

# Understanding the Need for Higher Wage Standards

Presentation to the VT Minimum Wage Study  
Commission

September 6, 2017

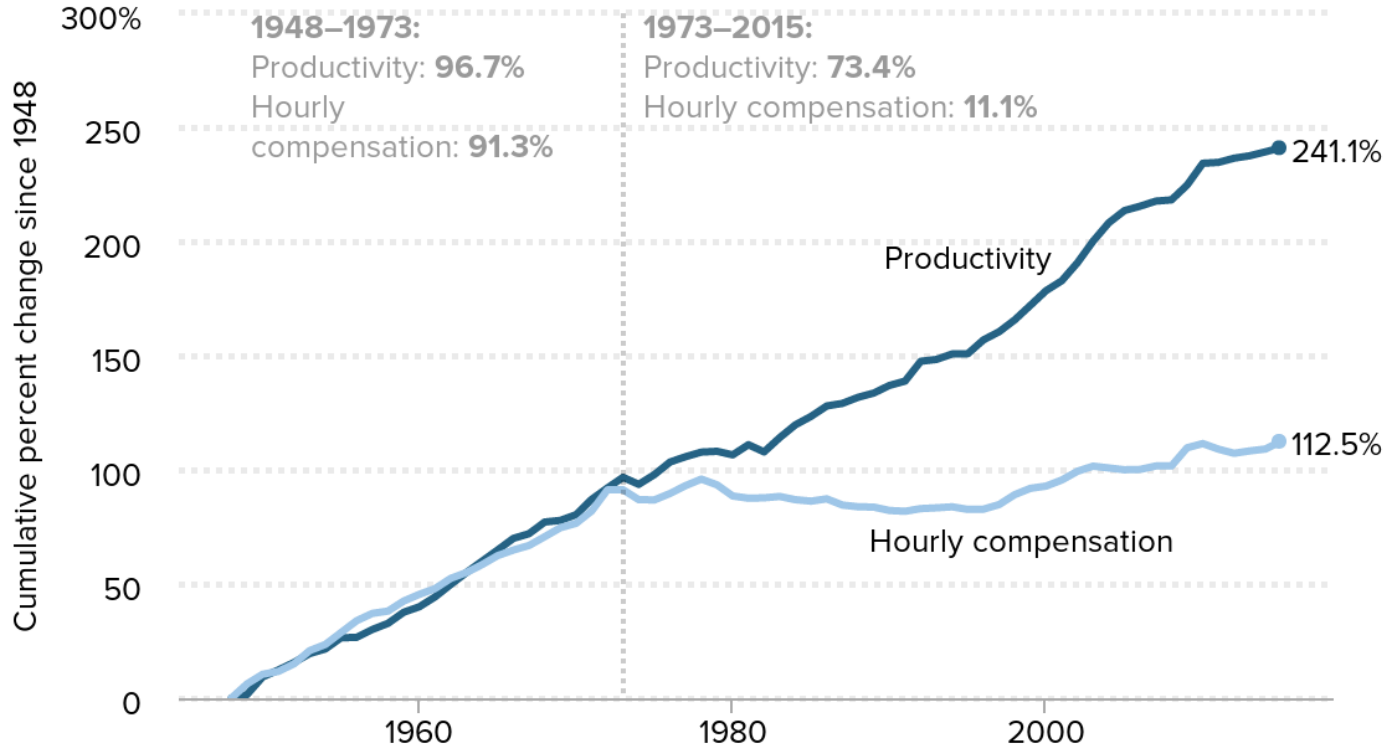
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# Outline

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. Why going beyond the research is okay and how to deal with uncertainty

# Stagnant pay is the primary U.S. economic challenge

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



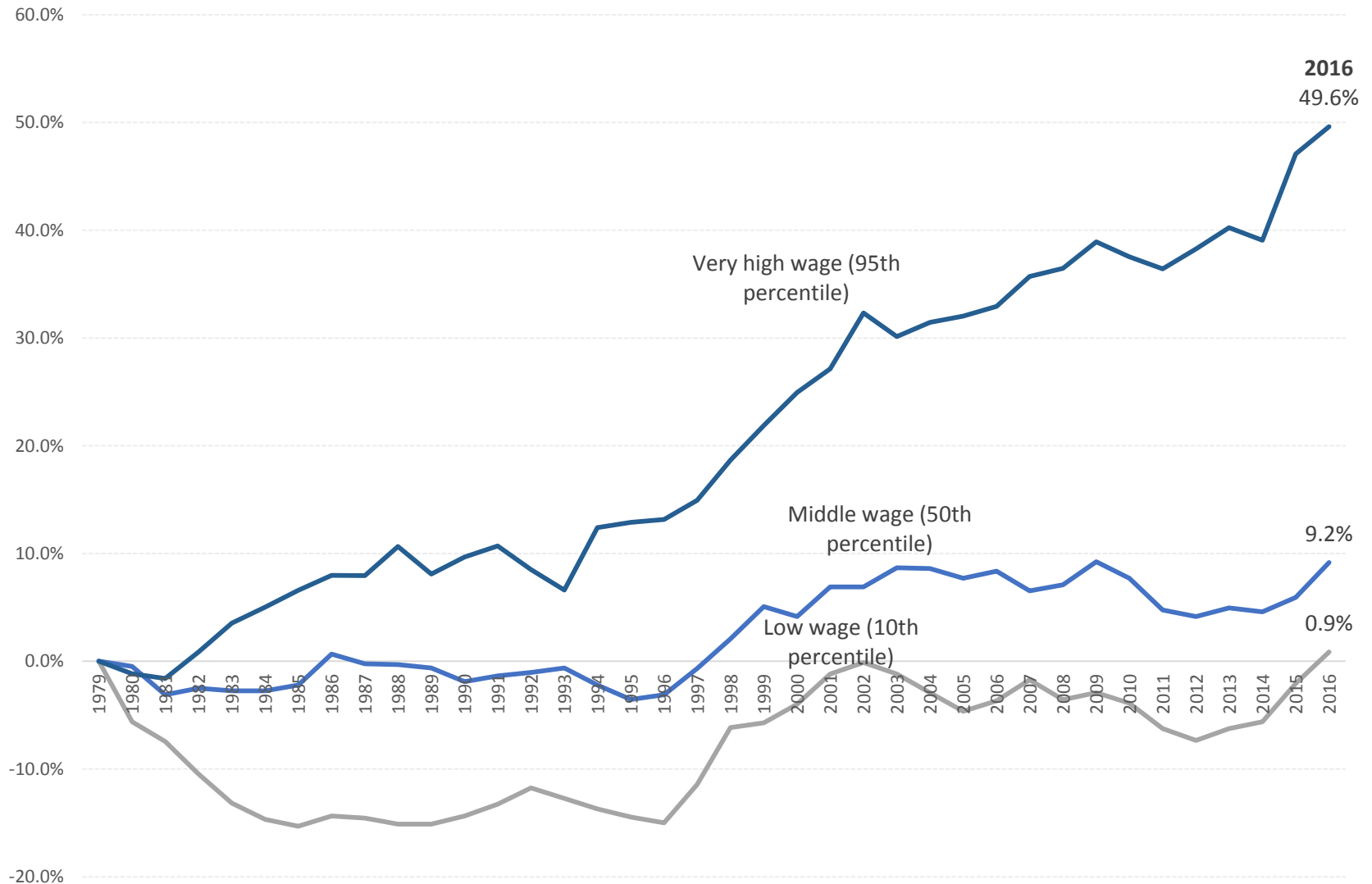
**Note:** Data are for average hourly compensation of production/nonsupervisory workers in the private sector and net productivity of the total economy. "Net productivity" is the growth of output of goods and services minus depreciation per hour worked.

