

Understanding the Need for Higher Wage Standards

Presentation to the Vermont Senate Committee on
Economic Development, Housing, and General Affairs

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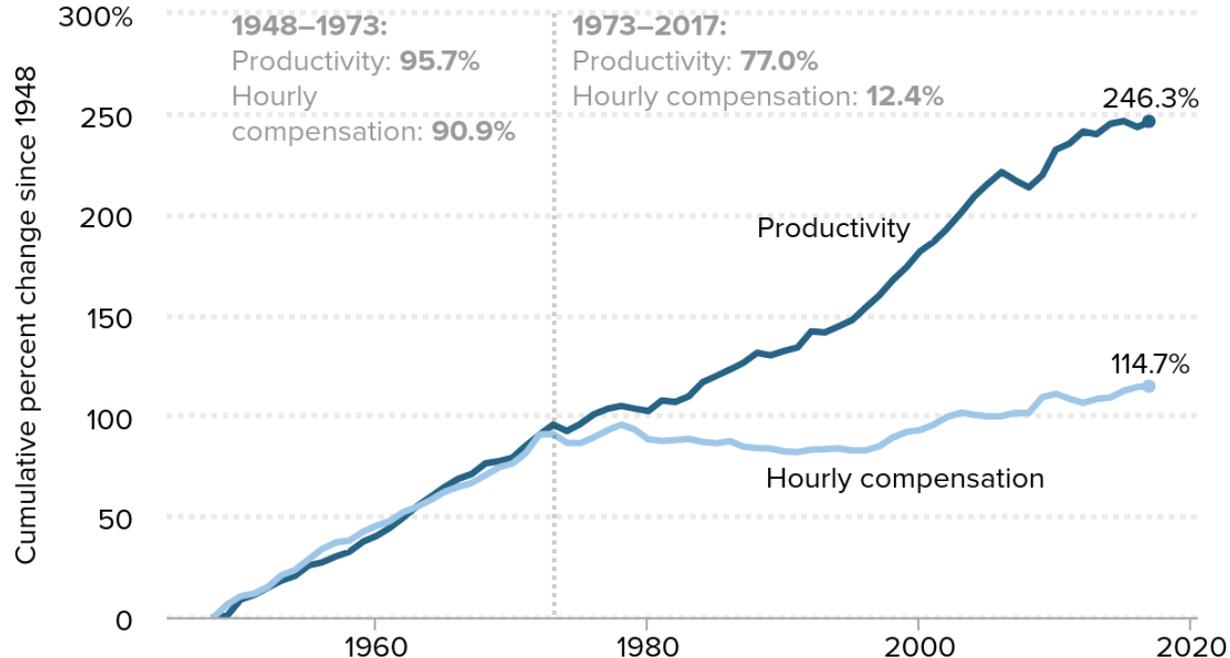
Outline

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

Stagnant pay is the primary U.S. economic challenge

The gap between productivity and a typical worker's compensation has increased dramatically since 1973

Productivity growth and hourly compensation growth, 1948–2017

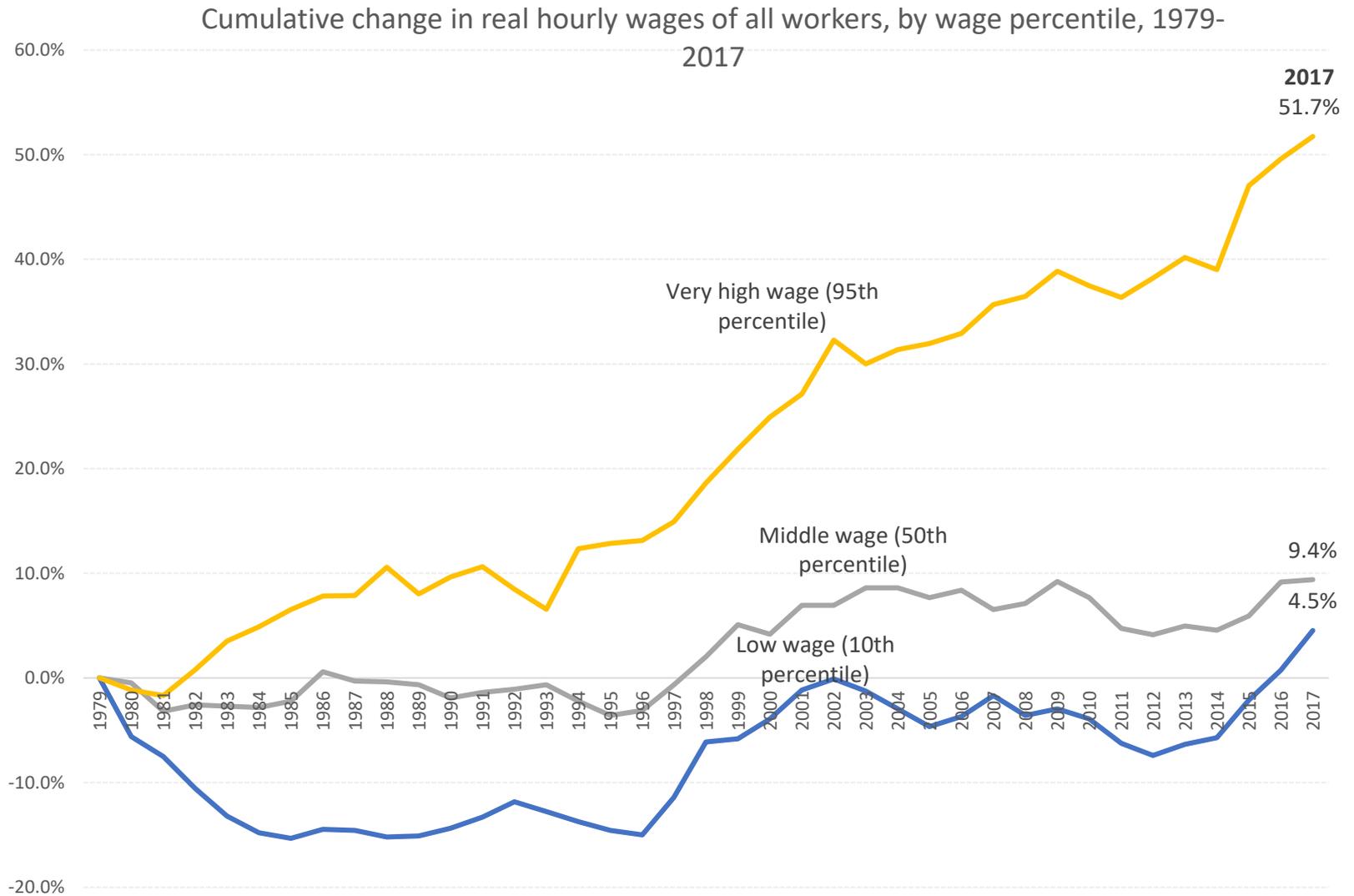


Notes: Data are for compensation (wages and benefits) of production/nonsupervisory workers in the private sector and net productivity of the total economy. “Net productivity” is the growth of output of goods and services less depreciation per hour worked.

