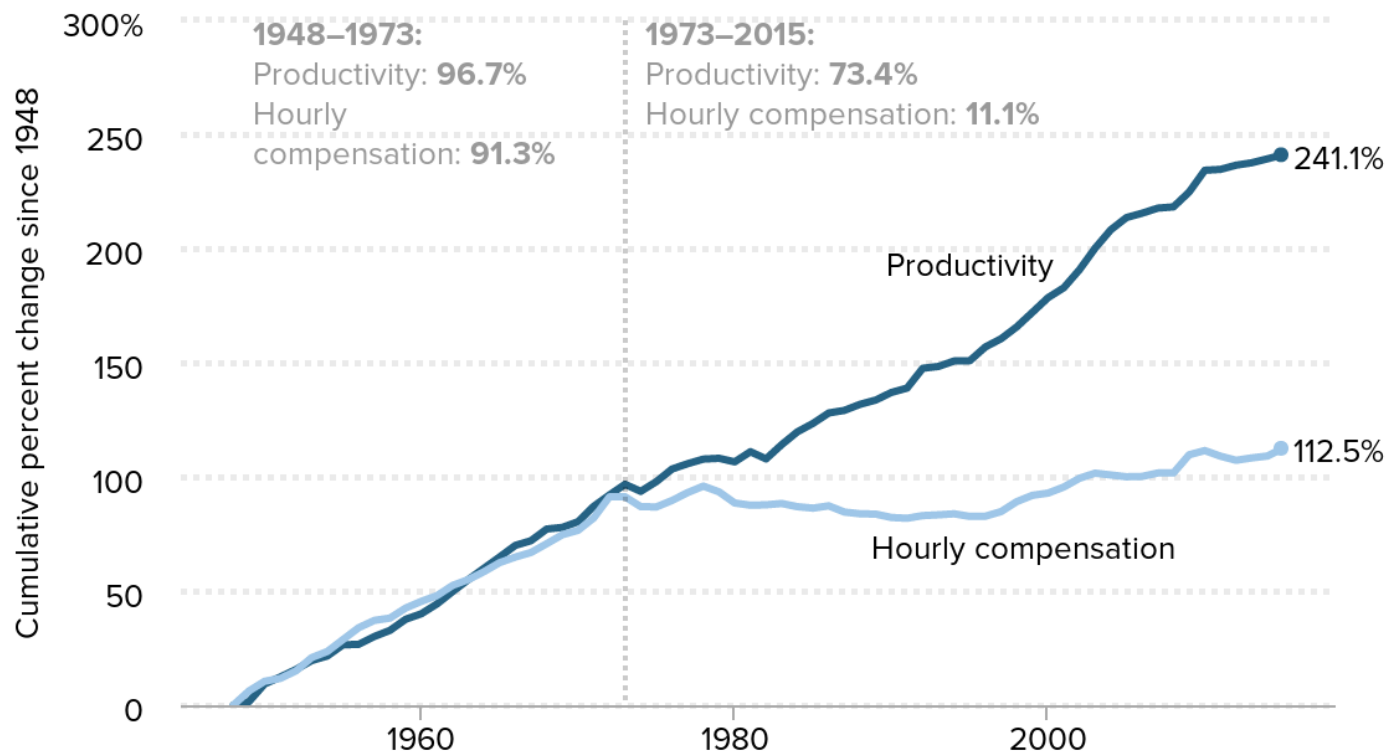
David Cooper
Senior Economic Analyst

Outline

1. The historical context
2. How to evaluate the level of the minimum wage: standard-of-living measures & relative measures
3. Why minimum wage policy is particularly important in Vermont
4. What the research literature says about the impact of higher minimum wages
5. Conclusions

Stagnant pay is the primary U.S. economic challenge

Disconnect between productivity and a typical worker's compensation, 1948–2015



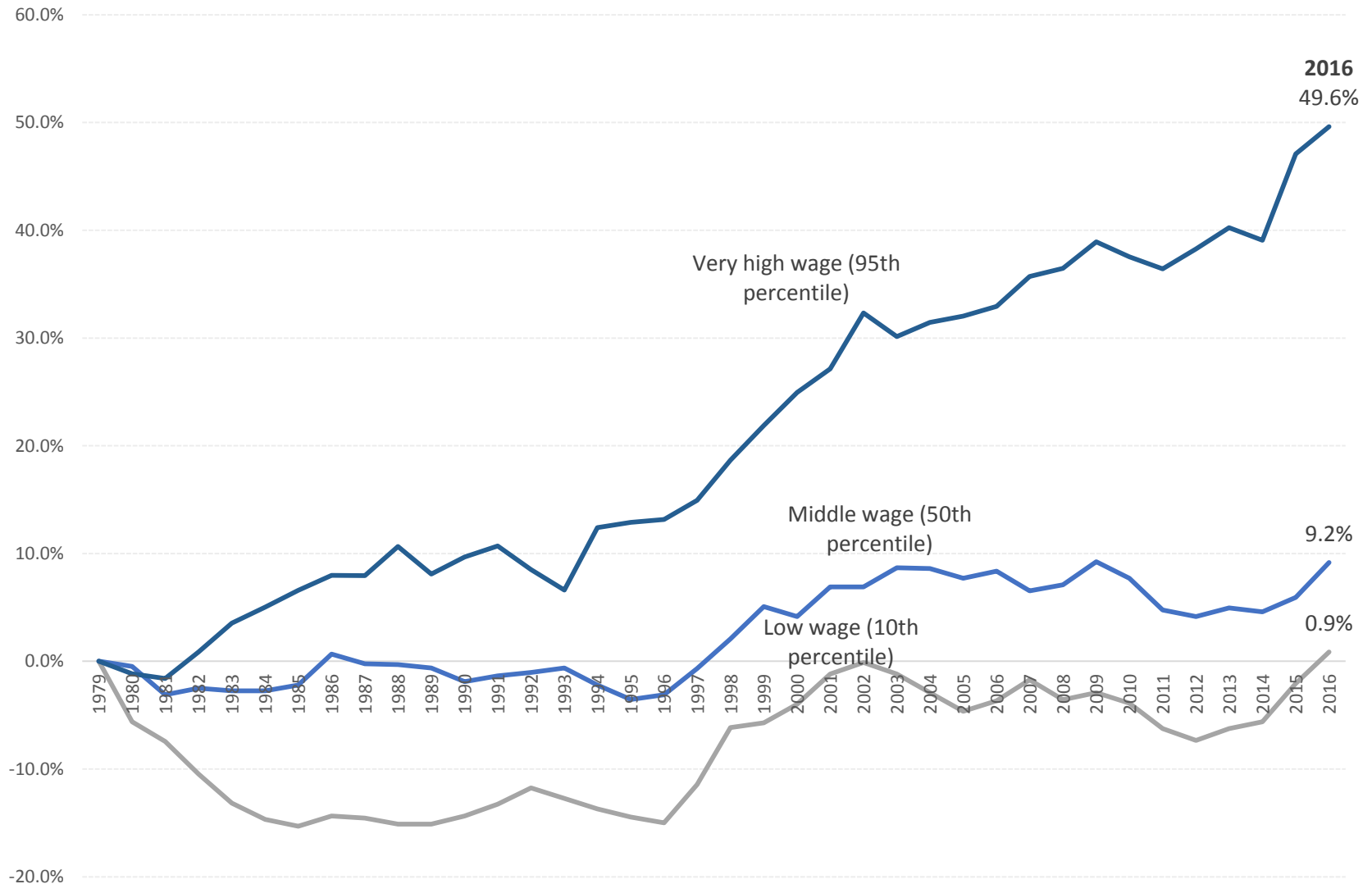
Note: Data are for average hourly compensation of production/nonsupervisory workers in the private sector and net productivity of the total economy. "Net productivity" is the growth of output of goods and services minus depreciation per hour worked.

Source: EPI analysis of data from the BEA and BLS (see technical appendix of *Understanding the Historic Divergence Between Productivity and a Typical Worker's Pay* for more detailed information)

Economic Policy Institute

Since 1979, wages have been flat or falling for low & middle-wage workers

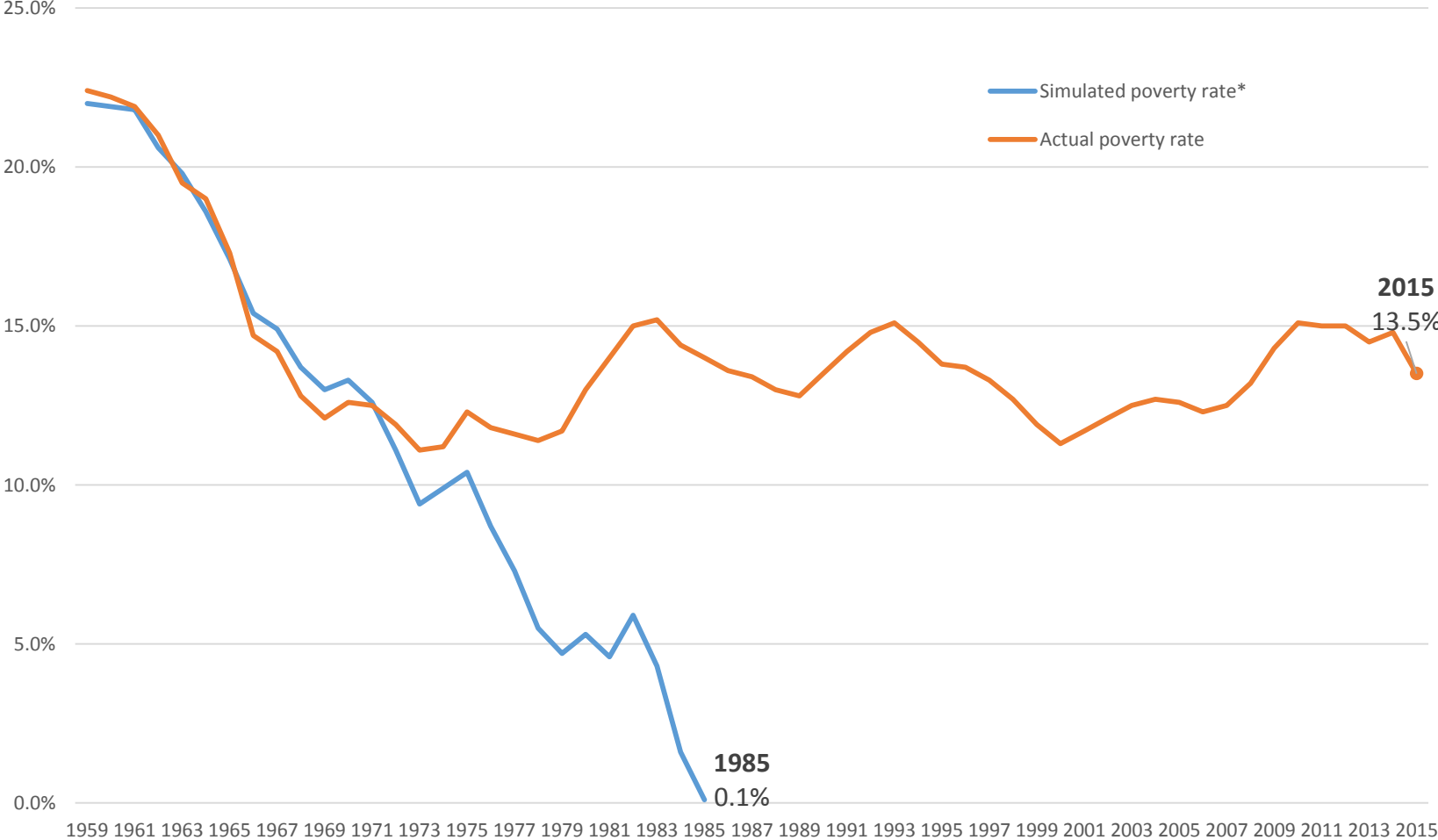
Cumulative change in real hourly wages of all workers, by wage percentile, 1979-2016



Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata, 1979-2015

Progress against poverty stalled

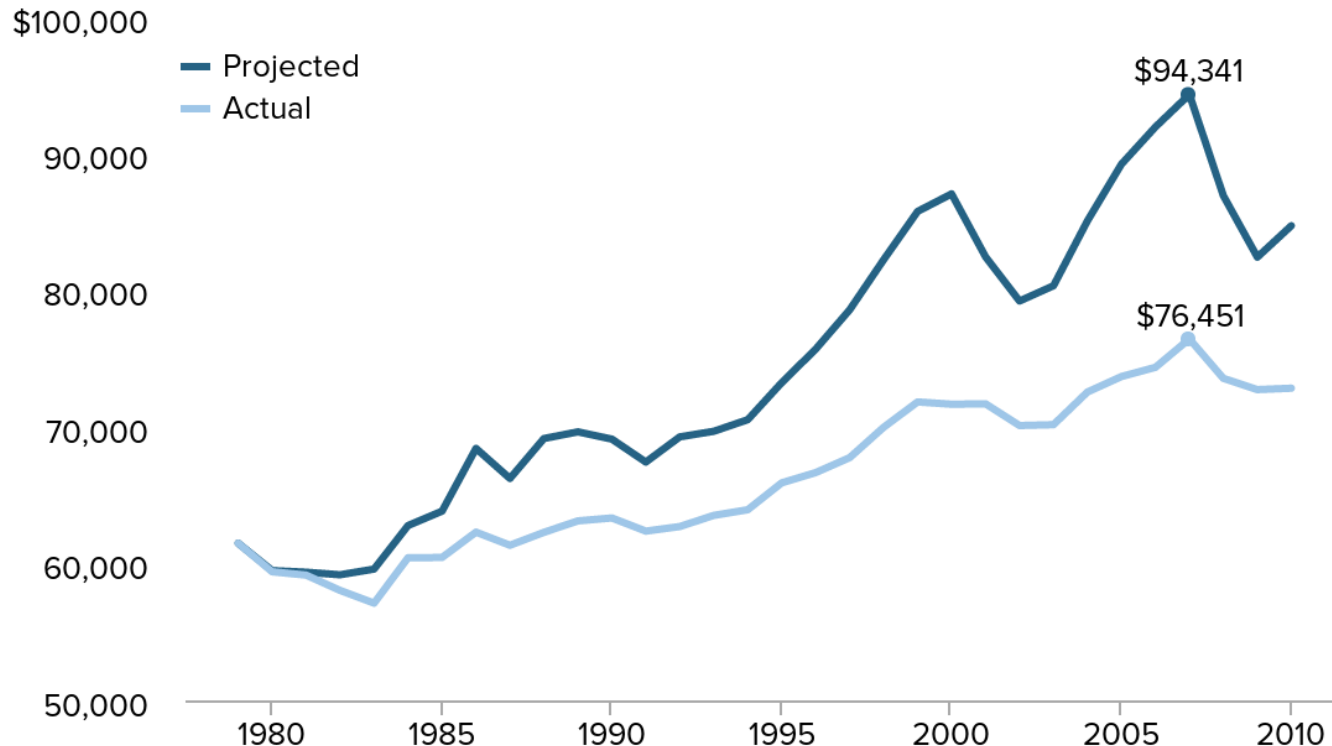
Poverty rate, actual and simulated,* 1959-2015



*Simulated poverty rate is based on a model of the statistical relationship between growth in per capita GDP and poverty that prevailed between 1959 and 1973.

Middle class living standards are far lower than they could have been

Household income of the broad middle class, actual and projected assuming it grew at overall average rate, 1979–2010



Note: Data show average income of 20th–80th percentile.

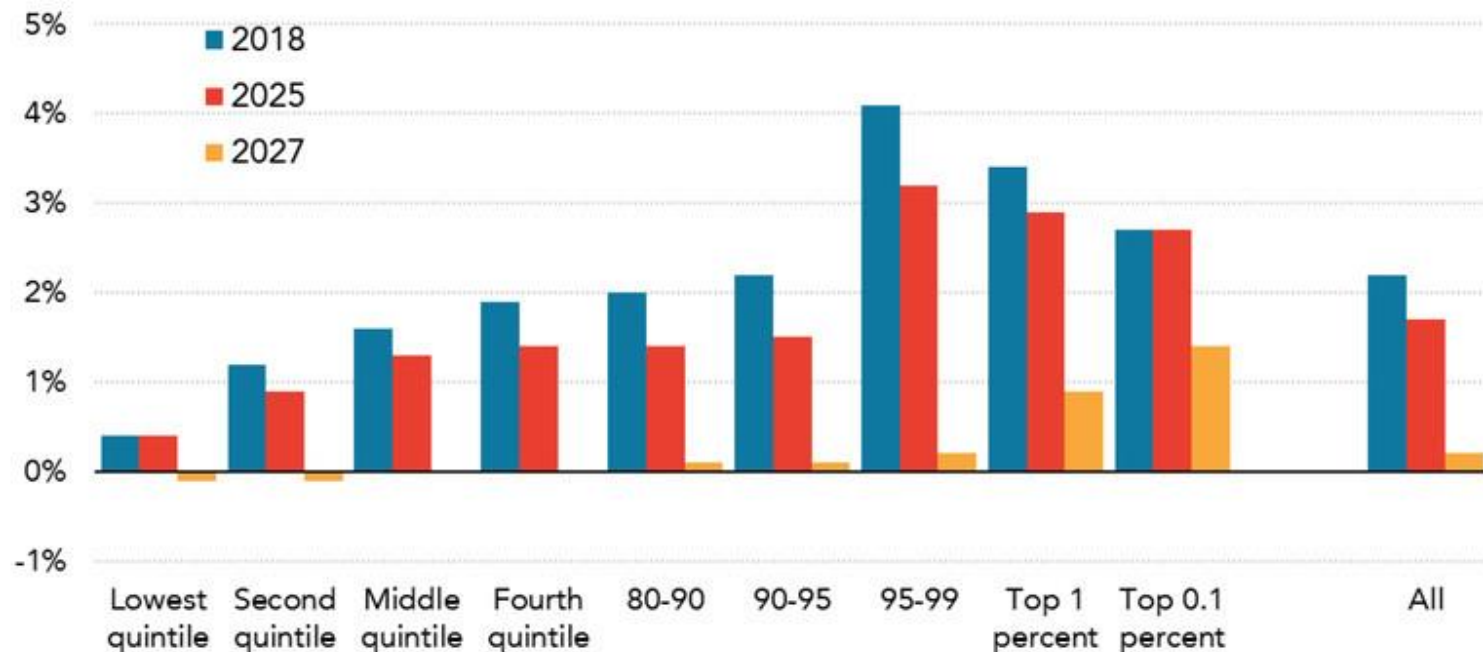
Source: Authors' analysis of Congressional Budget Office (2013)

Economic Policy Institute

Recent tax changes will only exacerbate growing inequality



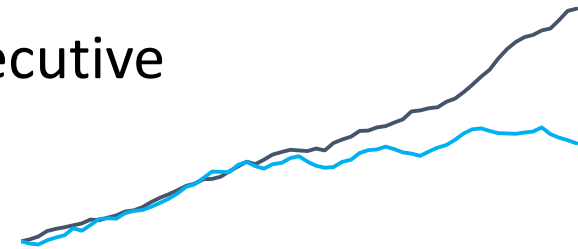
FIGURE 1
Percent Change in After-tax Income of the
Conference Agreement for the Tax Cuts and Jobs Act
By expanded cash income percentile, 2018, 2025, and 2027