**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)

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

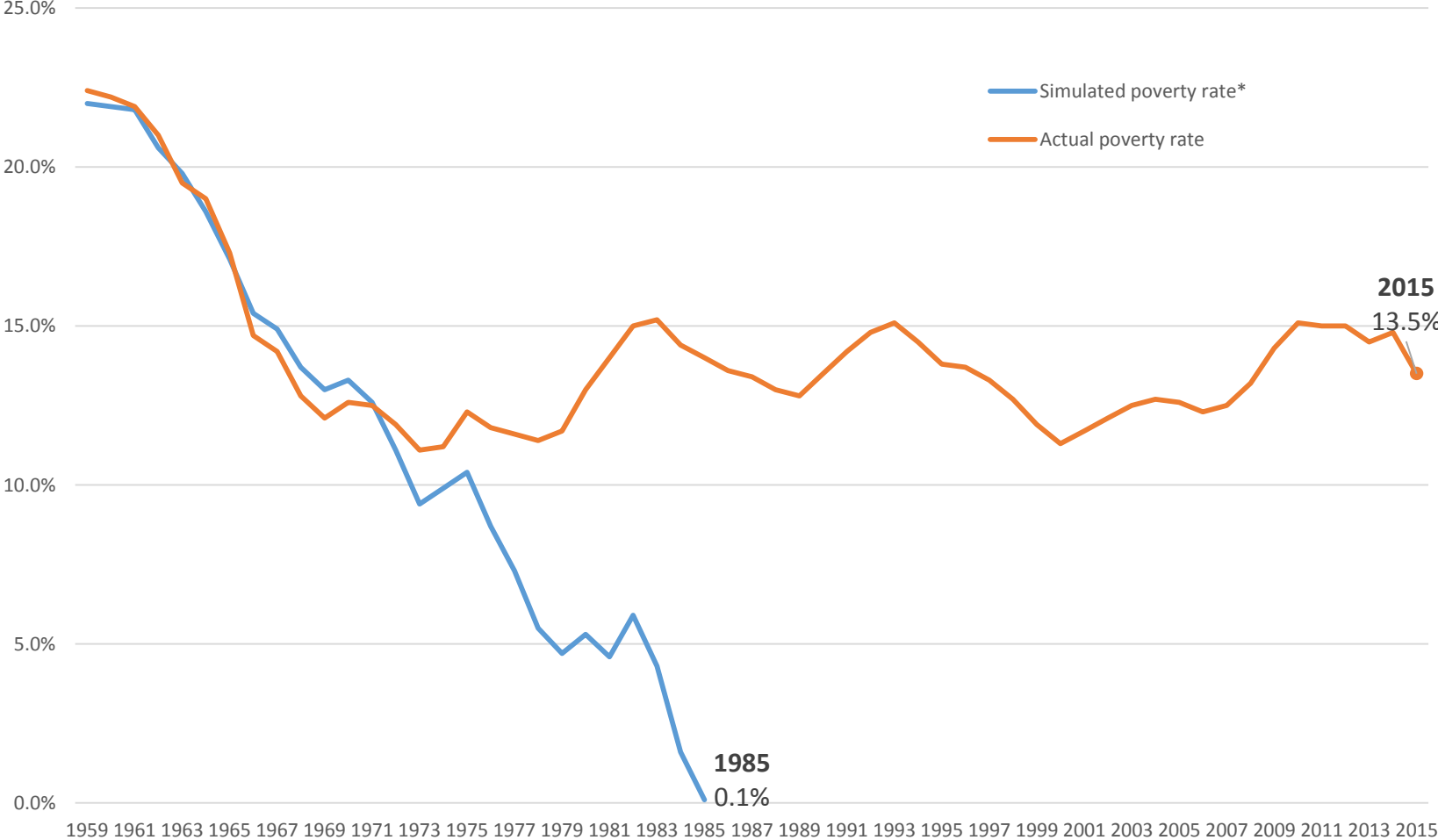
Cumulative change in real hourly wages of all workers, by wage percentile, 1979-2016



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

# Progress against poverty stalled

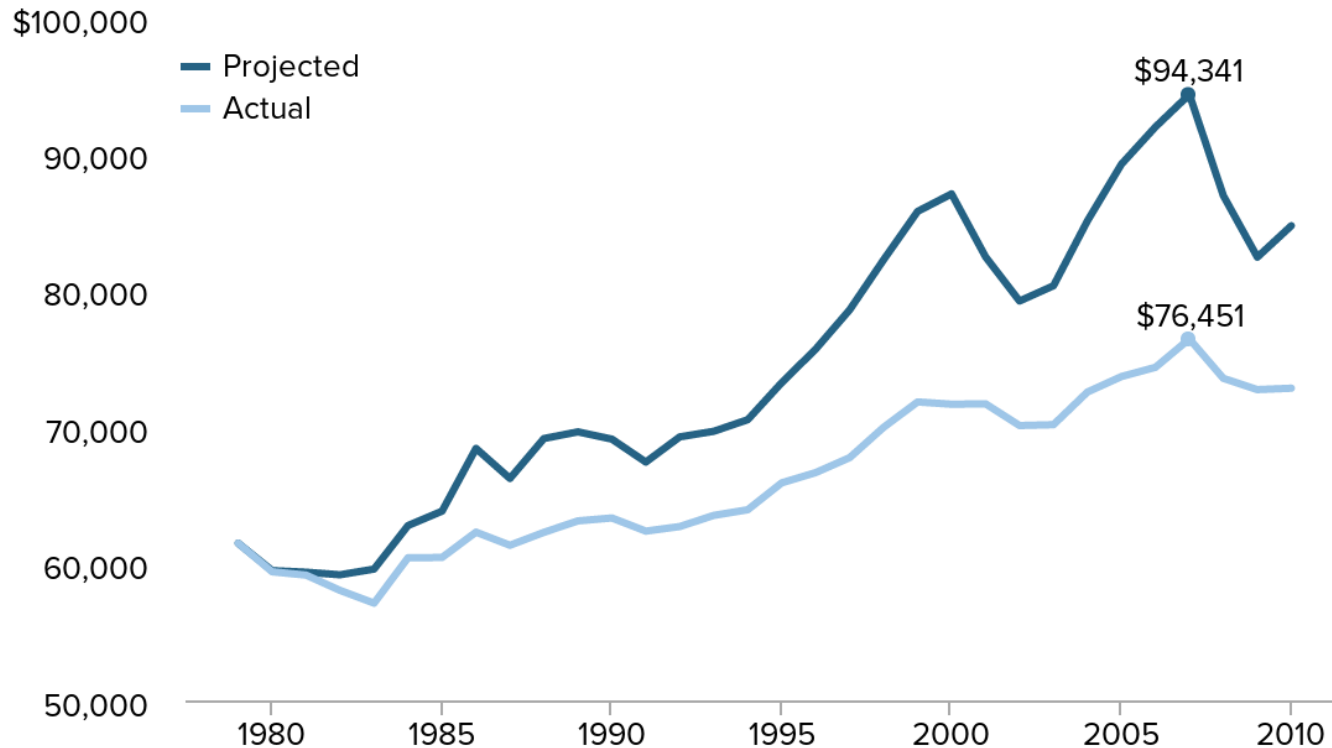
Poverty rate, actual and simulated,\* 1959-2015



\*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



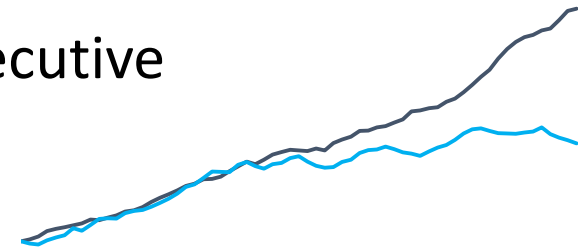
**Note:** Data show average income of 20th–80th percentile.