Source: EPI analysis of unpublished Total Economy Productivity data from Bureau of Labor Statistics (BLS) Labor Productivity and Costs program, wage data from the BLS Current Employment Statistics, BLS Employment Cost Trends, BLS Consumer Price Index, and Bureau of Economic Analysis National Income and Product Accounts

Updated from Figure A in *Raising America's Pay: Why It's Our Central Economic Policy Challenge*

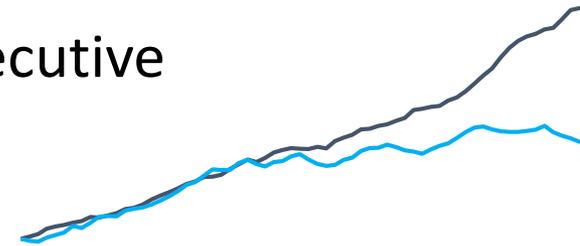
Since 1979, wages have been flat or falling for low & middle-wage workers



Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata, 1979-2017

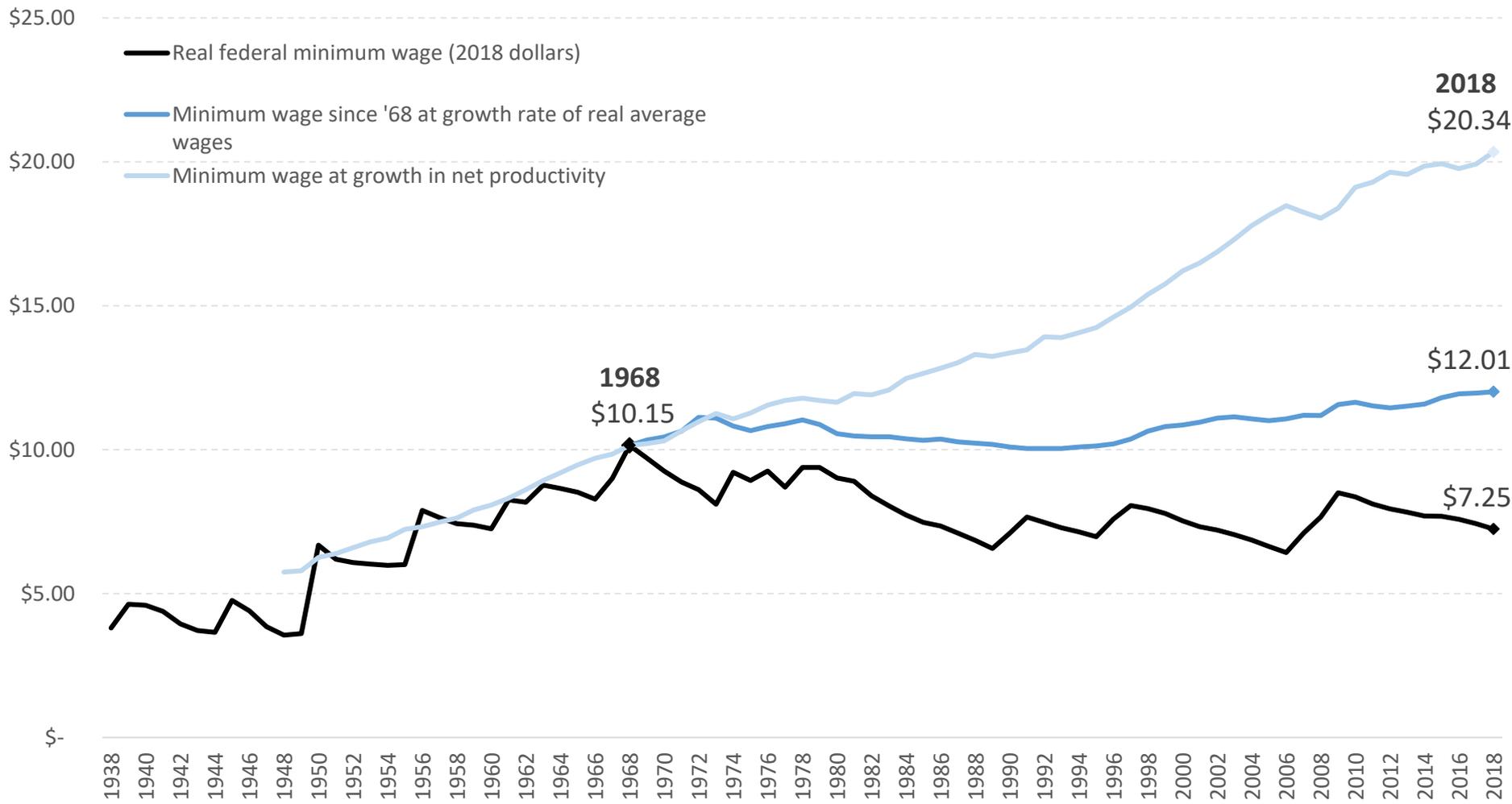
Why the breakdown between productivity and wages?

- “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 could be significantly higher