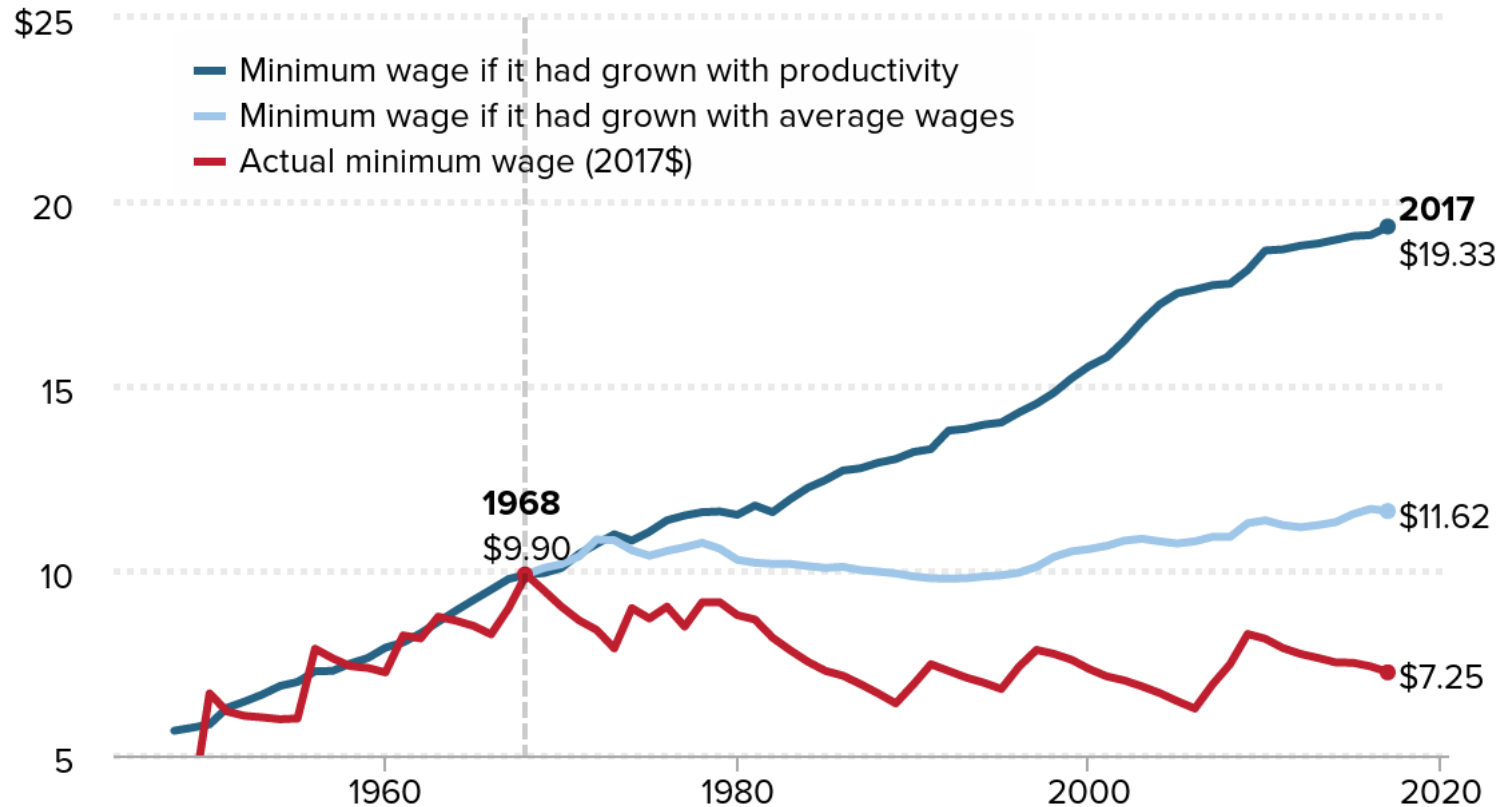
Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

Why the breakdown between productivity and wages?

- “Globalization” = exposure to global manufacturing competition without protections for domestic workers
- Decline of unionization/collective bargaining
- Too many periods of high unemployment, in part due to Fed prioritizing low inflation over full employment
- Rise of financial sector & explosion of executive compensation
- **Labor policy actions/inaction that reduced worker bargaining power (e.g., erosion of the minimum wage)**



The federal minimum wage would be much higher if it had kept up with a growing economy



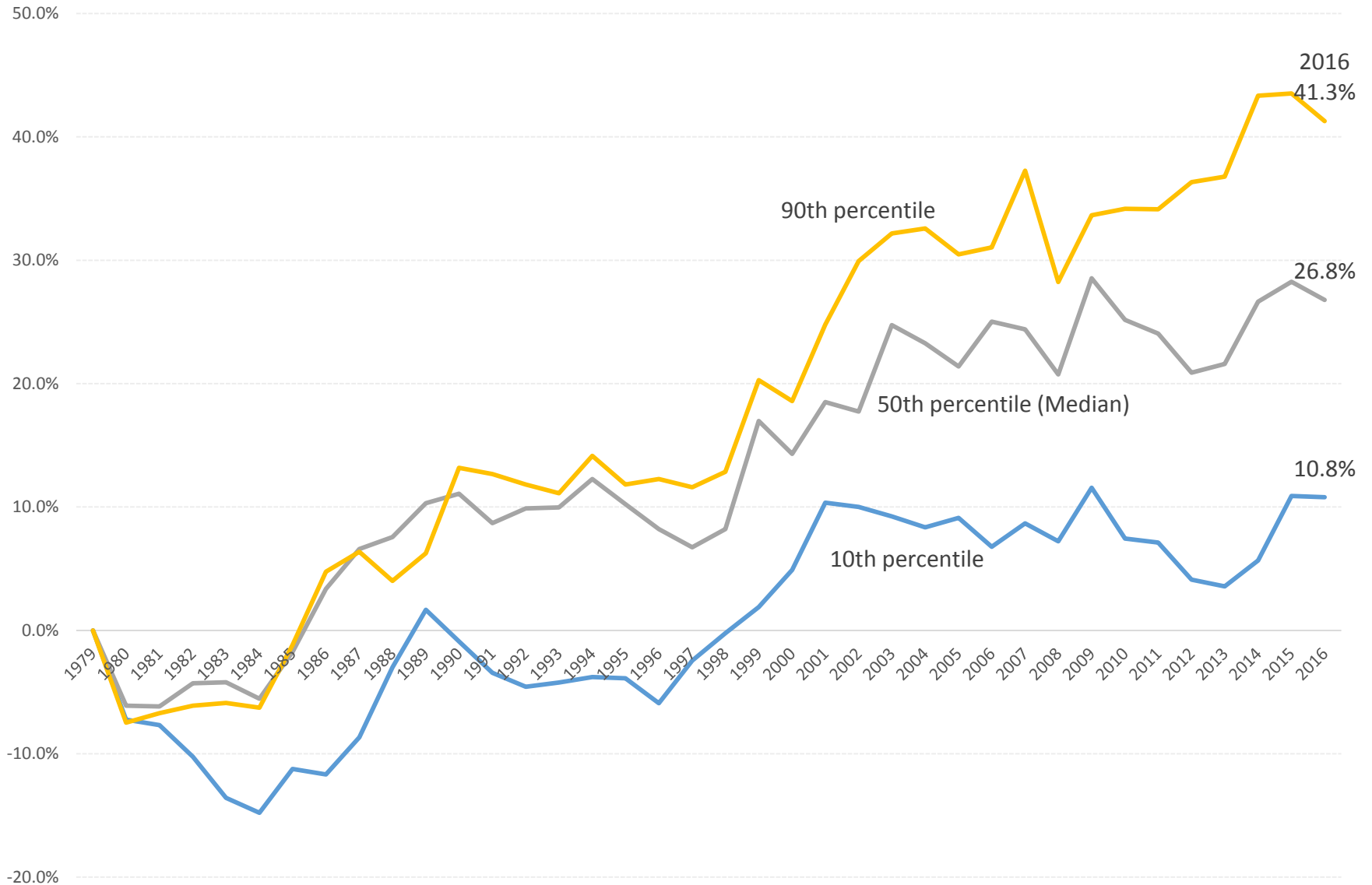
Note: Growth in average wages measures average wages of production workers. Inflation measured using the CPI-U-RS and the CPI projection for 2017 from CBO (2017). Productivity is measured as total economy productivity net depreciation.

Source: EPI analysis of the Fair Labor Standards Act and amendments. Total economy productivity data from the Bureau of Labor Statistics Labor Productivity and Costs program. Average hourly wages of production nonsupervisory workers from the Bureau of Labor Statistics Current Employment Statistics.

Economic Policy Institute

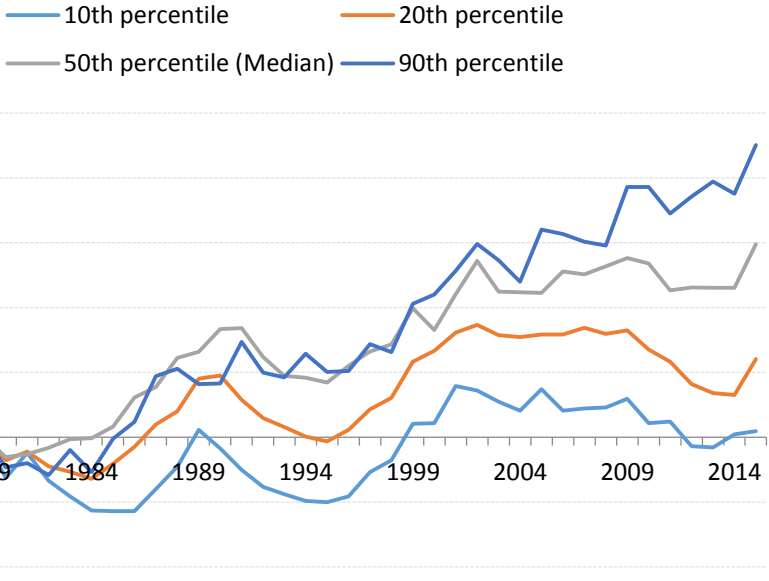
VT wage growth better than US; still flat at bottom since 2000

Cumulative change in real hourly wages in VT by percentile, 1979-2016

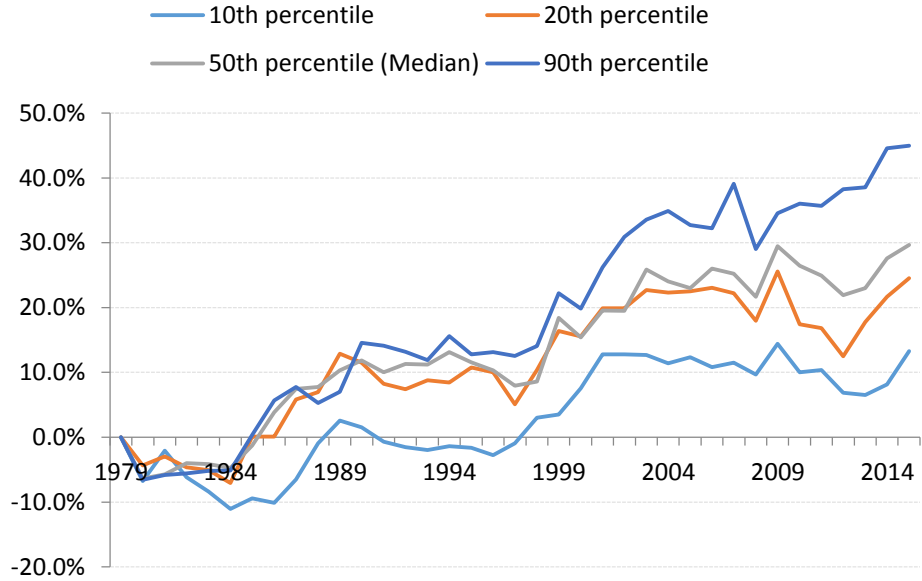


Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata, 1979-2016
Economic Policy Institute