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

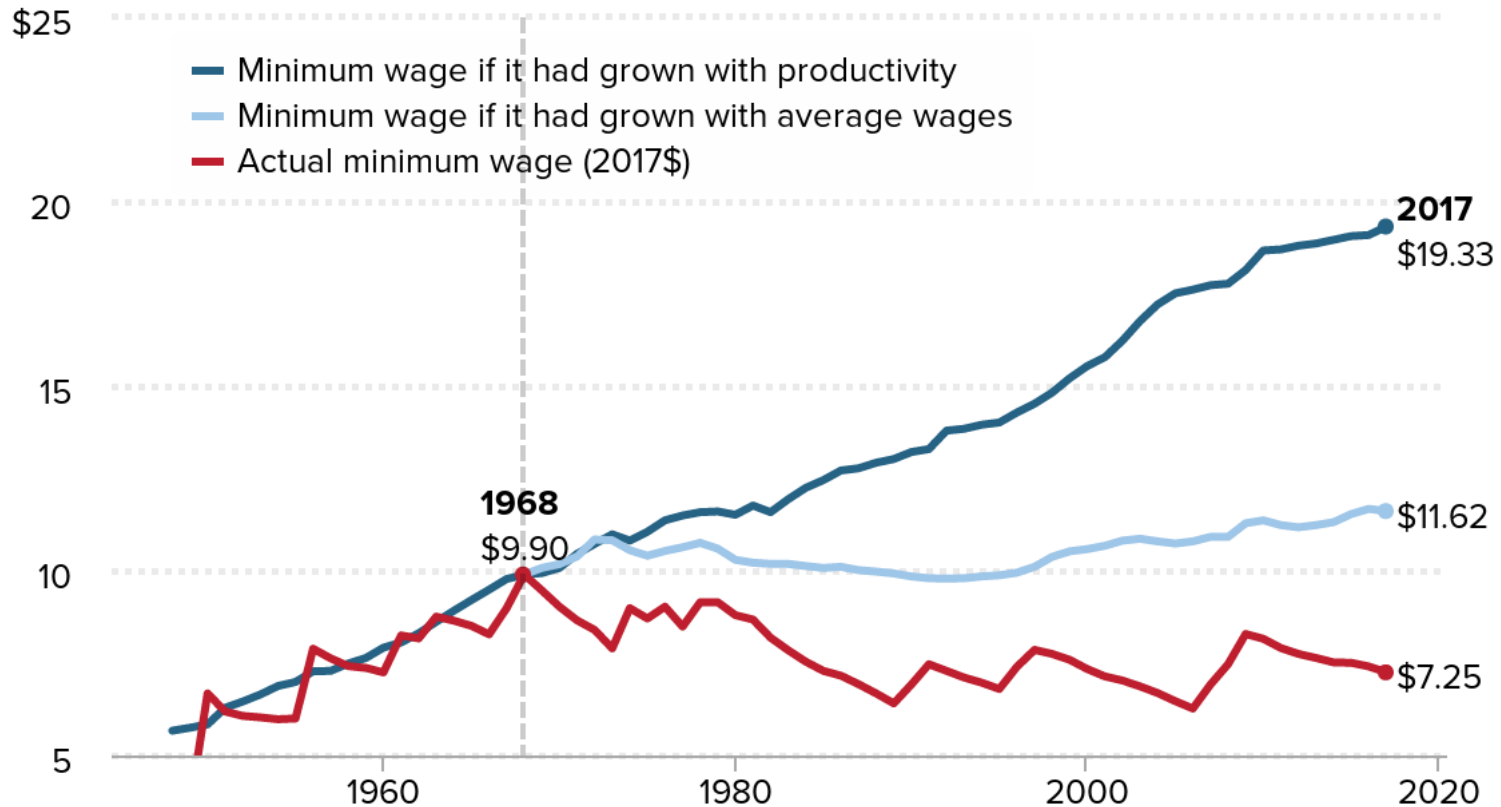
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# Why the breakdown between productivity and wages?

- “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.

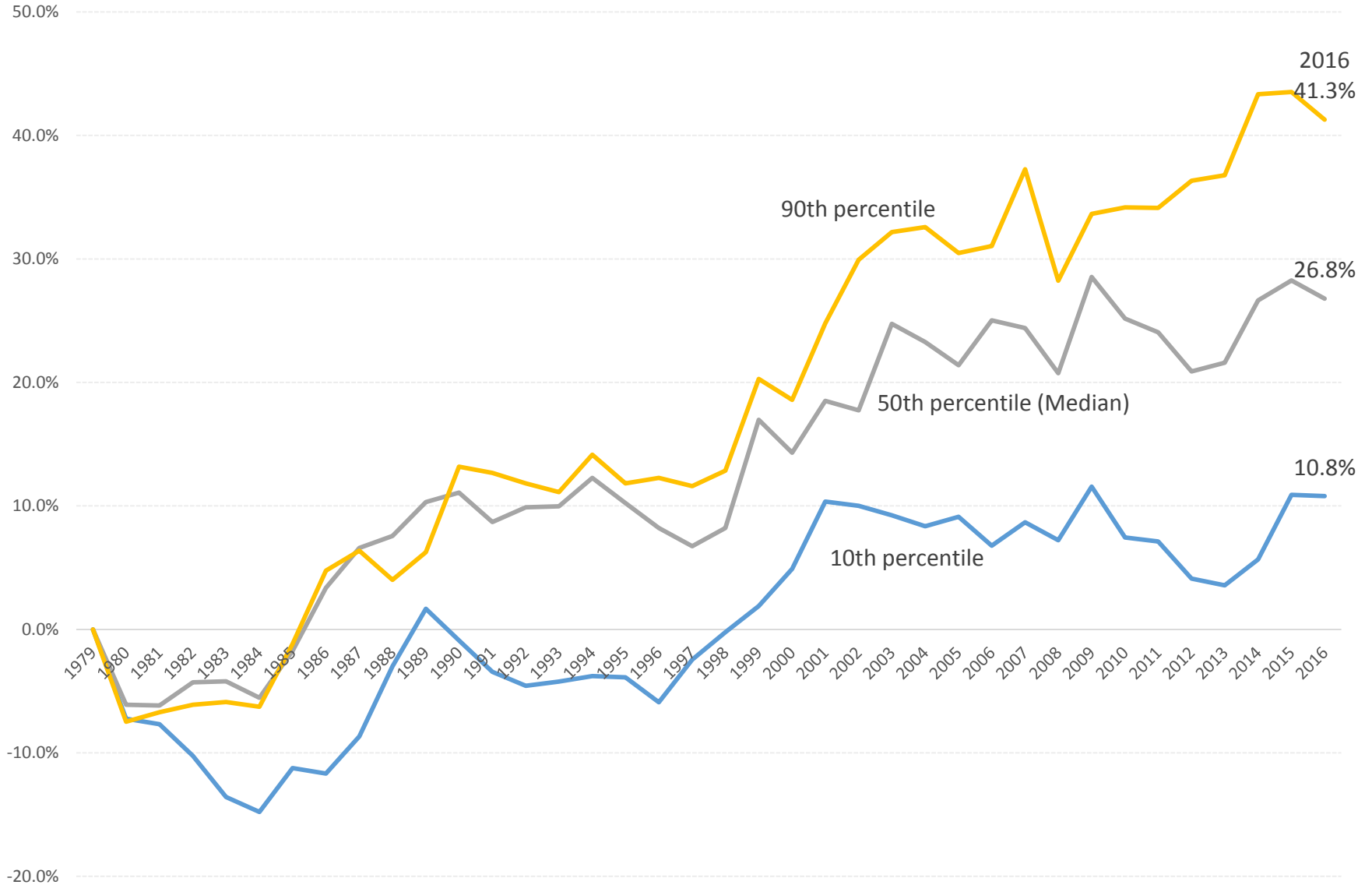
**Source:** EPI analysis of the Fair Labor Standards Act and amendments. Total economy productivity data from the Bureau of Labor Statistics Labor Productivity and Costs program. Average hourly wages of production nonsupervisory workers from the Bureau of Labor Statistics Current Employment Statistics.

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

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



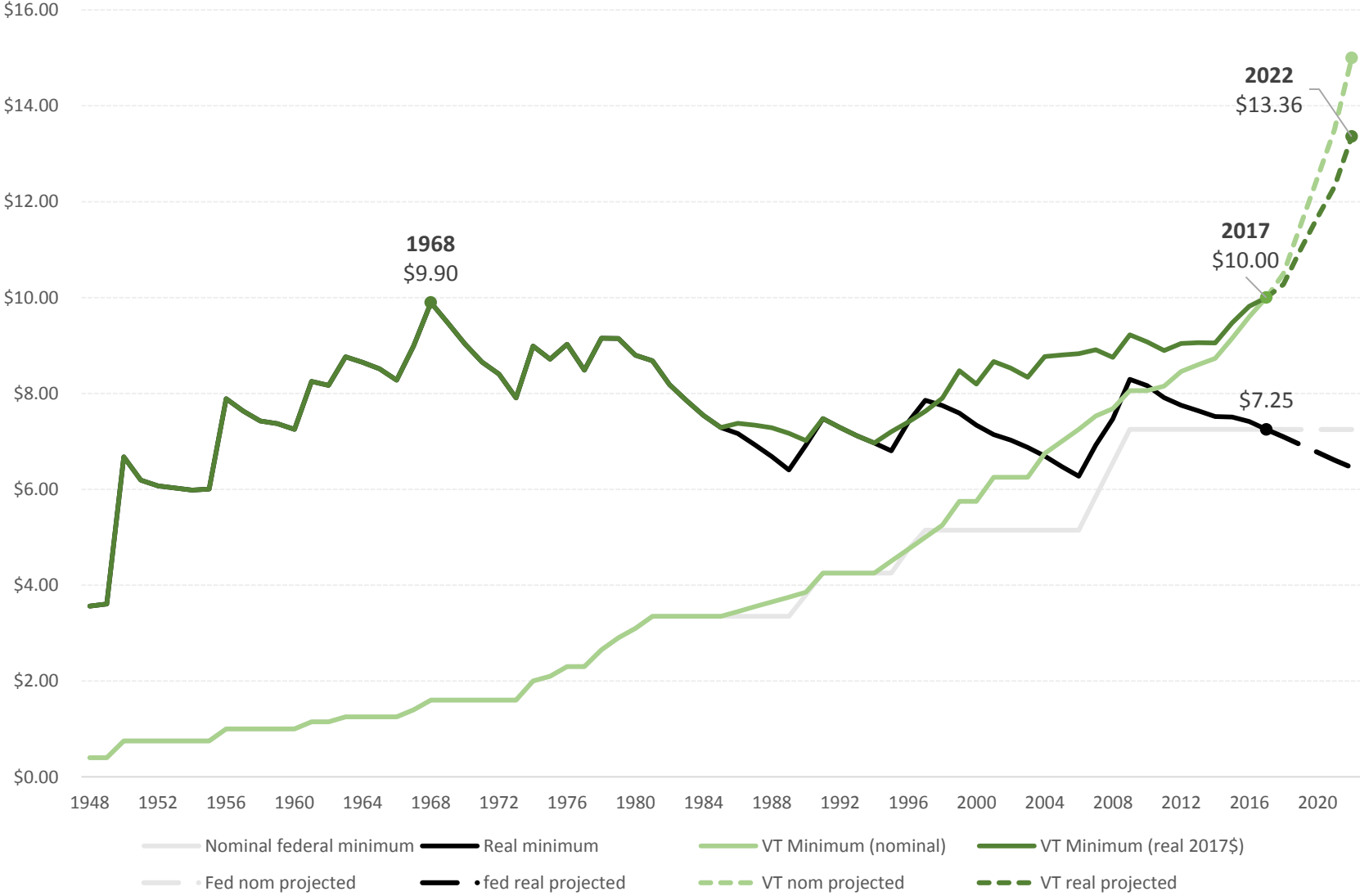
Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata, 1979-2016  
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# A modest, but adequate standard of living in VT requires more than \$15/hour today