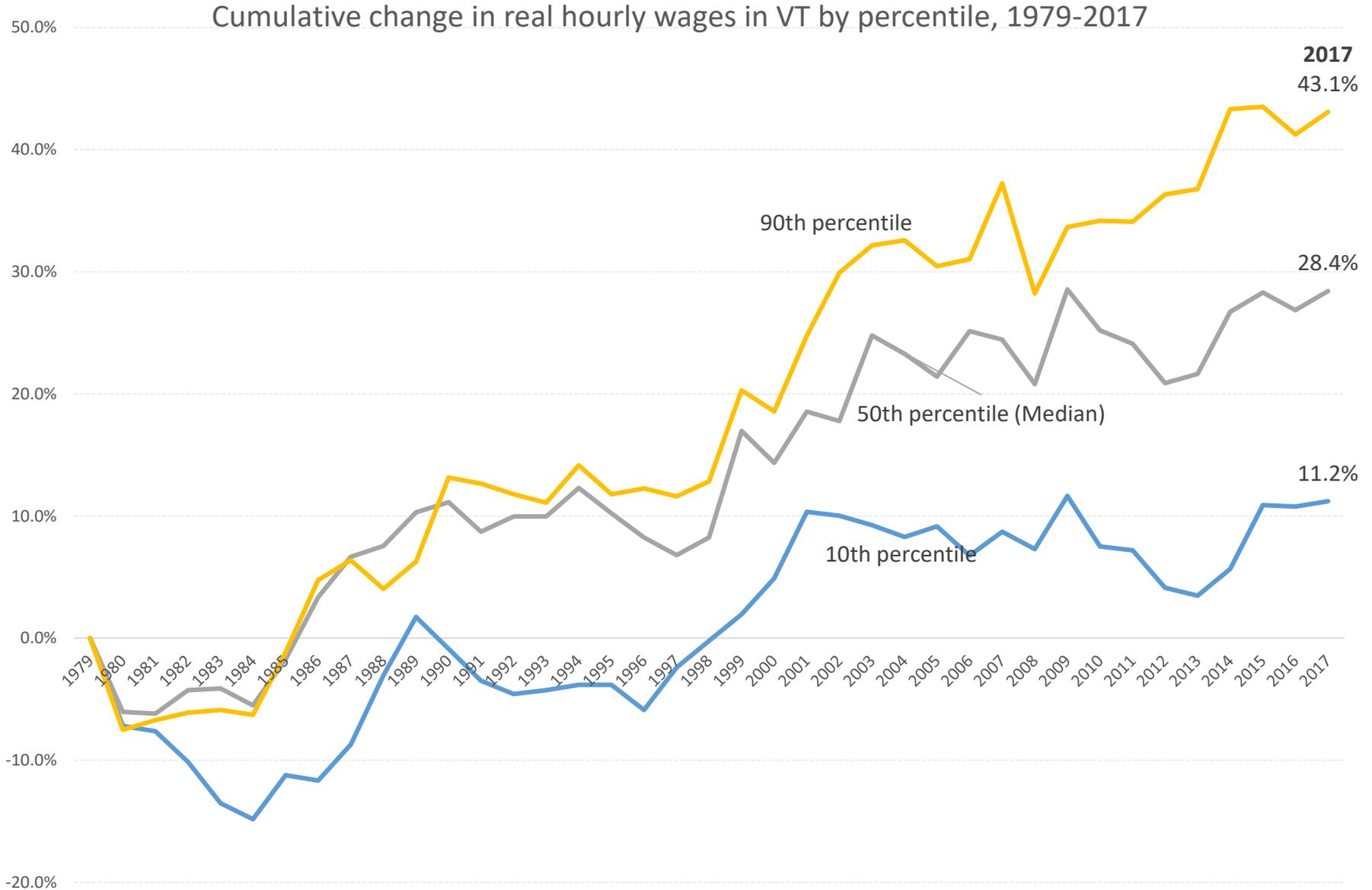
Real (inflation-adjusted) value of the minimum wage and hypothetical values since 1968 at growth rate of average production worker wages and net productivity (2018\$)



Note: Inflation measured using the CPI-U-RS. 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

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



Source: EPI analysis of Current Population Survey Outgoing Rotation Group microdata, 1979-2017
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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 Orleans County, VT	1 adult <i>and</i> 1 child Orleans County, VT	2 adults <i>and</i> 2 children Orleans County, VT
 HOUSING	\$601	\$791	\$791
 FOOD	\$317	\$468	\$916
 CHILD CARE	\$0	\$588	\$966
 TRANSPORTATION	\$944	\$1,016	\$1,279
 HEALTH CARE	\$457	\$868	\$1,310
 OTHER NECESSITIES	\$370	\$508	\$689
 TAXES	\$541	\$708	\$837
Monthly Total	\$3,231	\$4,947	\$6,789
Annual Total	<u>\$38,777</u>	<u>\$59,367</u>	<u>\$81,467</u>
Full-time hourly wage	\$18.64	\$28.54	\$19.58

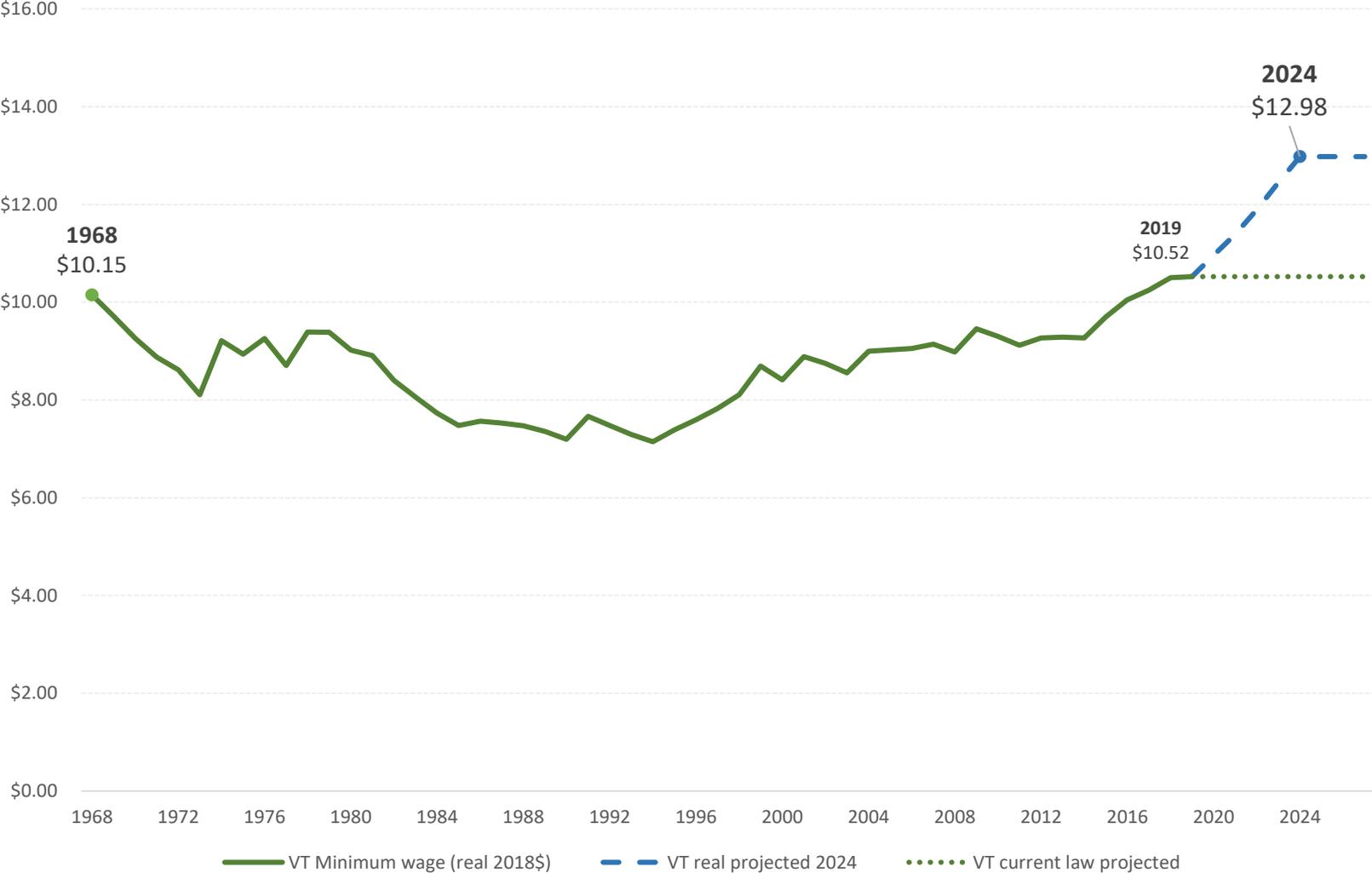
Standard-of-living measures of the minimum wage