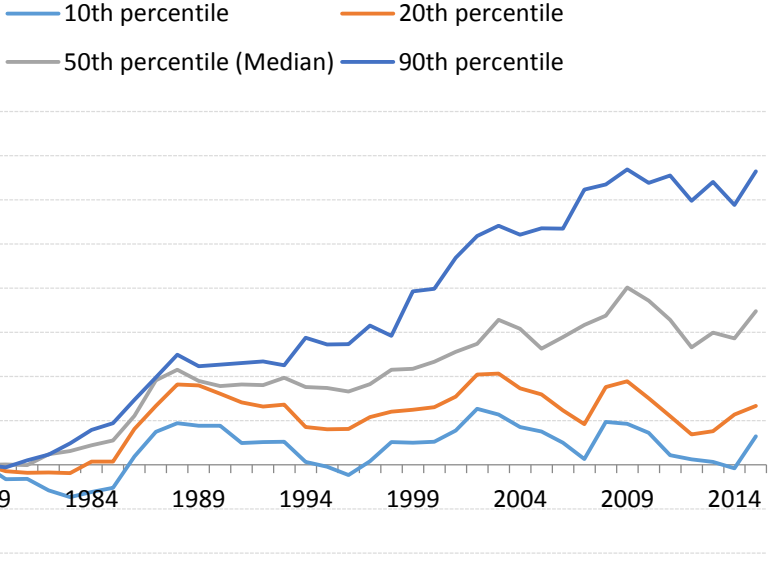
ME



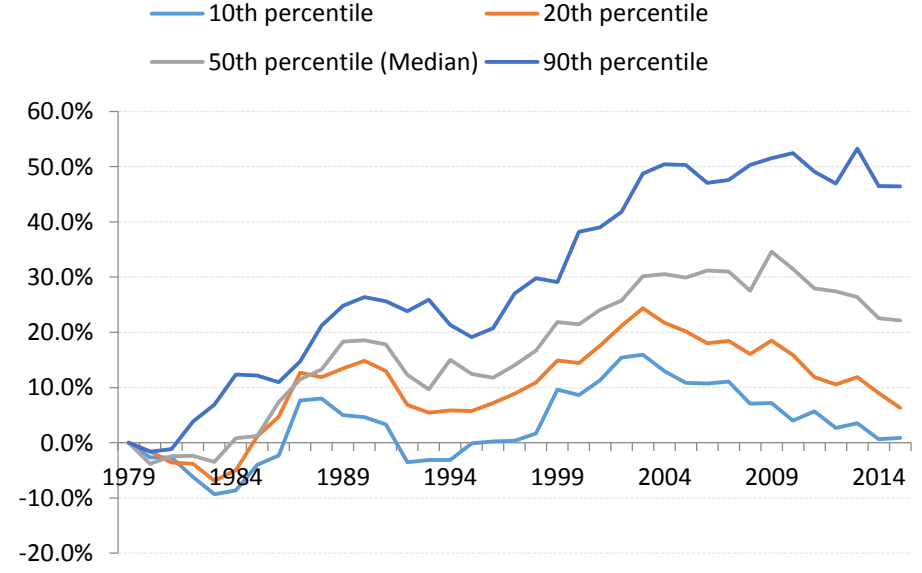
VT










MA



NH

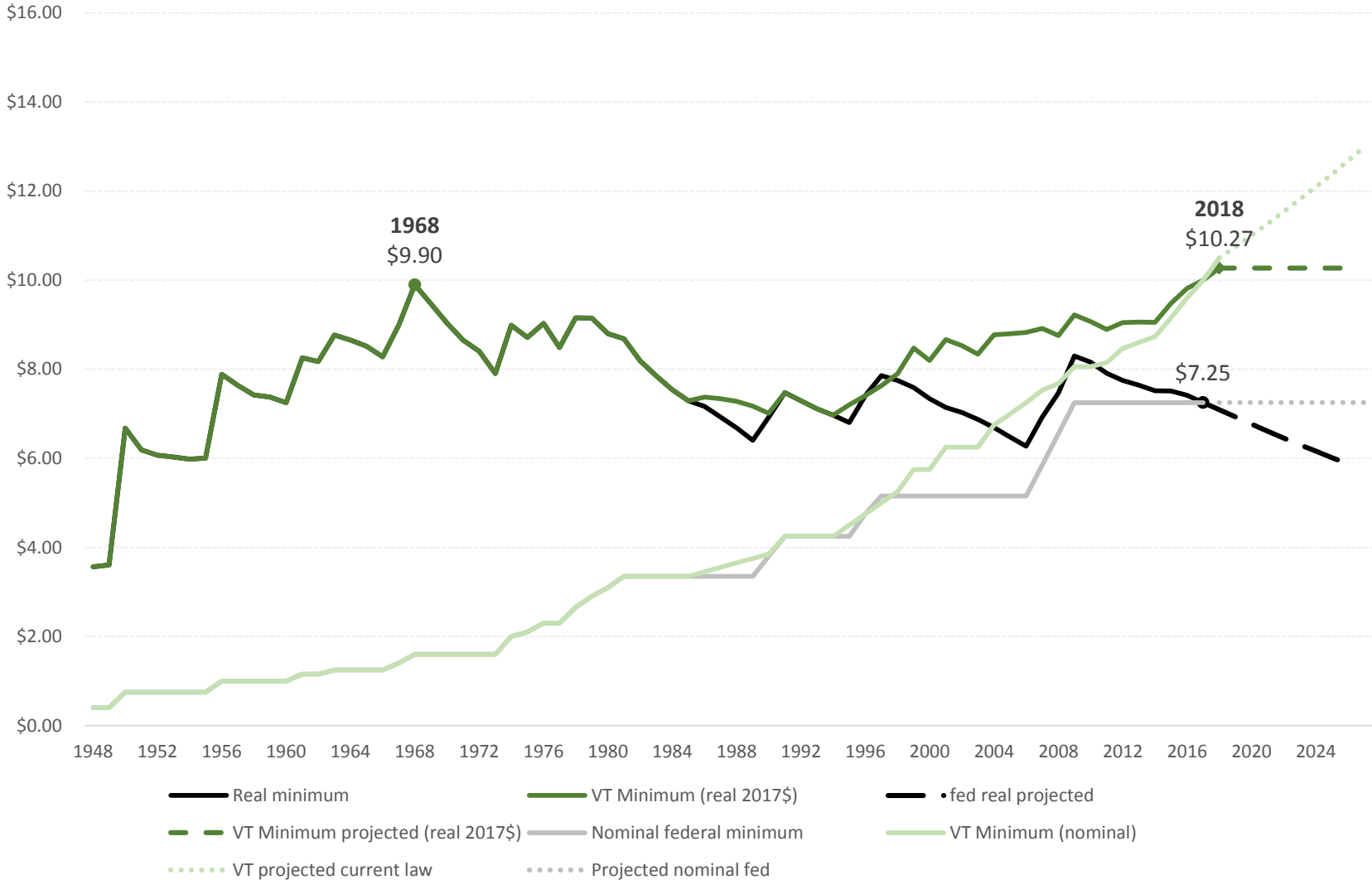


A modest, but adequate standard of living in VT requires more than \$15/hour today

MONTHLY COSTS			
	1 adult <i>and</i> no children Rural Vermont	1 adult <i>and</i> 1 child Rural Vermont	2 adults <i>and</i> 2 children Rural Vermont
 HOUSING	\$609	\$835	\$835
 FOOD	\$271	\$399	\$782
 CHILD CARE	\$0	\$612	\$1,015
 TRANSPORTATION	\$570	\$575	\$723
 HEALTH CARE	\$401	\$741	\$1,130
 OTHER NECESSITIES	\$425	\$596	\$781
 TAXES	\$439	\$699	\$667
Monthly Total	\$2,715	\$4,457	\$5,933
Annual Total	<u>\$32,574</u>	<u>\$53,488</u>	<u>\$71,197</u>
Full-time hourly wage	\$15.66	\$25.71	\$17.11