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
<b>Monthly Total</b>	<b>\$2,715</b>	<b>\$4,457</b>	<b>\$5,933</b>
<b>Annual Total</b>	<b><u>\$32,574</u></b>	<b><u>\$53,488</u></b>	<b><u>\$71,197</u></b>
Full-time hourly wage	\$15.66	\$25.71	\$17.11

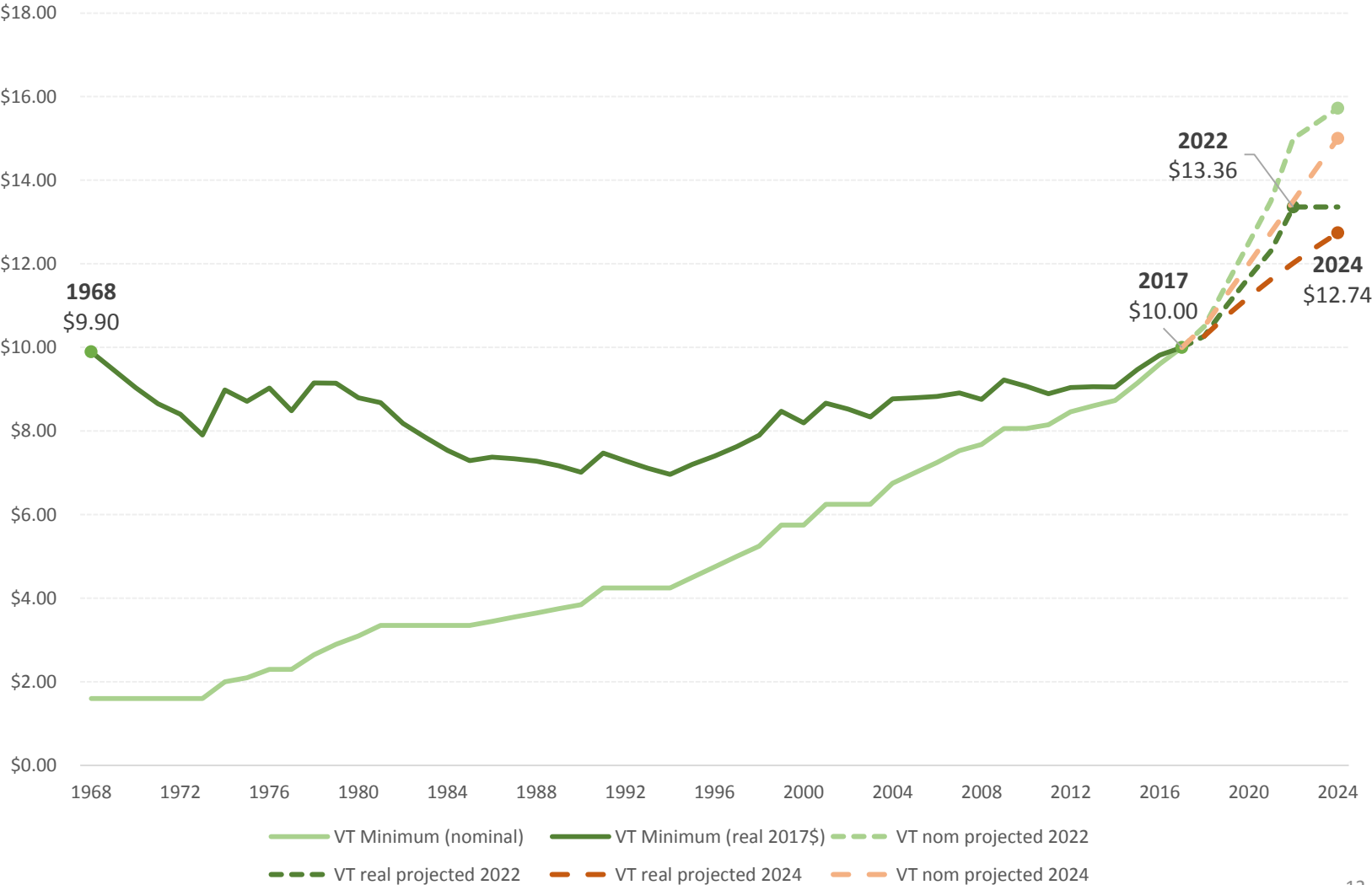
# Standard-of-living measures of the minimum wage

Nominal and real (2017\$) value of the federal and Vermont minimum wages, 1948-2017, and projected under an increase to \$15 by 2022



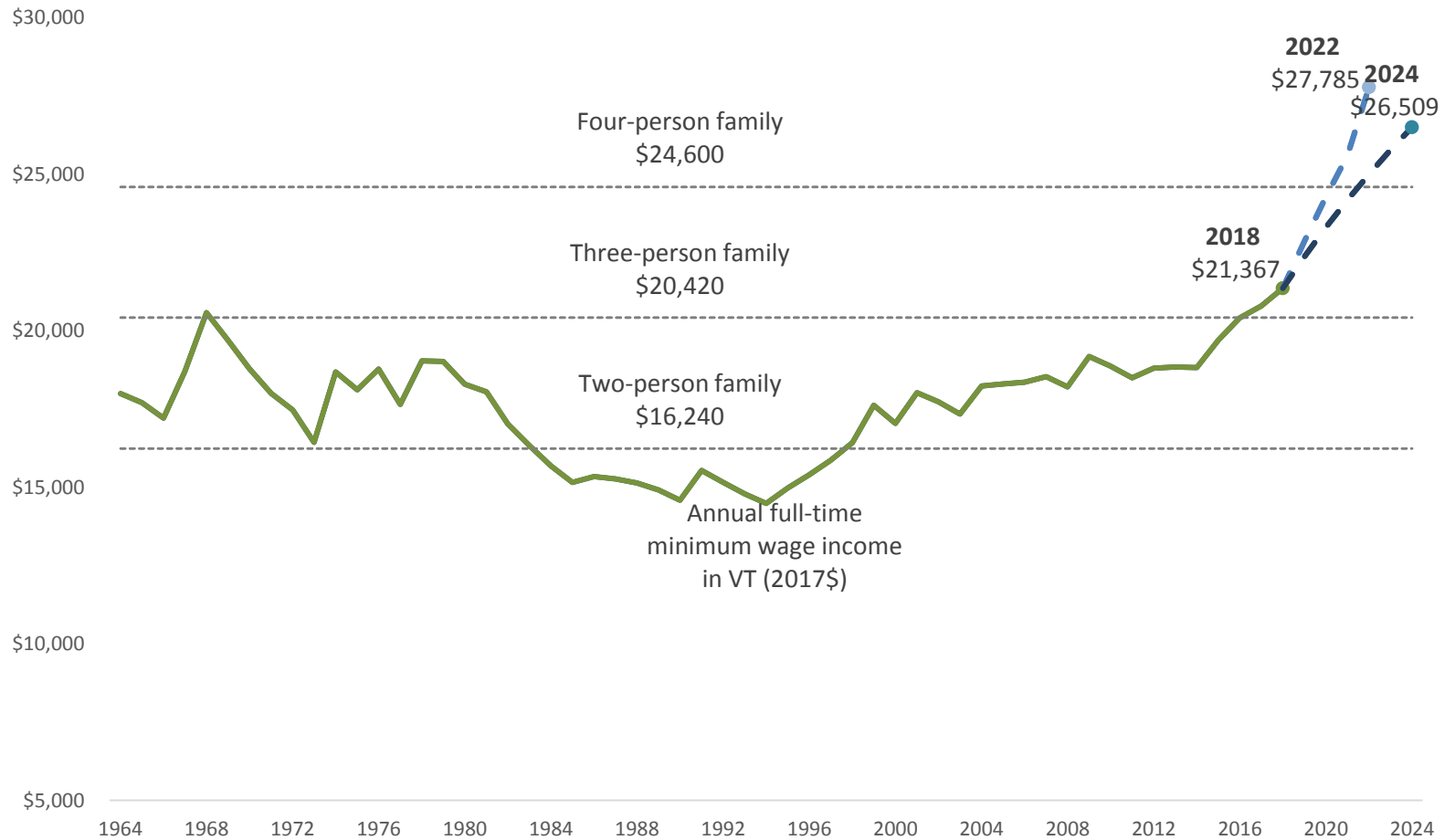
# Standard-of-living measures of the minimum wage