Nominal and real value (2018\$) of the federal and Vermont minimum wages, 1948-2024



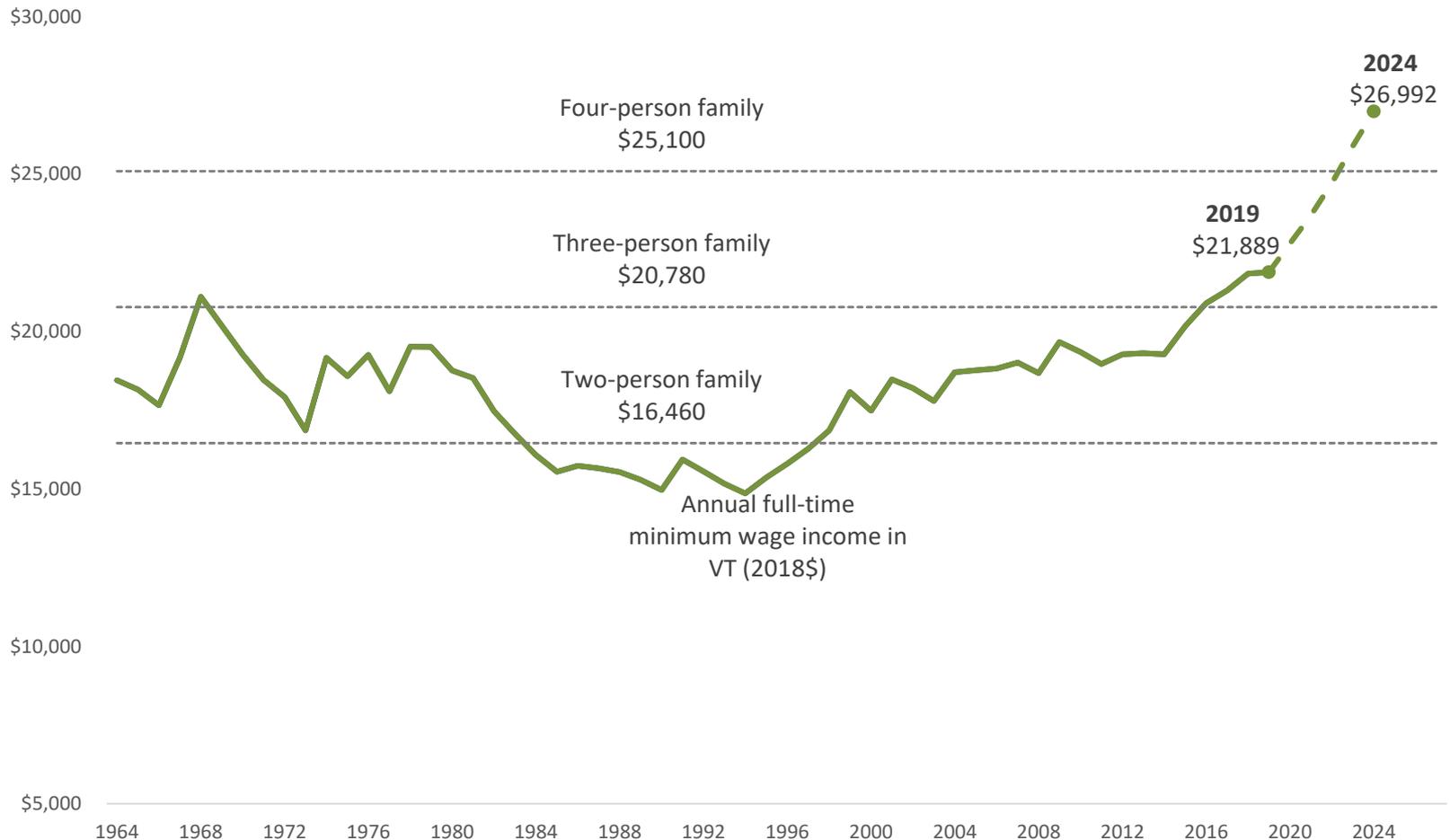
Standard-of-living measures of the minimum wage

Real (2018\$) value of the Vermont minimum wage, 1968-2019, and projected under increases to \$15 by 2024