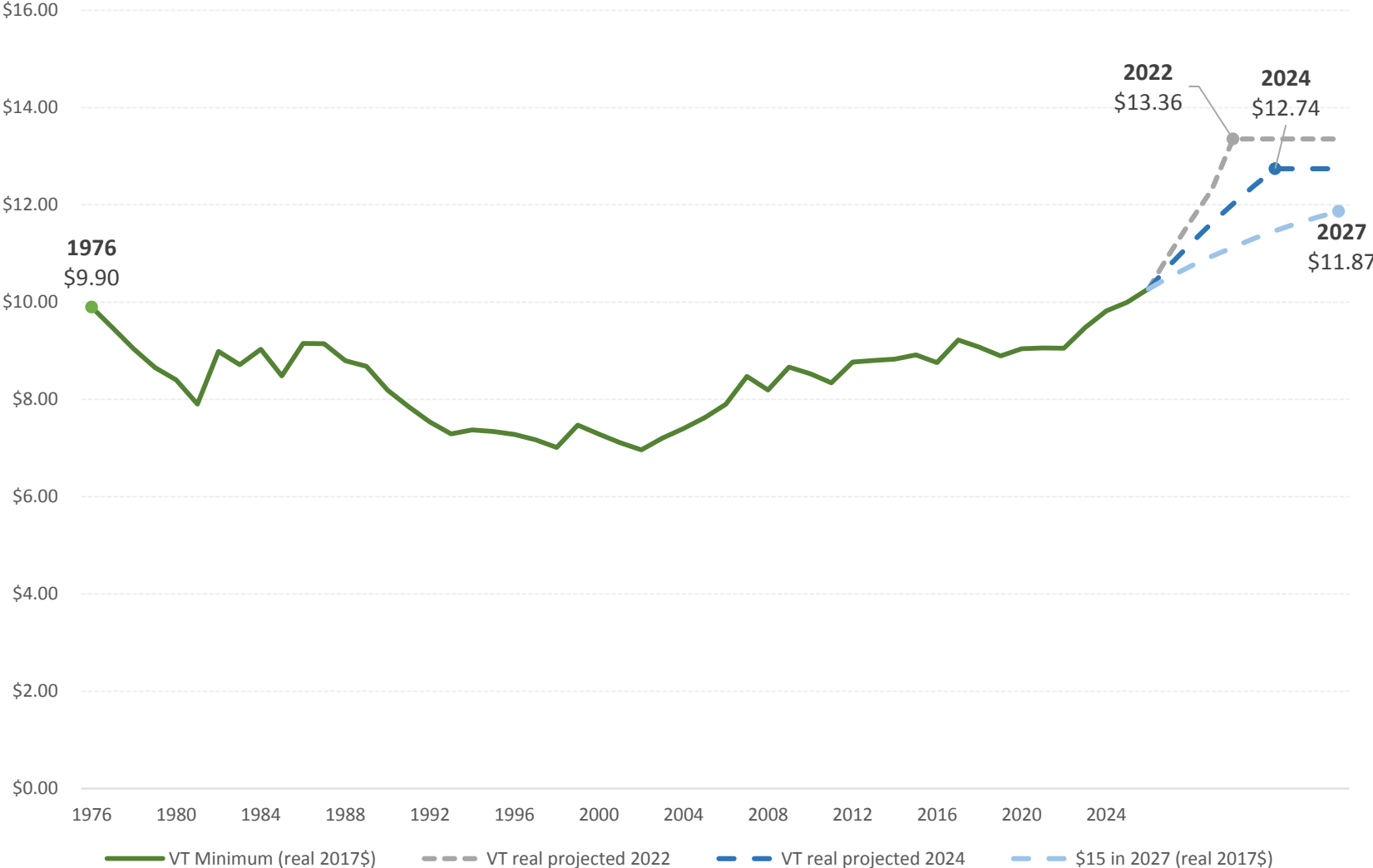
Standard-of-living measures of the minimum wage

Nominal and real value (2017\$) of the federal and Vermont minimum wages, 1948-2026



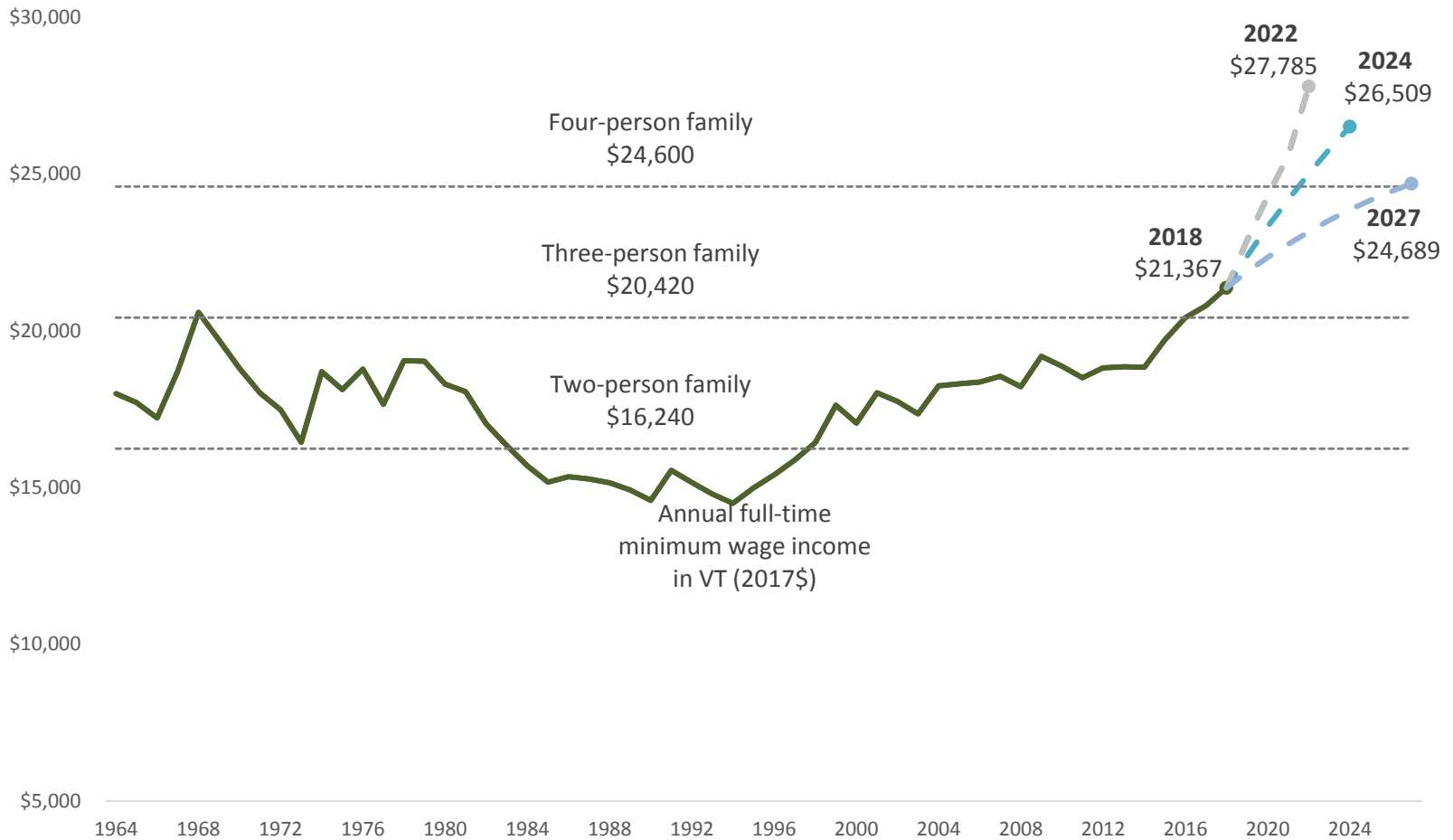
Standard-of-living measures of the minimum wage

Nominal and real (2017\$) value of the Vermont minimum wage, 1968-2017, and projected under increases to \$15 by 2022, 2024, and 2027



At \$15 in 2022-2024, the Vermont minimum wage would no longer be a poverty wage

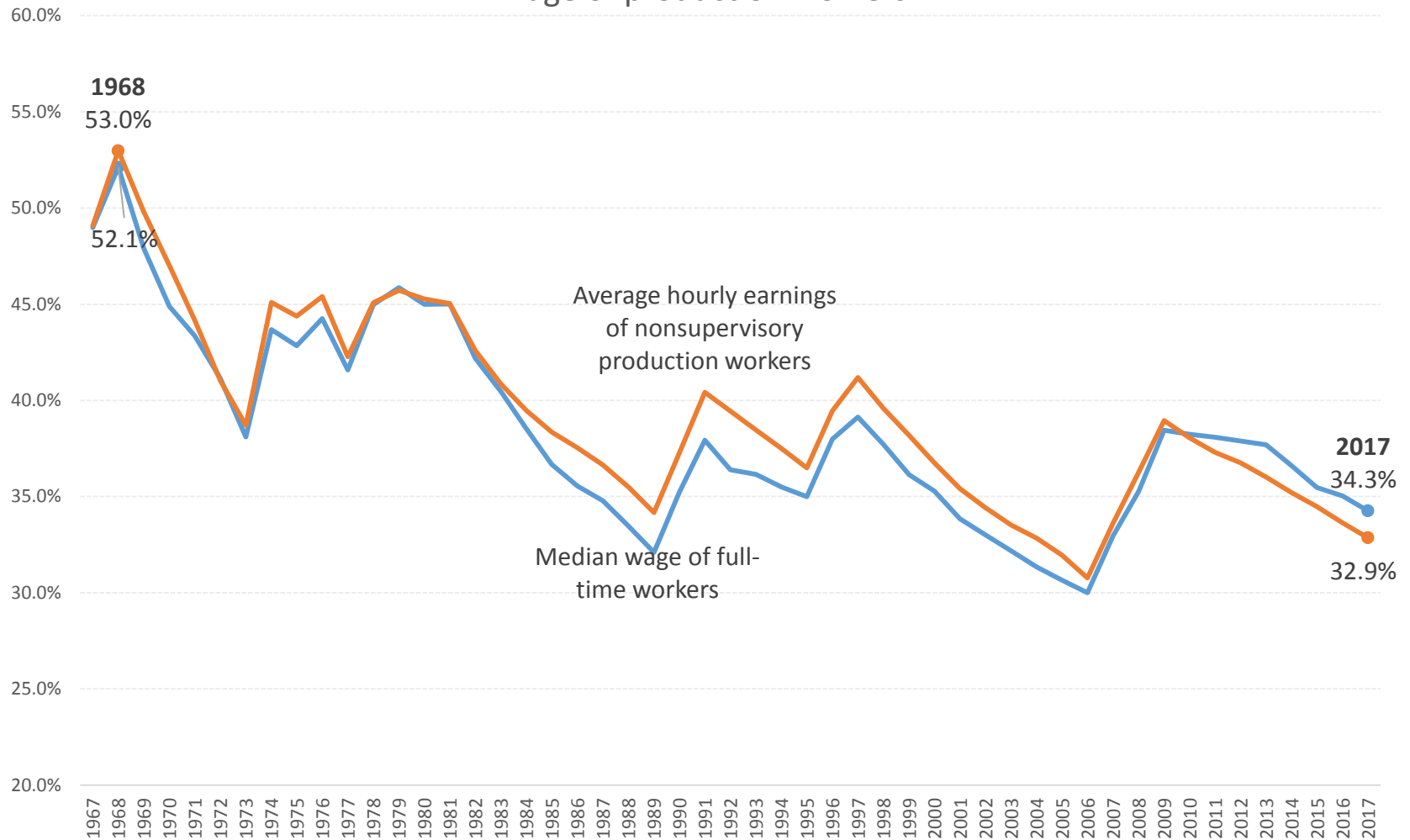
Annual wage income for a full-time VT minimum-wage worker, compared with various poverty thresholds, 1964-2017 and 2018-2027 (projected)



Note: Inflation measured using the CPI-U-RS. Inflation projections calculated using CBO (2017).