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



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

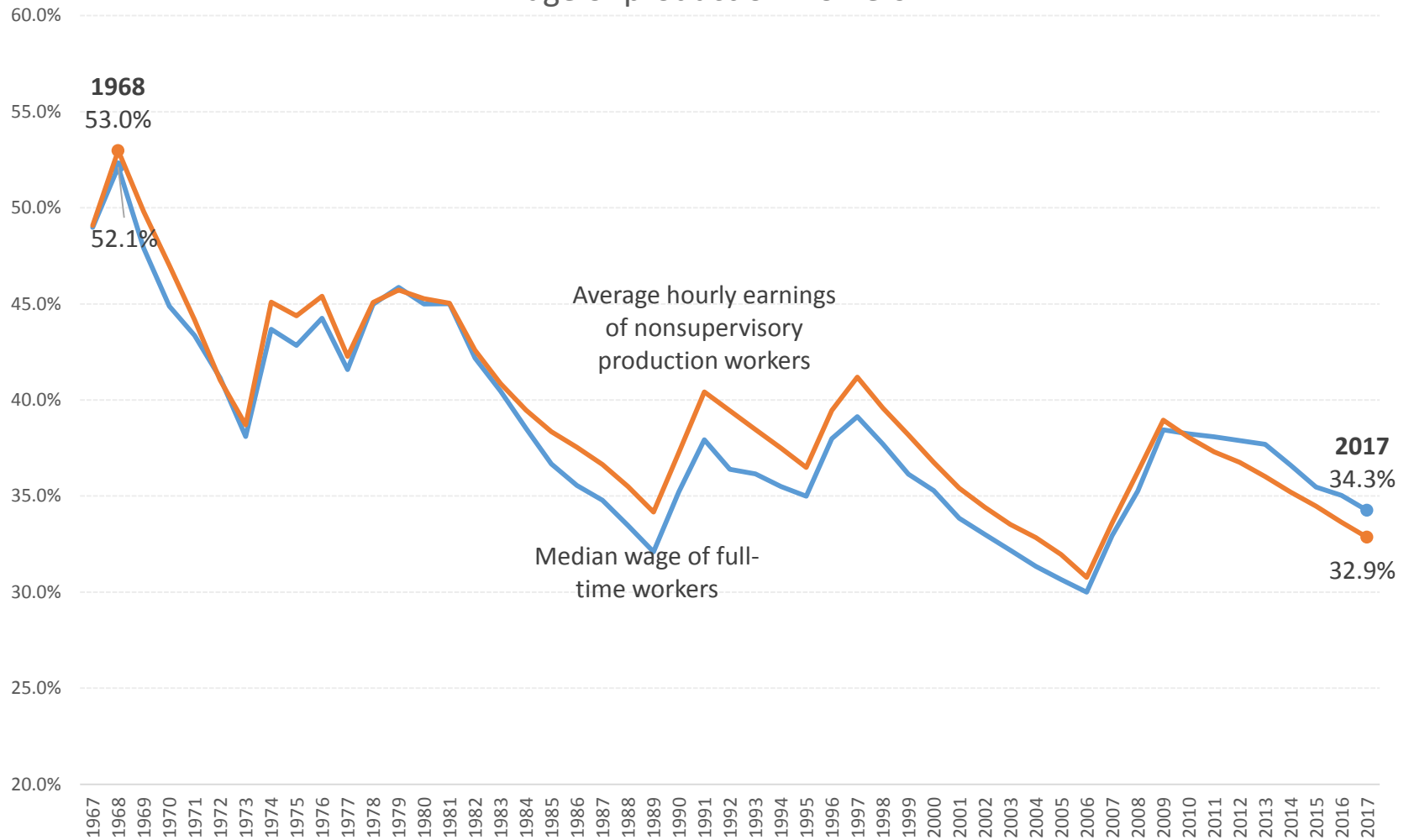
*Annual wage income for a full-time VT minimum-wage worker, compared with various poverty thresholds, 1964-2017 and 2018-2024 (projected)*



**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

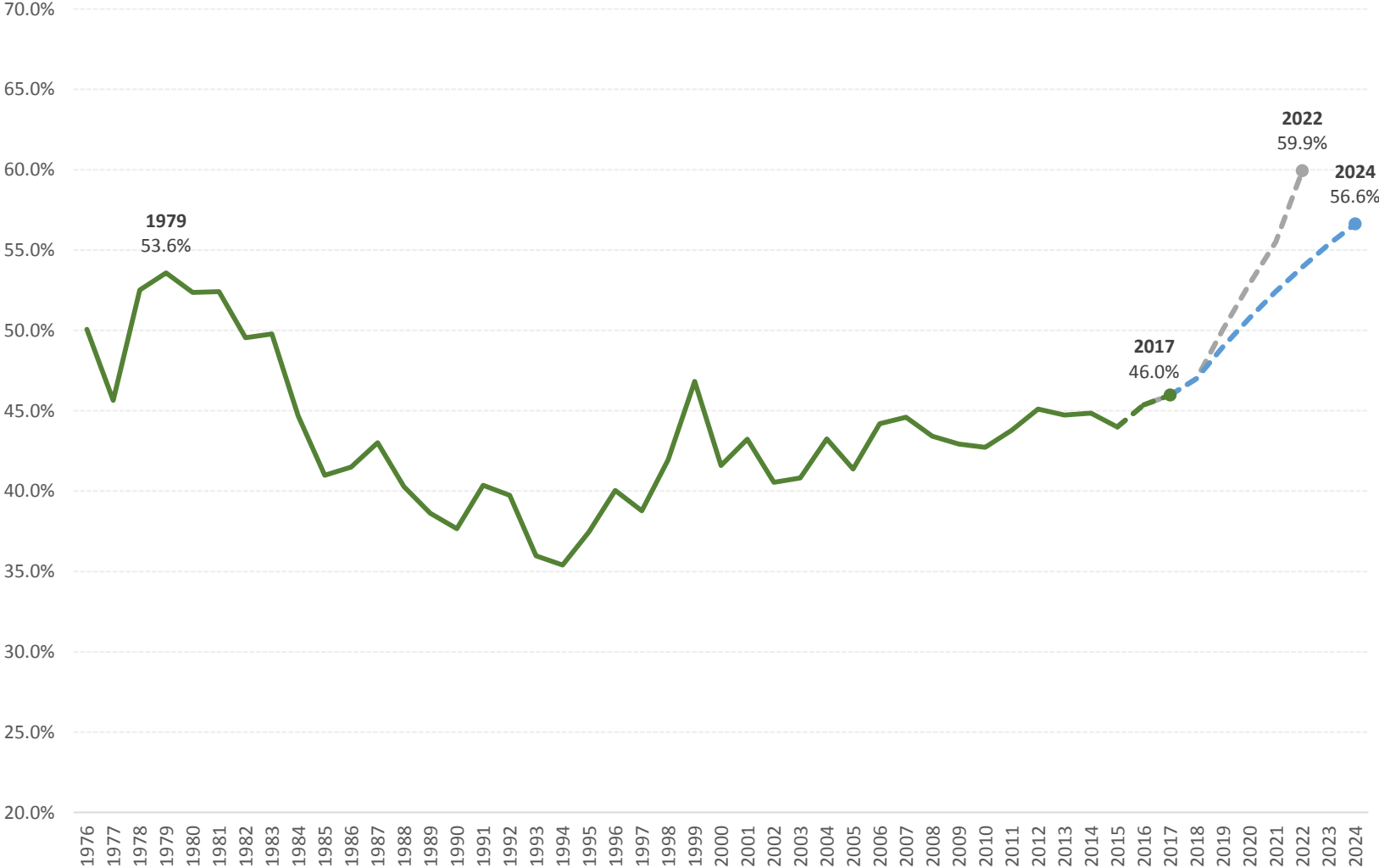
Federal minimum wage as a percentage of the median wage and average wage of production workers