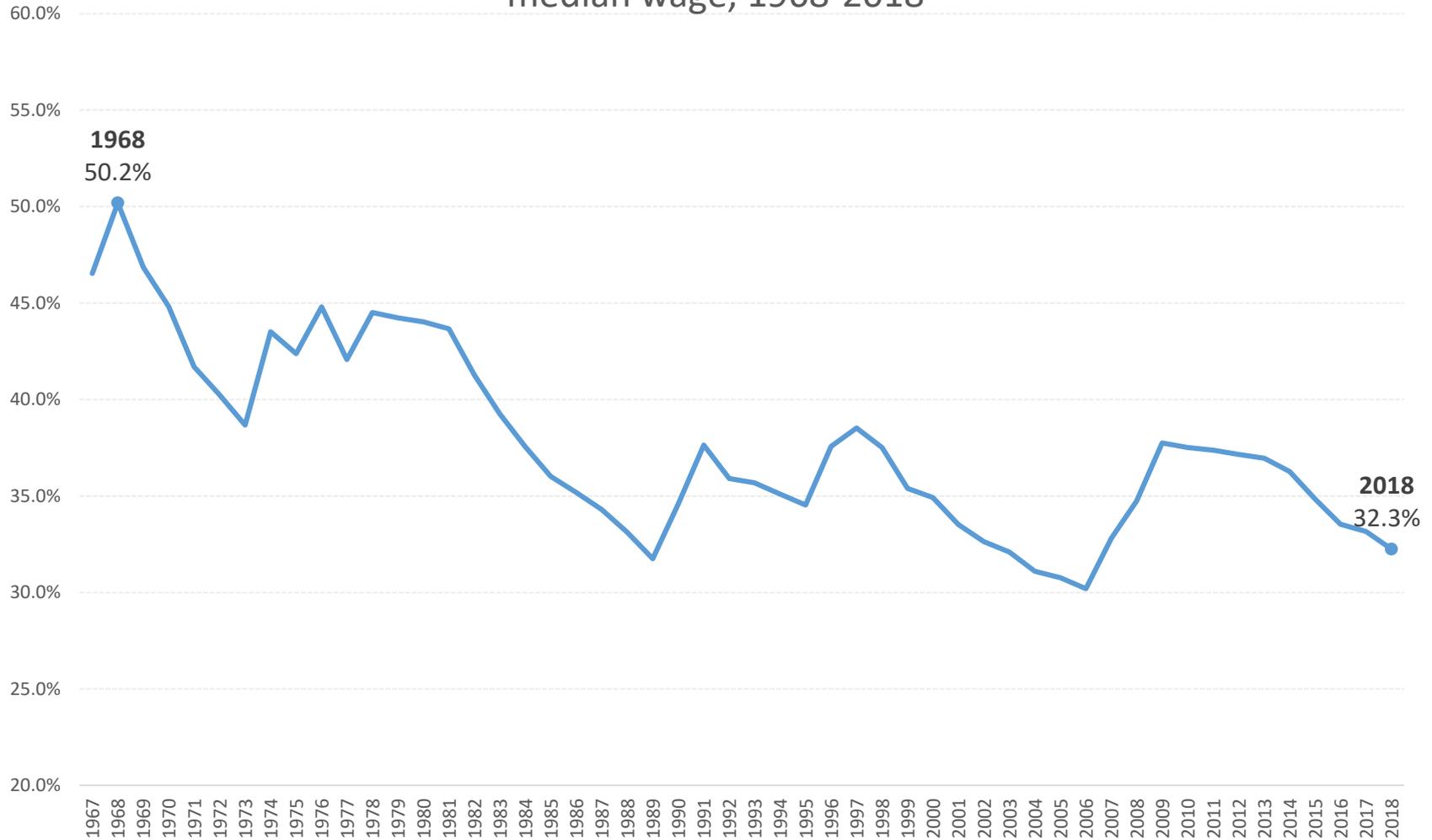
At \$15 in 2024, the Vermont minimum wage would no longer be a poverty wage

Annual wage income for a full-time VT minimum-wage worker, compared with various poverty thresholds, 1964-2019 and 2020-2024 (projected)



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

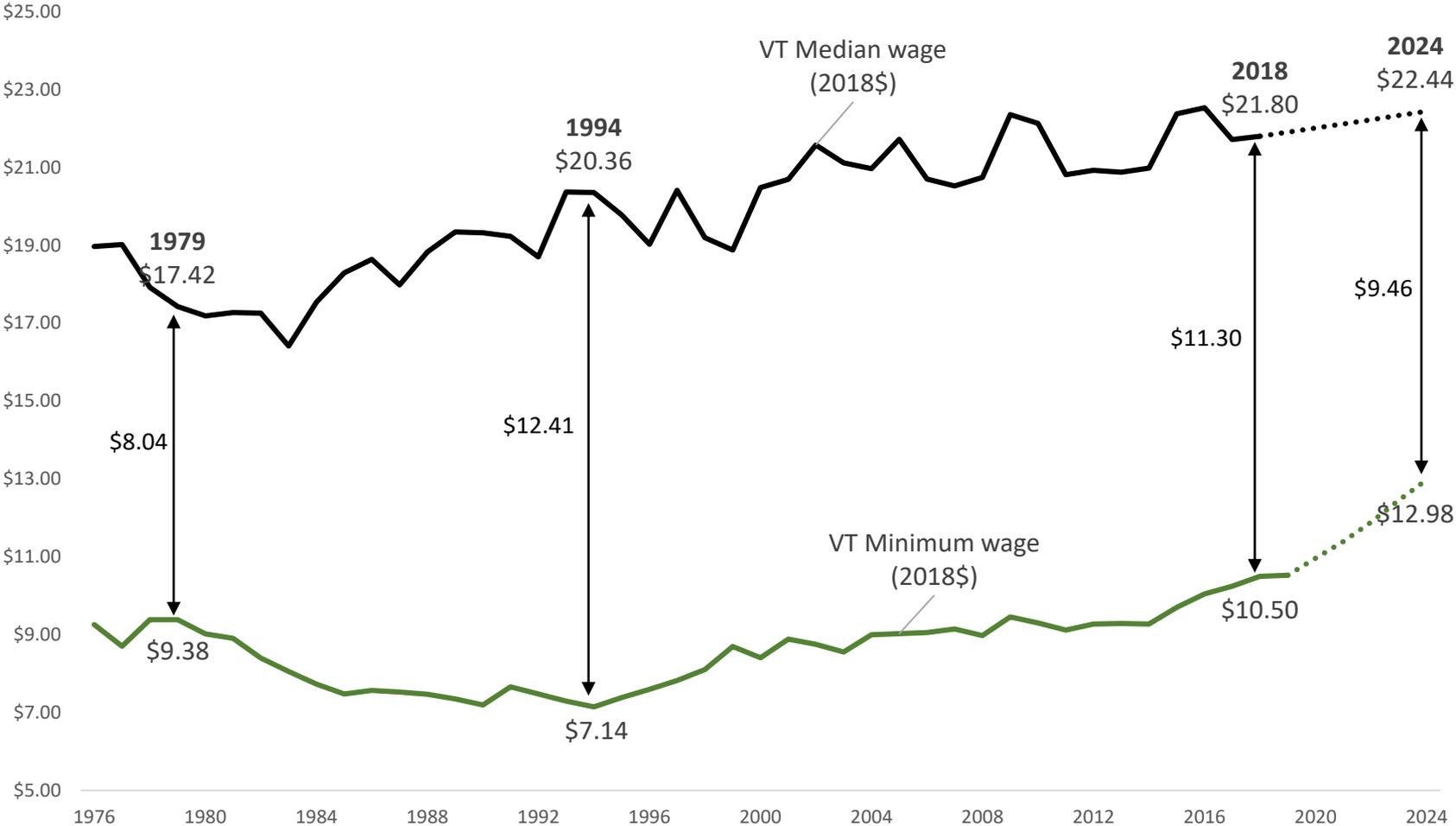
Federal minimum wage as a share of the national full-time, full-year median wage, 1968-2018



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

The gap between the minimum wage & the median wage has grown. \$15 in 2024 would return it to 1970s levels