Minimum wage today is much farther away from “middle class” wages

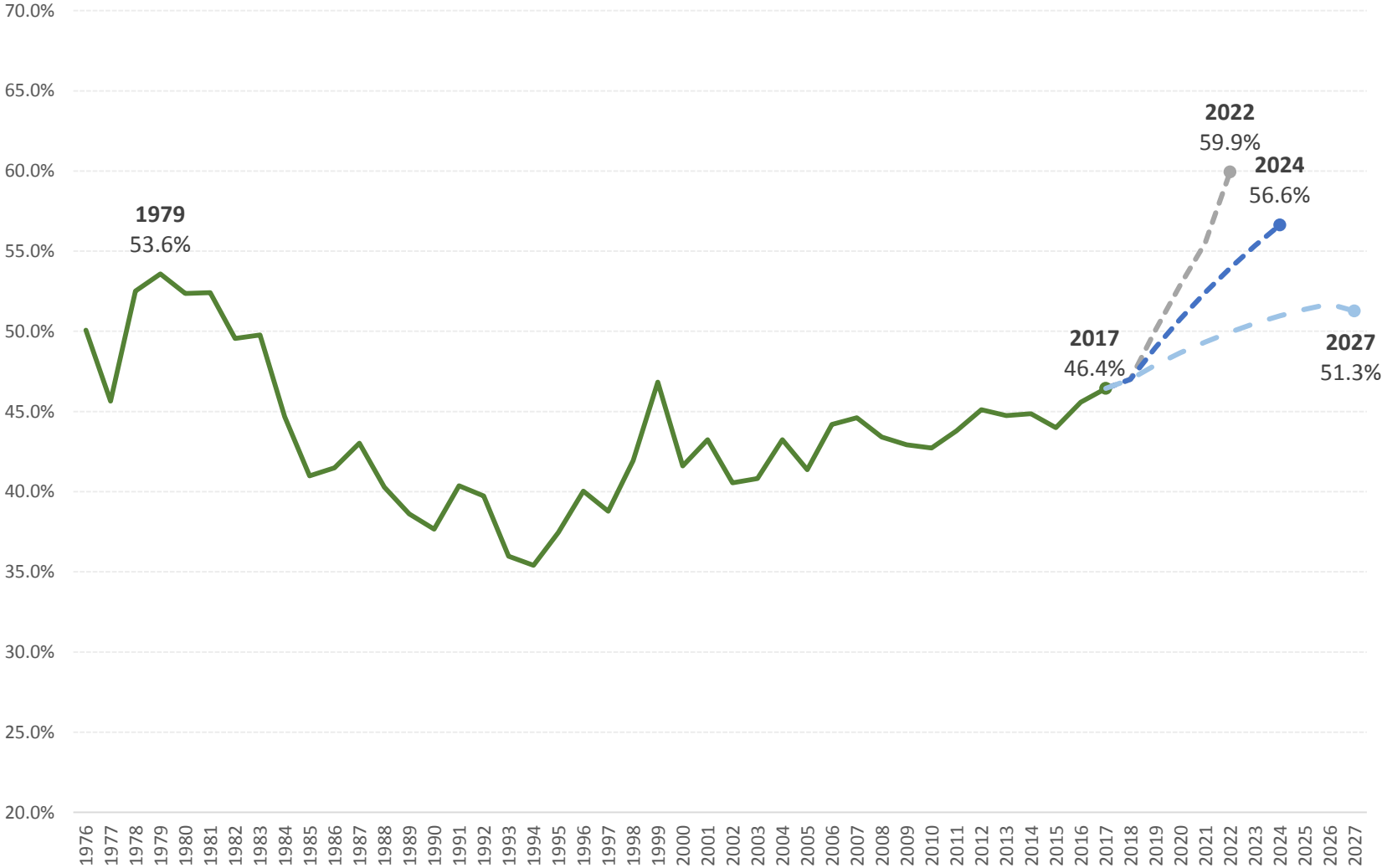
Federal minimum wage as a percentage of the median wage and average wage of production workers



Source: EPI analysis of Current Population Survey Annual Social and Economic Supplement microdata, Bureau of Labor Statistics average hourly earnings of production nonsupervisory workers data

\$15 in 2022/24 would bring low-wage jobs closer to middle wage jobs

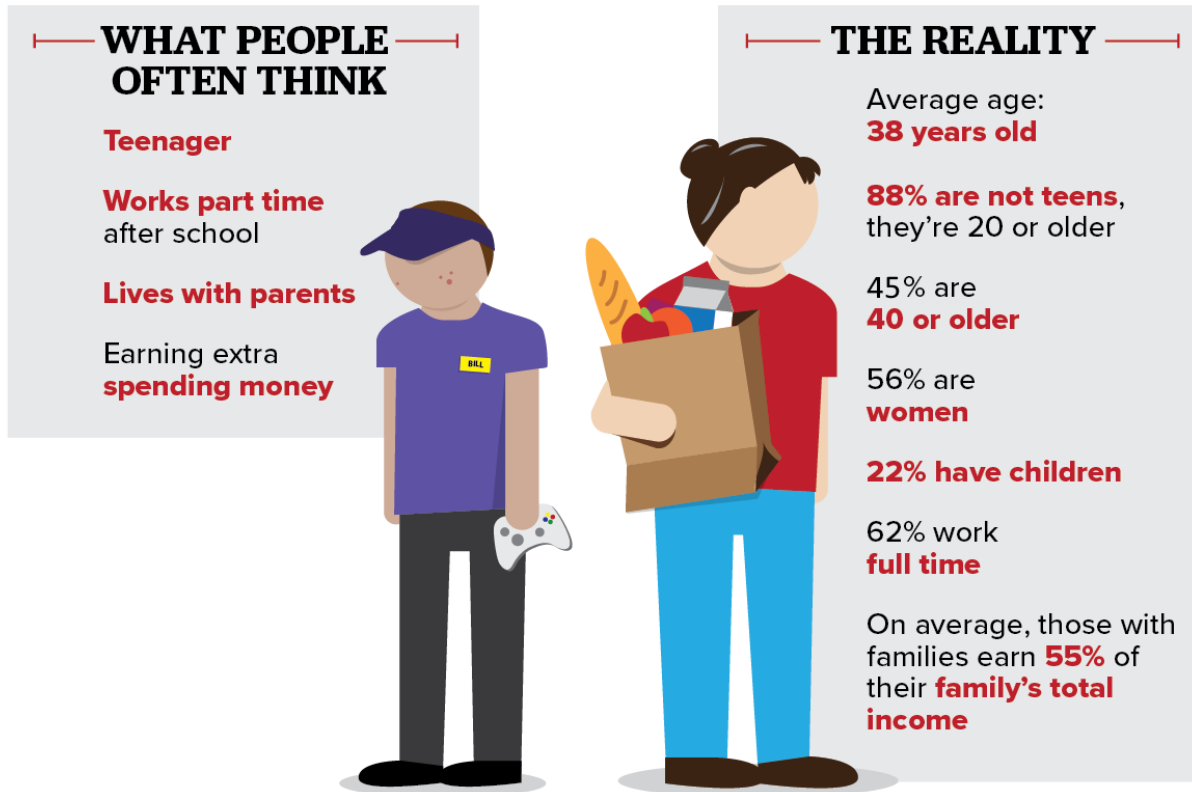
Vermont minimum wage as a percentage of the VT median wage, 1979-2016 and projected 2017-2027 (assuming 0.5% real median wage growth)



Source: EPI analysis of Current Population Survey Annual Social and Economic Supplement microdata

Minimum wage policy is particularly important in Vermont

Who benefits from a higher minimum wage in Vermont?

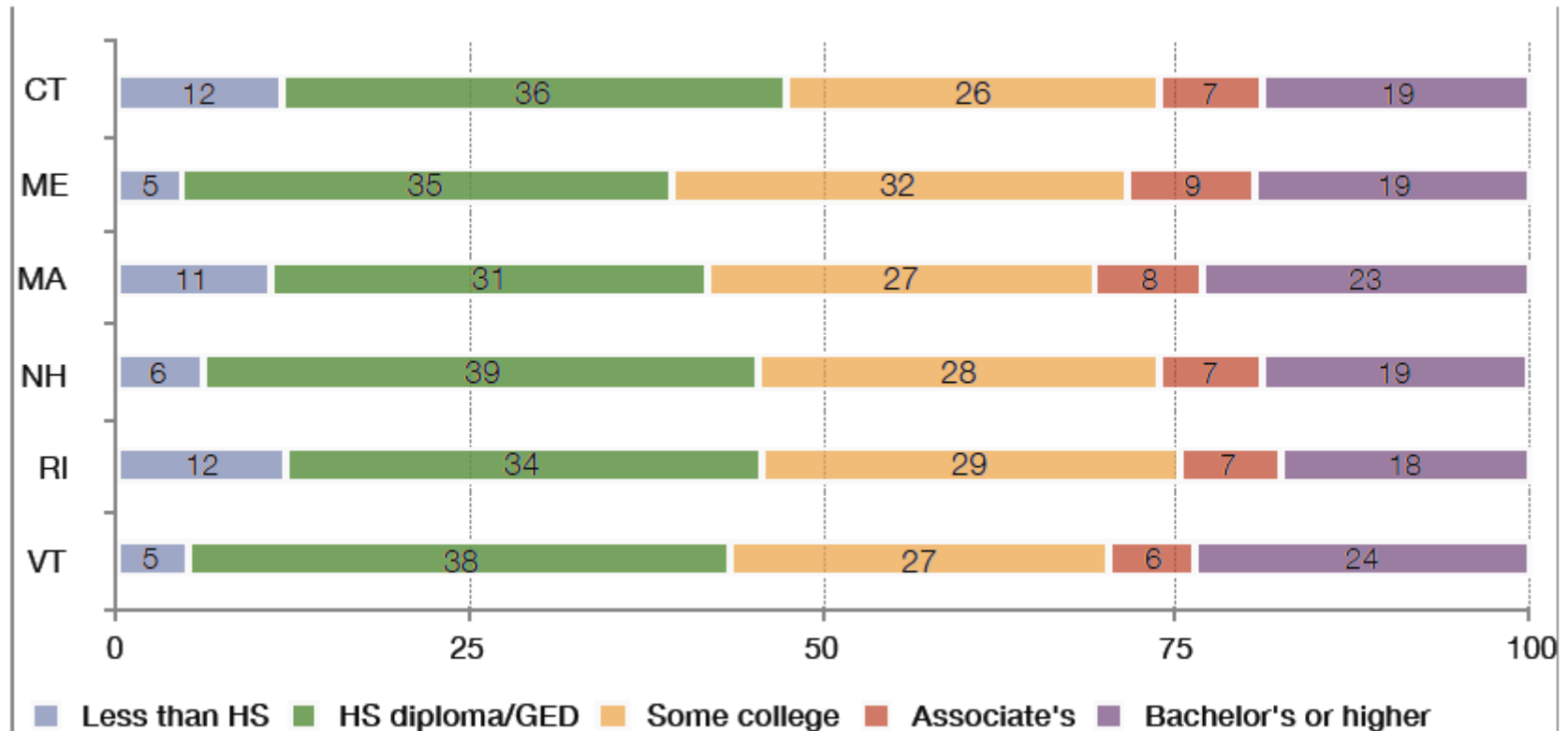


Statistics describe civilian workers, ages 16+, that would be affected by an increase in the Vermont minimum wage to \$15 by 2022.