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

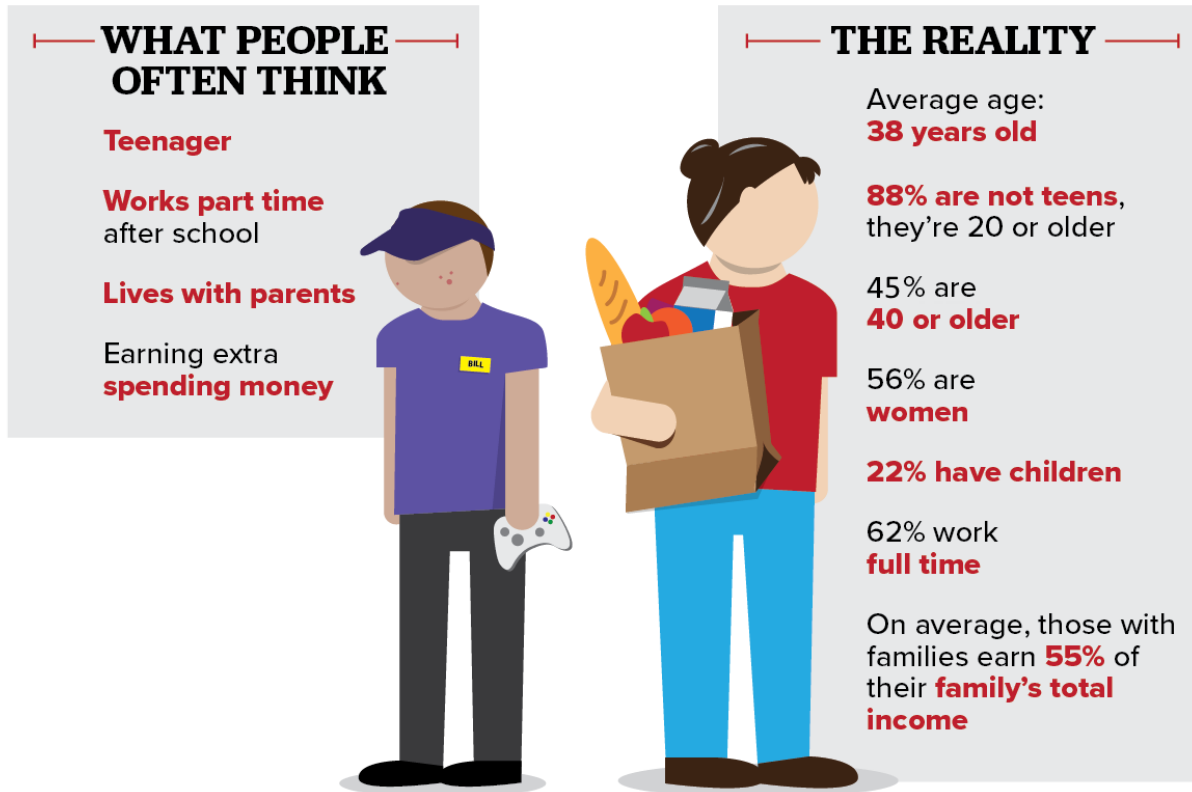
Vermont minimum wage as a percentage of the VT median wage, 1979-2016 and projected 2017-2024 (assuming 0.5% real median wage growth)



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?



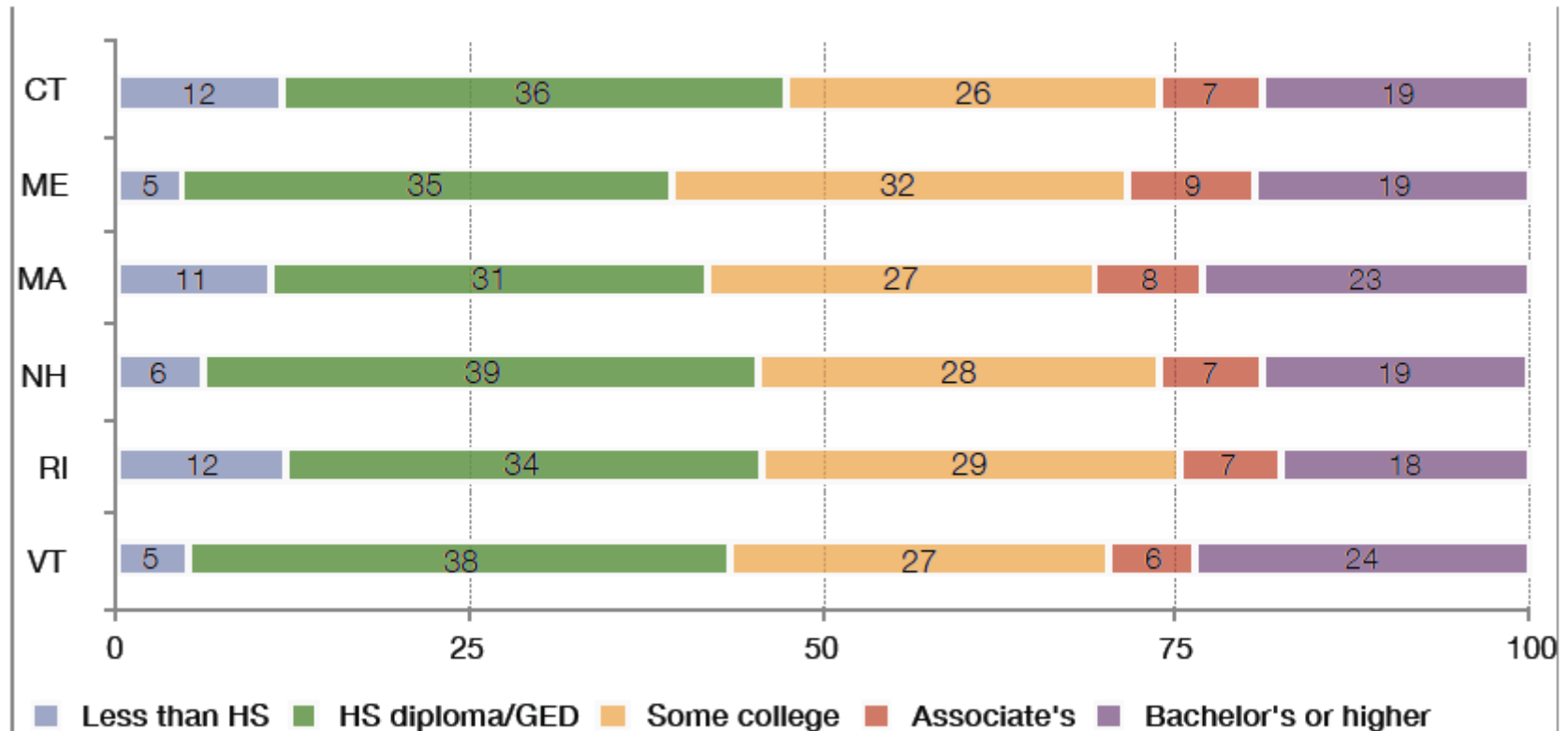
Statistics describe civilian workers, ages 16+, that would be affected by an increase in the Vermont minimum wage to \$15 by 2022.