Real (2018\$) value of the minimum wage and full-time, full-year median wage in Vermont, 1976-2018 and 2019-2024 (projected)

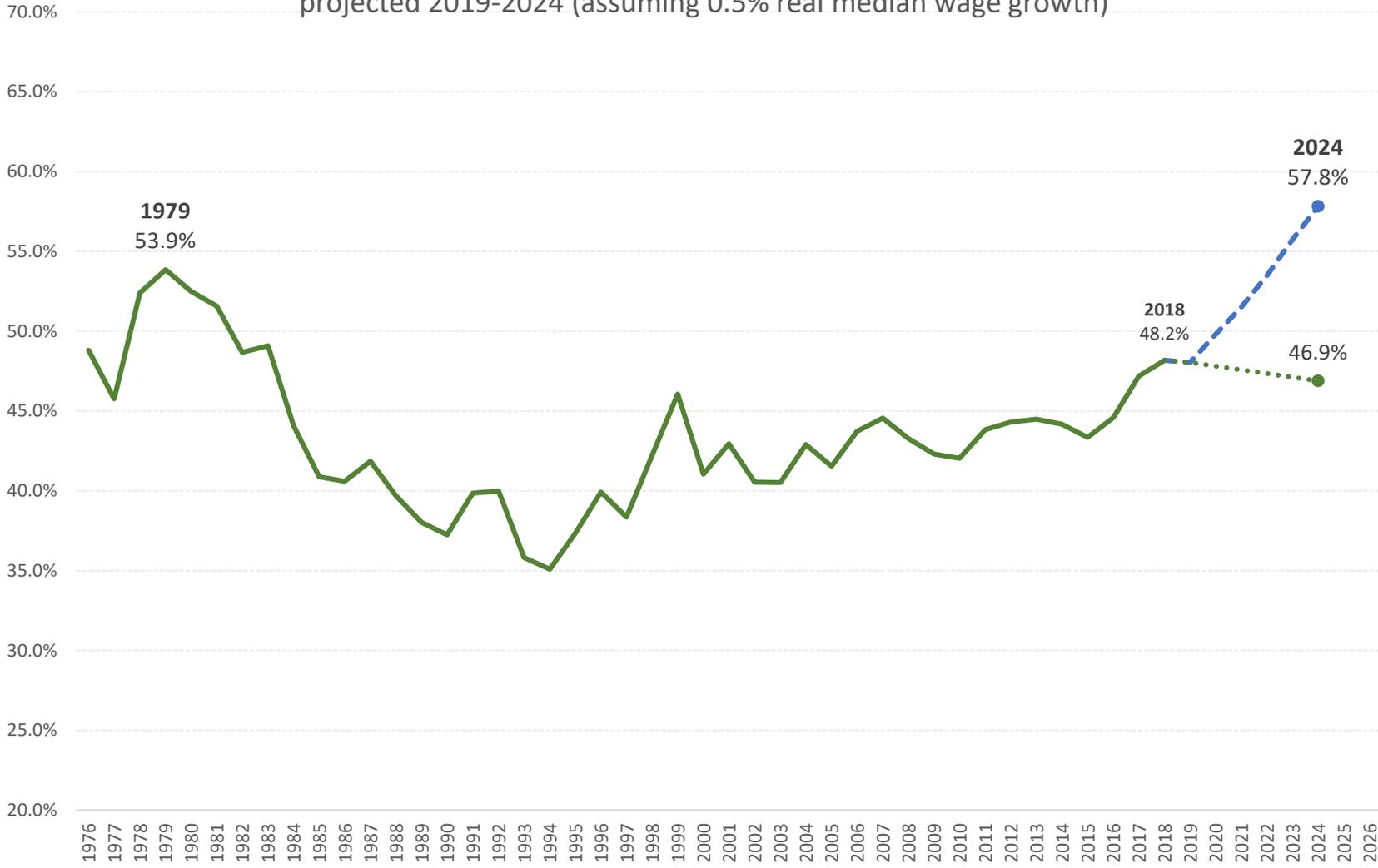


Note: Inflation measured using the CPI-U-RS. The 2018 FTFY median wage is estimated by growing the 2017 FTFY median wage at the growth rate of average hourly earnings of production workers from 2017 to 2018. This value is then projected at the growth rate of CPI plus 0.5 percent.

Source: EPI analysis of the Fair Labor Standards Act and amendments and the Current Population Survey (CPS) Annual Social and Economic

\$15 in 2024 would bring low-wage jobs closer to middle wage jobs

Vermont minimum wage as a percentage of the VT median wage, 1979-2018 and projected 2019-2024 (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?