Economic Policy Institute

Affected workers in VT are more likely to have bachelors degrees than elsewhere in New England

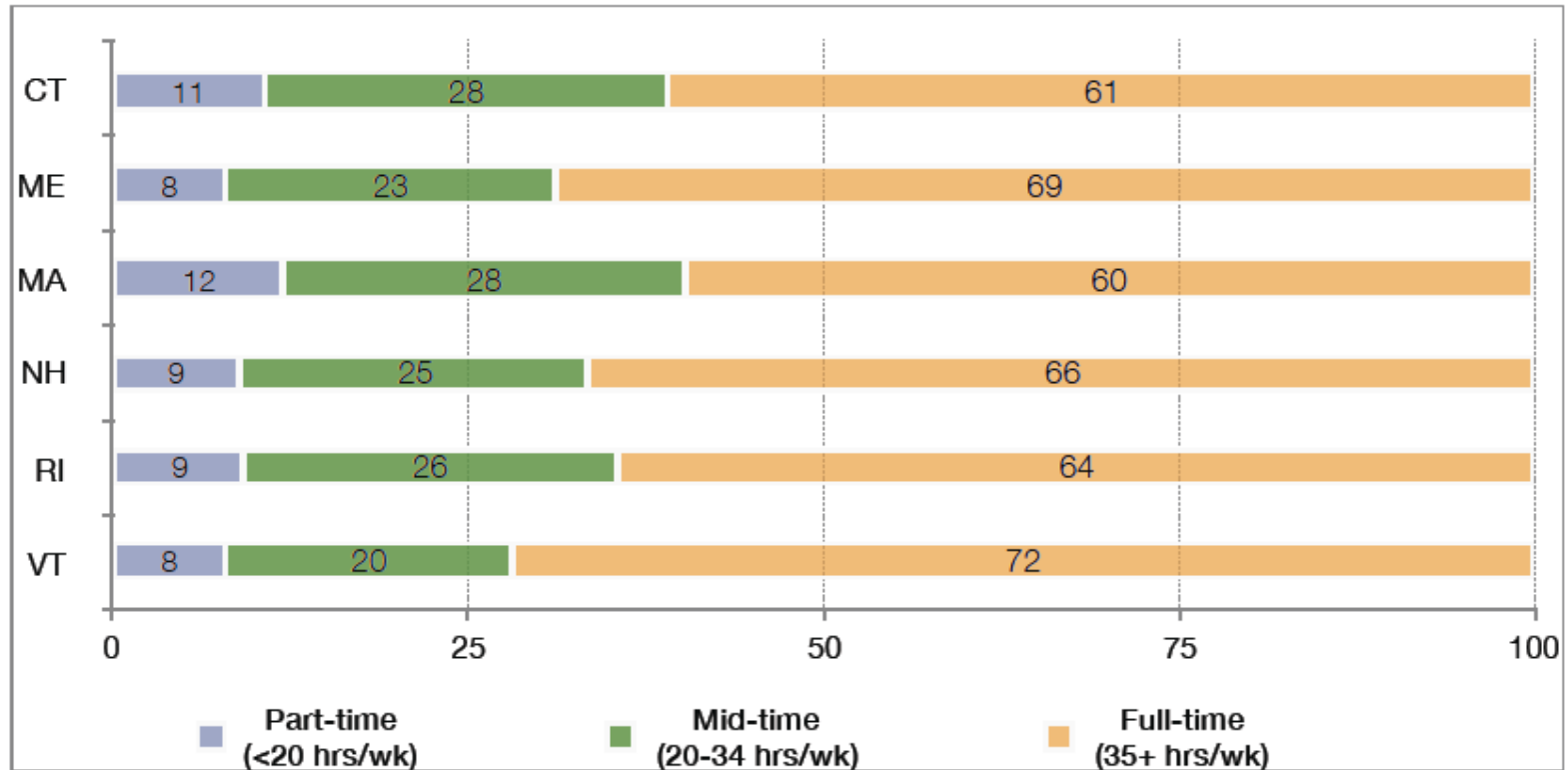
Figure 3: Educational Attainment of the Sub-\$15 Workforce



Source: Chaddha, Anmol. 2016. "A \$15 Minimum Wage in New England: Who would be affected?" Federal Reserve Bank of Boston. <https://www.bostonfed.org/-/media/Documents/Community%20Development%20Issue%20Briefs/cdbrief42016.pdf>

Affected workers in VT are more likely to work full time than elsewhere in New England

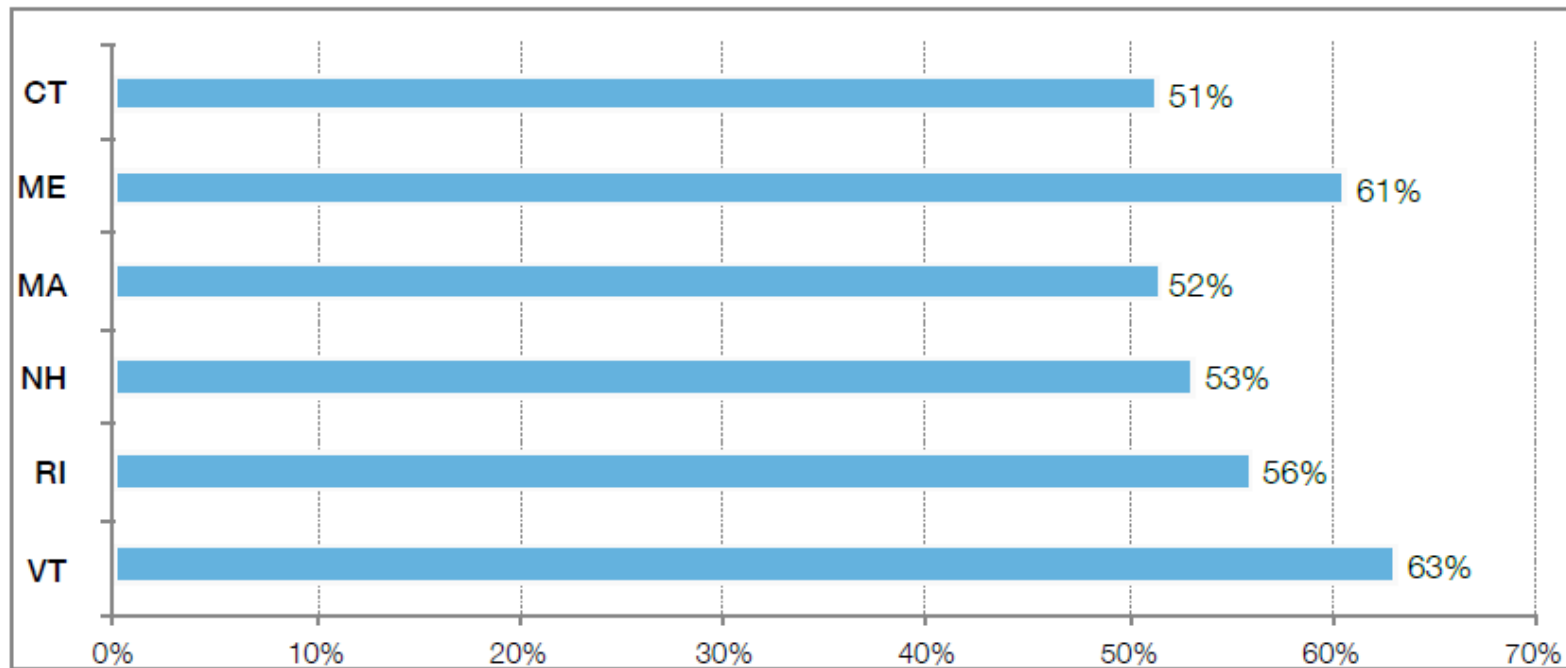
Figure 7: Full-Time and Part-Time Workers in the Sub-\$15 Workforce



Source: Chaddha, Anmol. 2016. "A \$15 Minimum Wage in New England: Who would be affected?" Federal Reserve Bank of Boston. <https://www.bostonfed.org/-/media/Documents/Community%20Development%20Issue%20Briefs/cdbrief42016.pdf>

Affected workers in VT earn a larger share of their family income than elsewhere in New England

Figure 5: Average Share of Total Family Income Provided by Worker Making Under \$15/Hour



Source: Chaddha, Anmol. 2016. "A \$15 Minimum Wage in New England: Who would be affected?" Federal Reserve Bank of Boston. <https://www.bostonfed.org/-/media/Documents/Community%20Development%20Issue%20Briefs/cdbrief42016.pdf>