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

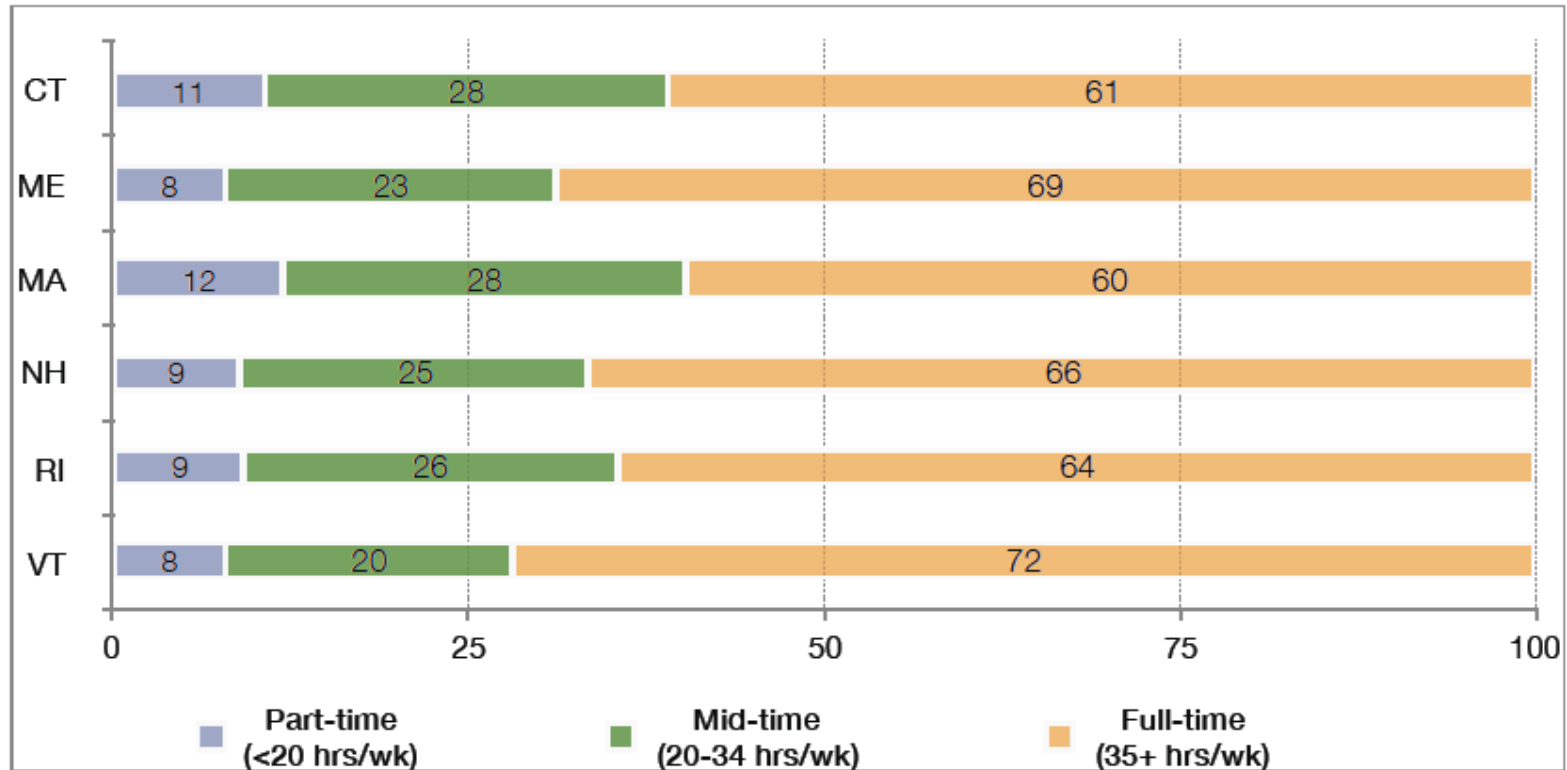
Figure 3: Educational Attainment of the Sub-\$15 Workforce



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

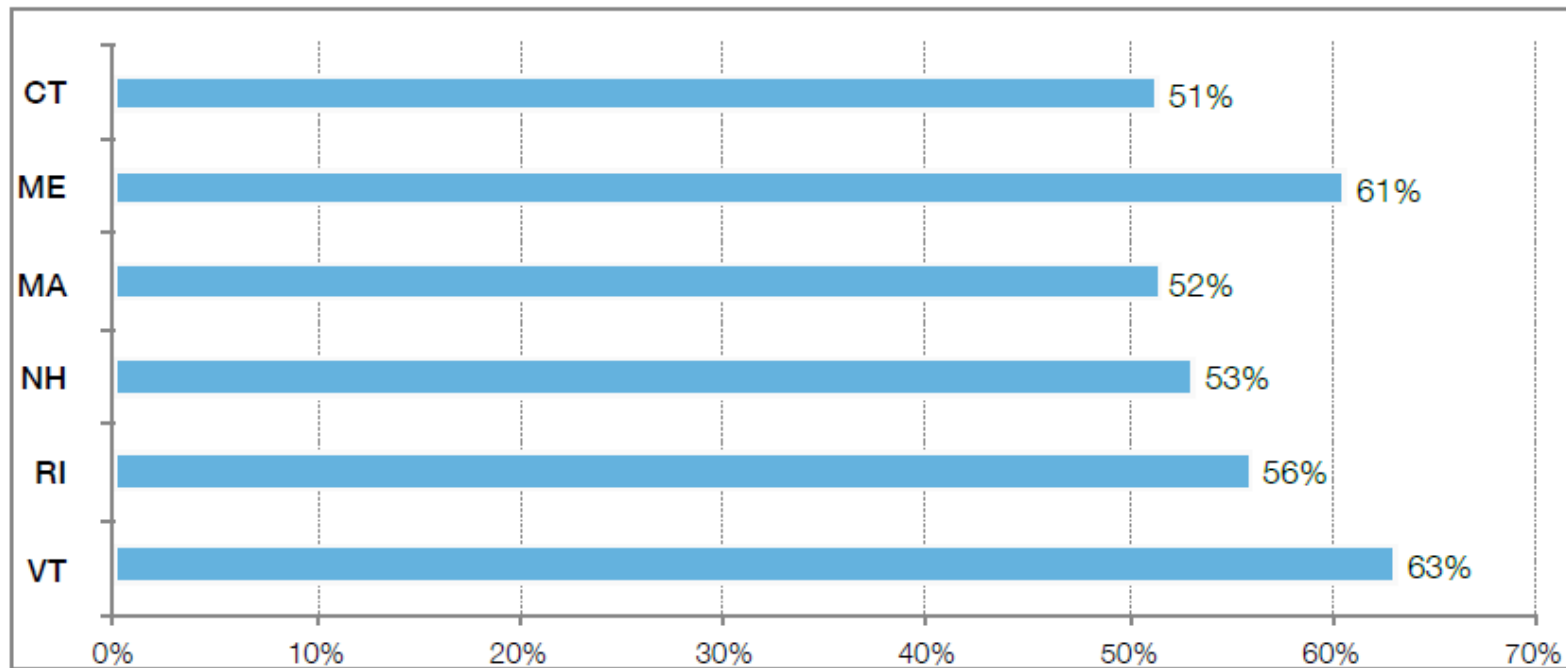
Figure 7: Full-Time and Part-Time Workers in the Sub-\$15 Workforce