WHAT PEOPLE OFTEN THINK

Teenager

Works part time
after school

Lives with parents

Earning extra
spending money



THE REALITY

Average age:
38 years old

88% are not teens,
they're 20 or older

45% are
40 or older

56% are
women

22% have children

62% work
full time

On average, those with
families earn **55%** of
their **family's total**
income

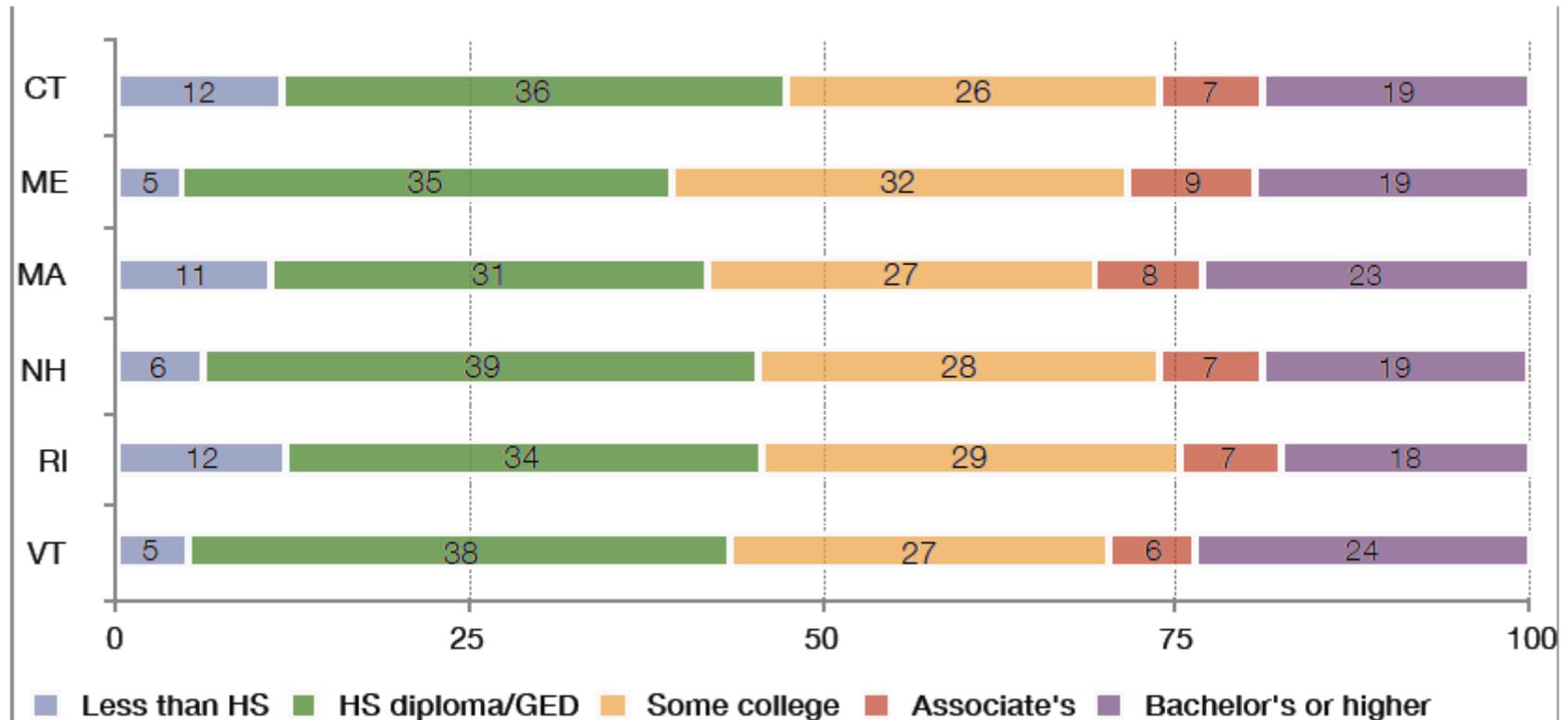


Statistics describe civilian workers, ages 16+, that would be affected by an increase in the Vermont minimum wage to \$15 by 2022.

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

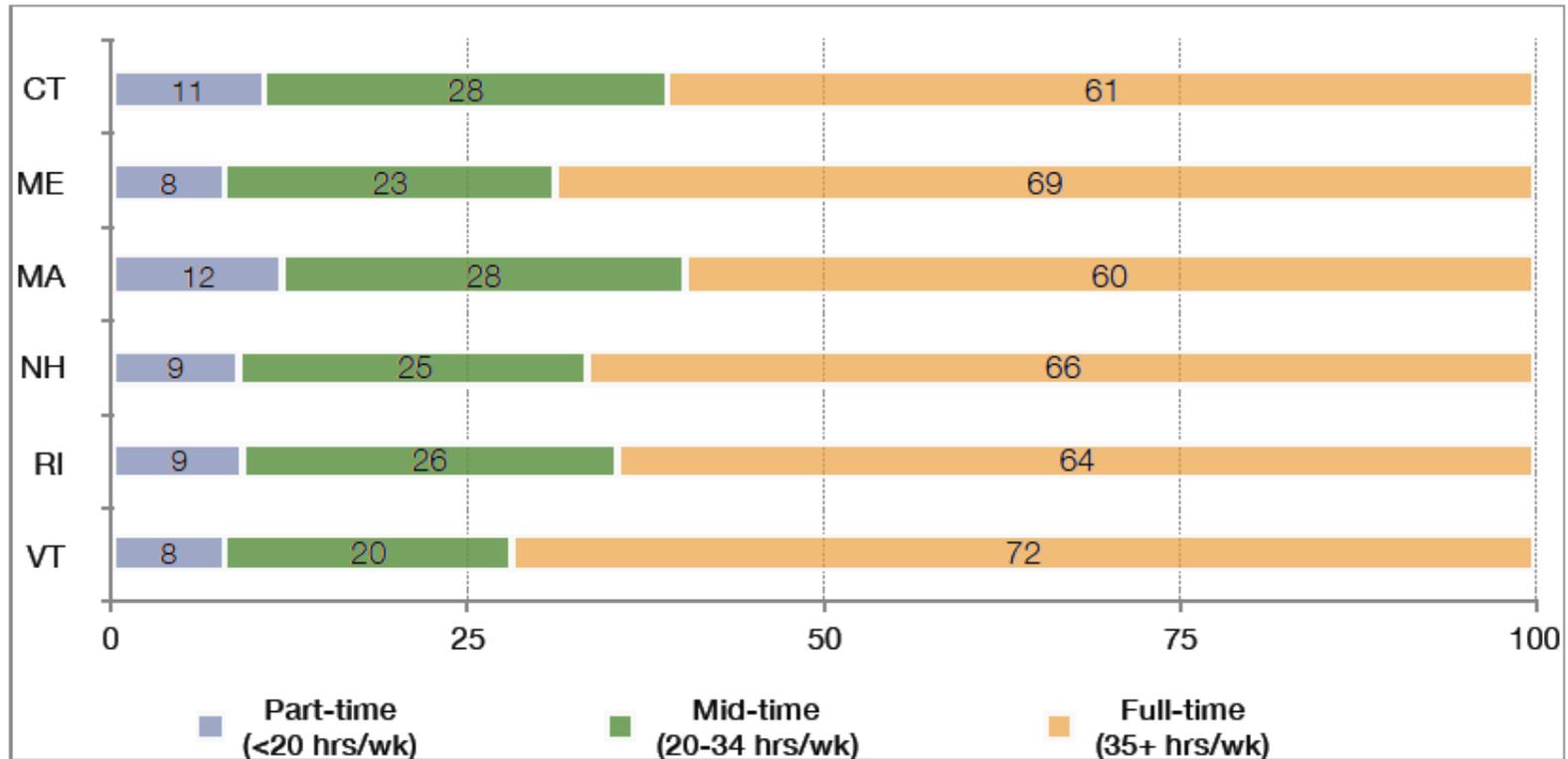
Figure 3: Educational Attainment of the Sub-\$15 Workforce