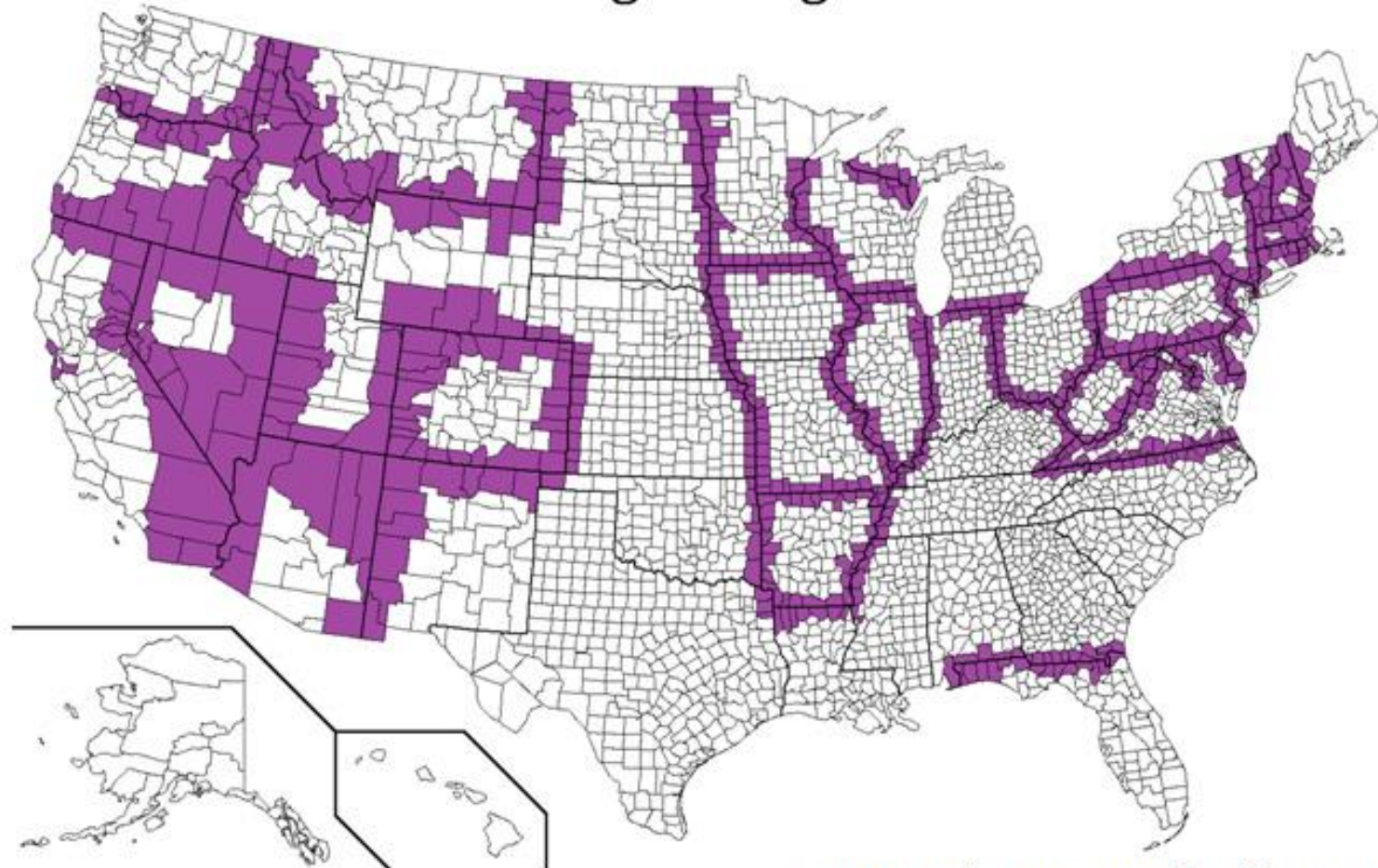
Research on the minimum wage and employment

- Early research 1970s & 1980s – it was thought that higher national minimum wage reduced employment
- 1990s – Many U.S. states set minimum wages above national minimum wage
- Card & Krueger (1995) *Myth and Measurement* – examined minimum wage increase along New Jersey border
 - Employment grew more in NJ border counties than in PA after minimum wage increase



The best research: cross-border comparisons

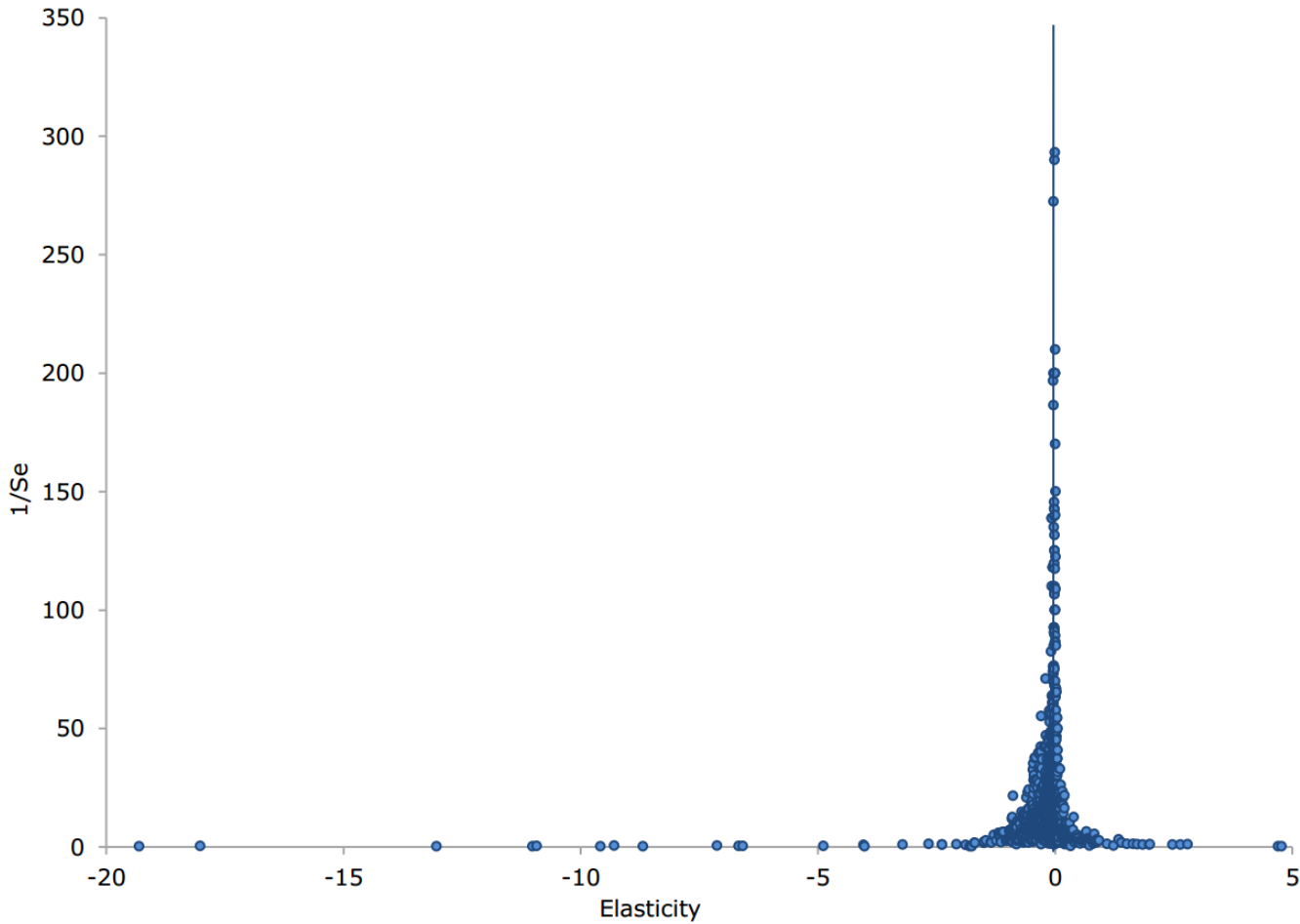
Minimum Wage Effects Across State Borders:
Estimates Using Contiguous Counties



Source: Dube, Lester, and Reich 2010

Meta-studies: Moderate increases in the minimum wage have “little to no effect on employment”

Trimmed Funnel Graph of Estimated Minimum-Wage Effects (n = 1,492)



Source: Doucouliagos and Stanley (2009).

Why no negative effect on jobs?

- Schmitt, John (2013) “Why Does the Minimum Wage Have No Discernible Effect on Employment?”

Channels of adjustment:

1. Reduction in turnover costs (+10% MW → -2.2% in turnover)
2. Improved productivity & efficiency
3. Wage compression
4. Small price increases (+10% MW → 0.3%-1.5%)
5. Increased consumer demand generated by increase to worker spending power

Why policymakers should be bold

- Today's low-wage workers earn less per hour than their counterparts did 50 years ago, but productivity has since nearly doubled
- Past minimum wage increases have been modest and too infrequent, leaving millions earning less than they should be and many without sufficient earnings to afford their basic needs.
- Failures to raise the minimum wage adequately are directly responsible for rising wage inequality between the bottom and the middle class, especially for women

Why policymakers should be bold (cont.)

- \$15 in 2022-24 would finally set the minimum higher than its previous peak in 1968, by roughly 30% in buying power
- \$15 in 2022-24 would raise lowest wage to 56-60% of median wage (3-6 percentage points higher than peak in 1968)
- Research confirms that modest increases in the minimum wage have caused no meaningful negative effects --- this justifies supporting a bolder increase.
- Without bolder increases, we are unlikely to ever achieve a wage floor that affords a decent quality of life
- Claims about “job loss” are misleading – what matters is effects on annual income

Be skeptical about “job loss” claims

- Research has always been clear on wage impacts – less so on employment impacts
- Concerns about “job loss” are really a concern about changes to “total hours of work”
 - In low-wage labor markets, workers are constantly moving in and out of jobs
 - Employers have several margins of adjustment when facing higher labor costs
 - Workers with fewer hours may be working fewer hours per week or fewer weeks per year
- If total hours of work do fall, some workers who work less can still come out ahead with higher total annual income
- Even pessimistic analyses almost always show that the potential benefits (in terms of annual wage increases for all low-wage workers) far outweigh any potential costs

Conclusion

- Lawmakers are right to consider bolder minimum wage increases than have been done before in order to undo decades of damage to low-wage workers
- Minimum wage policy is particularly important in Vermont, as affected workers are typically full-time, prime-age bread winners
- Research confirms that past increases in the minimum wage have caused little, if any, negative effects -- this justifies supporting a bolder increase.
- Claims that there will be job losses mischaracterize any costs and ignore the fact that the potential benefits far outweigh the potential costs

For more information

David Cooper
dcooper@epi.org

Economic Policy Institute

1225 Eye Street, NW, Suite 600
Washington, DC 20005-4707
USA

202.775.8810

www.epi.org