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>

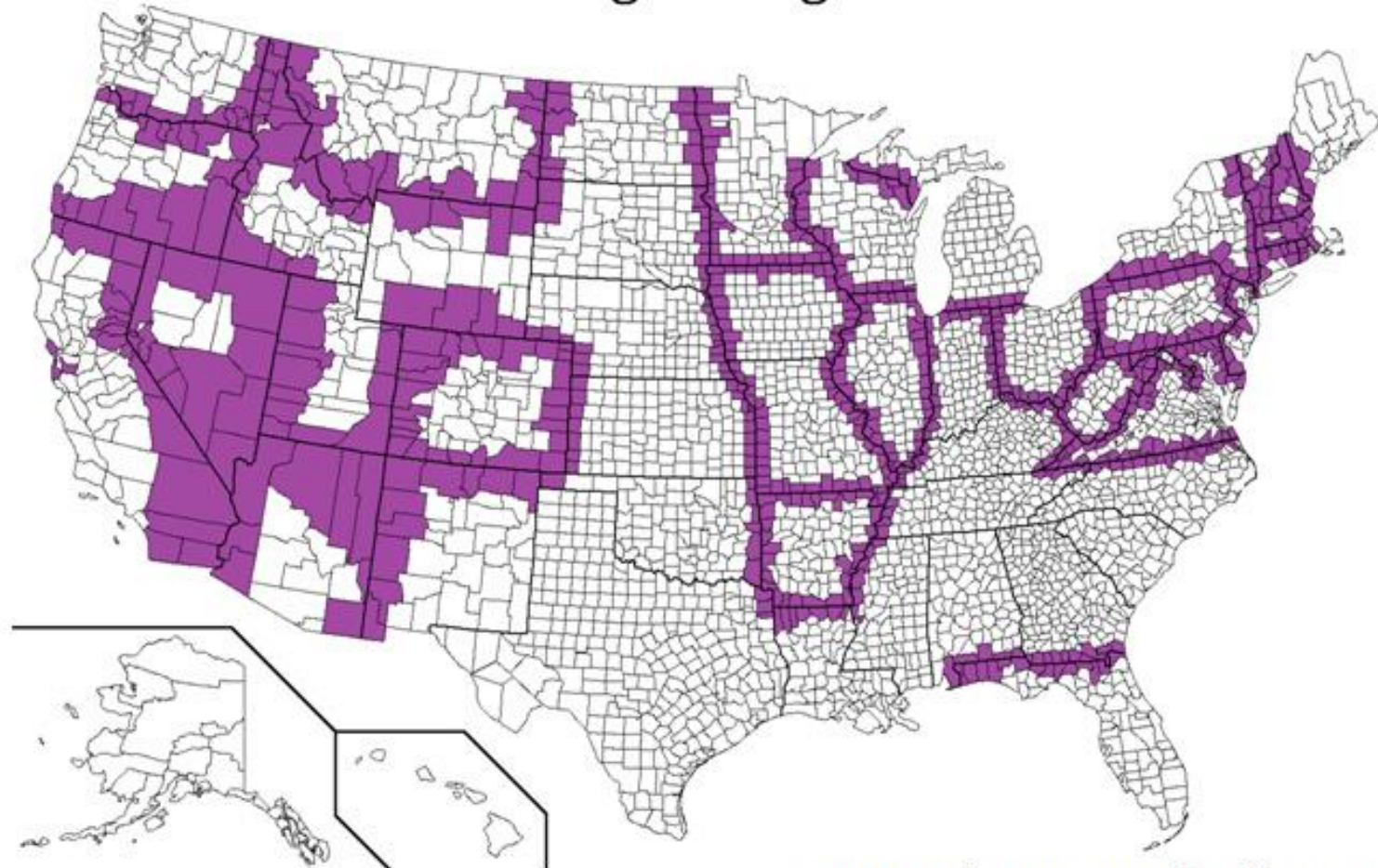
# Research on the minimum wage and employment

- 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

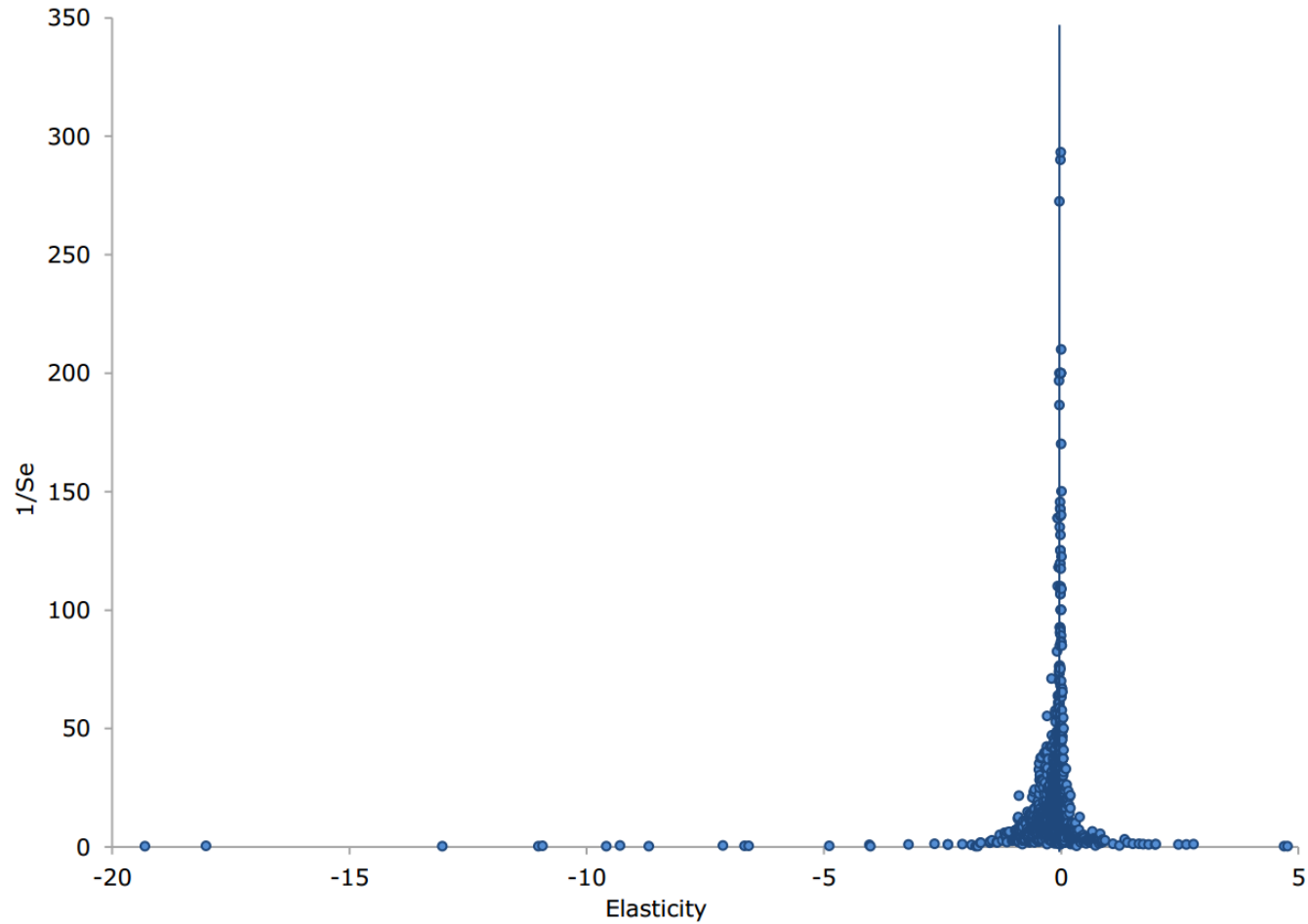
Minimum Wage Effects Across State Borders:  
Estimates Using Contiguous Counties



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
- Research confirms that modest increases in the minimum wage have caused no 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

# Claims about “job loss” are misleading

- 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 losses



# How other states have dealt with uncertainty around \$15 – New York

- Scheduled increases for Upstate Region to \$12.50 by 2021 (Dec 31, 2020)
- Thereafter, annual increases determined by October, by the director of the budget and commissioner of labor, based on:
  - Rate of inflation (CPI-U) over preceding 12 months;
  - Rate of state personal income growth over preceding calendar year; or
  - Rate of wage growth.
- Ambiguous how these indices are to be applied
- State officials effectively have discretion to determine increase schedule

## Possible Upstate New York minimum wage schedules, linked to different series

Year	Scheduled minimum wage	Future increases linked to projected:		
		Inflation (CPI-U)	Per capita personal income	Median wage growth
2017	\$9.70			
2018	\$10.40			
2019	\$11.10			
2020	\$11.80			
2021	\$12.50	\$12.50	\$12.50	\$12.50
2022		\$12.80	\$12.90	\$12.85
2023		\$13.11	\$13.33	\$13.21
2024		\$13.42	\$13.78	\$13.58
2025		\$13.74	\$14.24	\$13.95
2026		\$14.07	\$14.72	\$14.34
2027		\$14.40	\$15.00	\$14.74
2028		\$14.75		\$15.00
2029		\$15.00		

**Source:** New York State minimum wage law; inflation projections from the CBO's August 2017 projections for the CPI-U; per capital personal income projected at the average growth rate from 2000-2015 in New York from the BEA; median wage growth projected at the average nominal growth rate from 2000-2015 for full-time, full-year workers from EPI analysis of the Current Population Survey Annual Social and Economic Supplement.

# How other states have dealt with uncertainty around \$15 – California



- Scheduled increases to \$15.00 by Jan 1, 2022 (employers with fewer than 26 employees have 1 extra year to comply)
- By July 28<sup>th</sup> of any year leading up to \$15, governor may pause the scheduled increases for one year if:
  - A) State total nonfarm employment declines April to June; or
  - B) State total nonfarm employment declines January to June;

AND

  - C) State retail sales tax receipts over preceding July 1 to June 30 were smaller than over the same period, one year prior
- Governor may pause increases up to two times

# 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 modest increases in the minimum wage have caused no 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
- Increases can be structured with flexibility to adjust for changes in economic conditions

# For more information

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