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

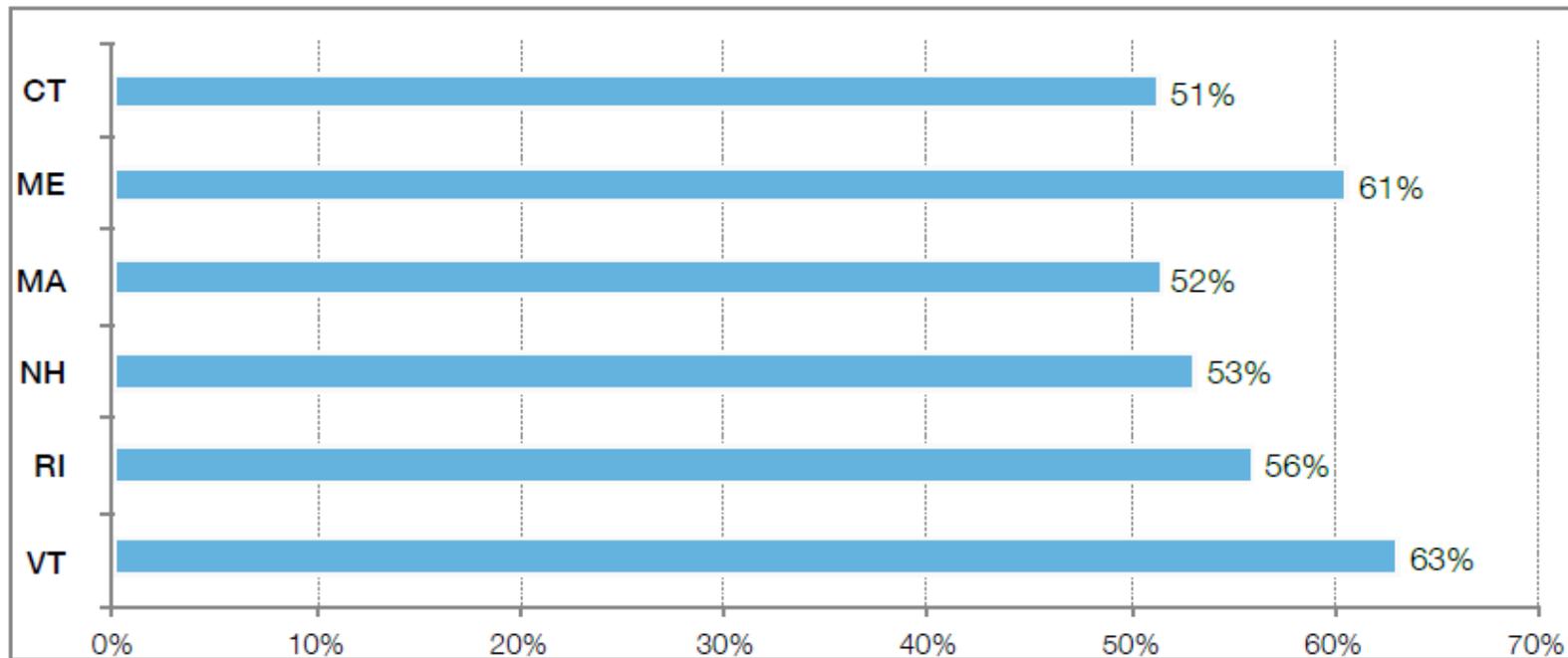
Figure 7: Full-Time and Part-Time Workers in the Sub-\$15 Workforce



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>

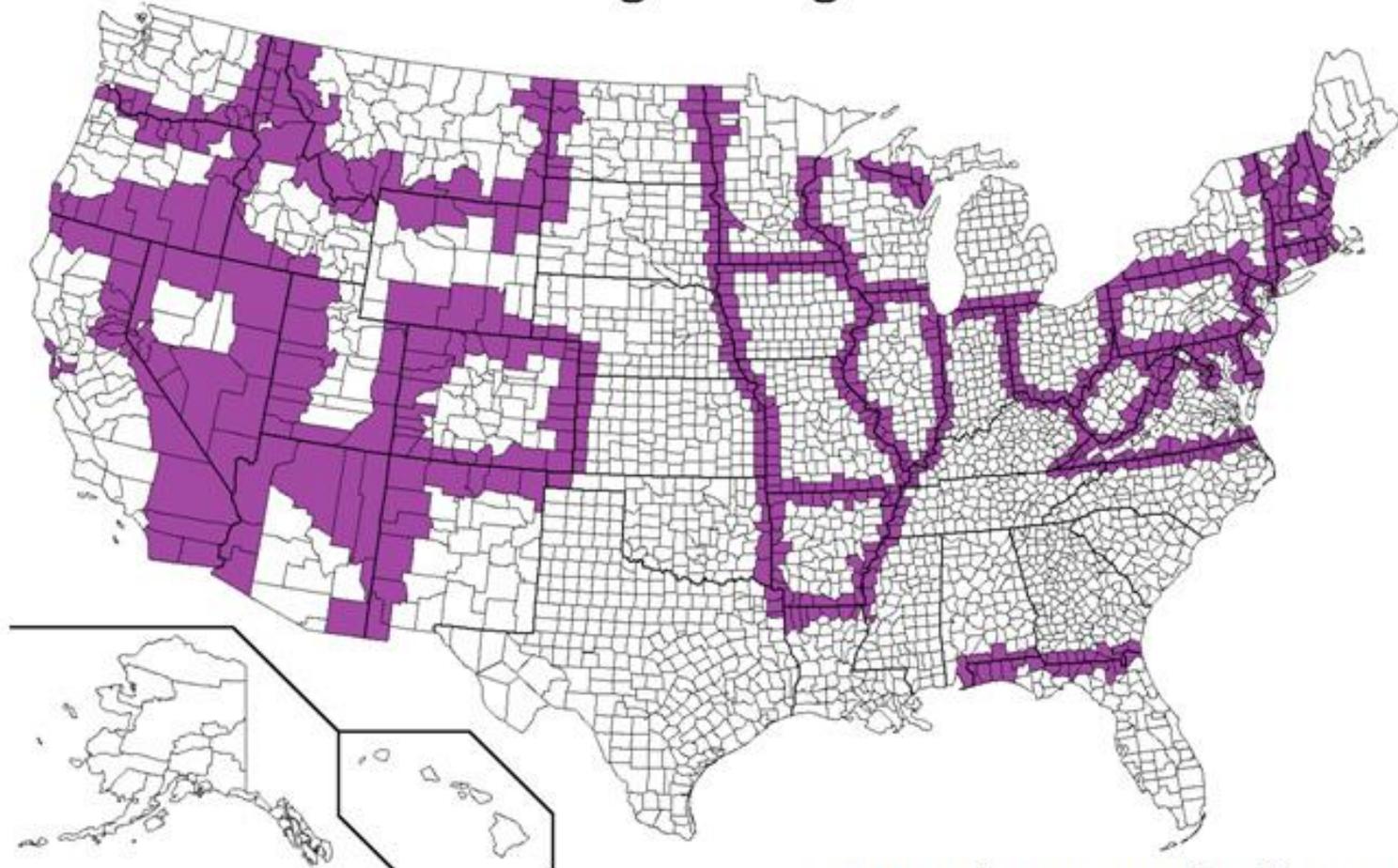
Research on the minimum wage and employment

- 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

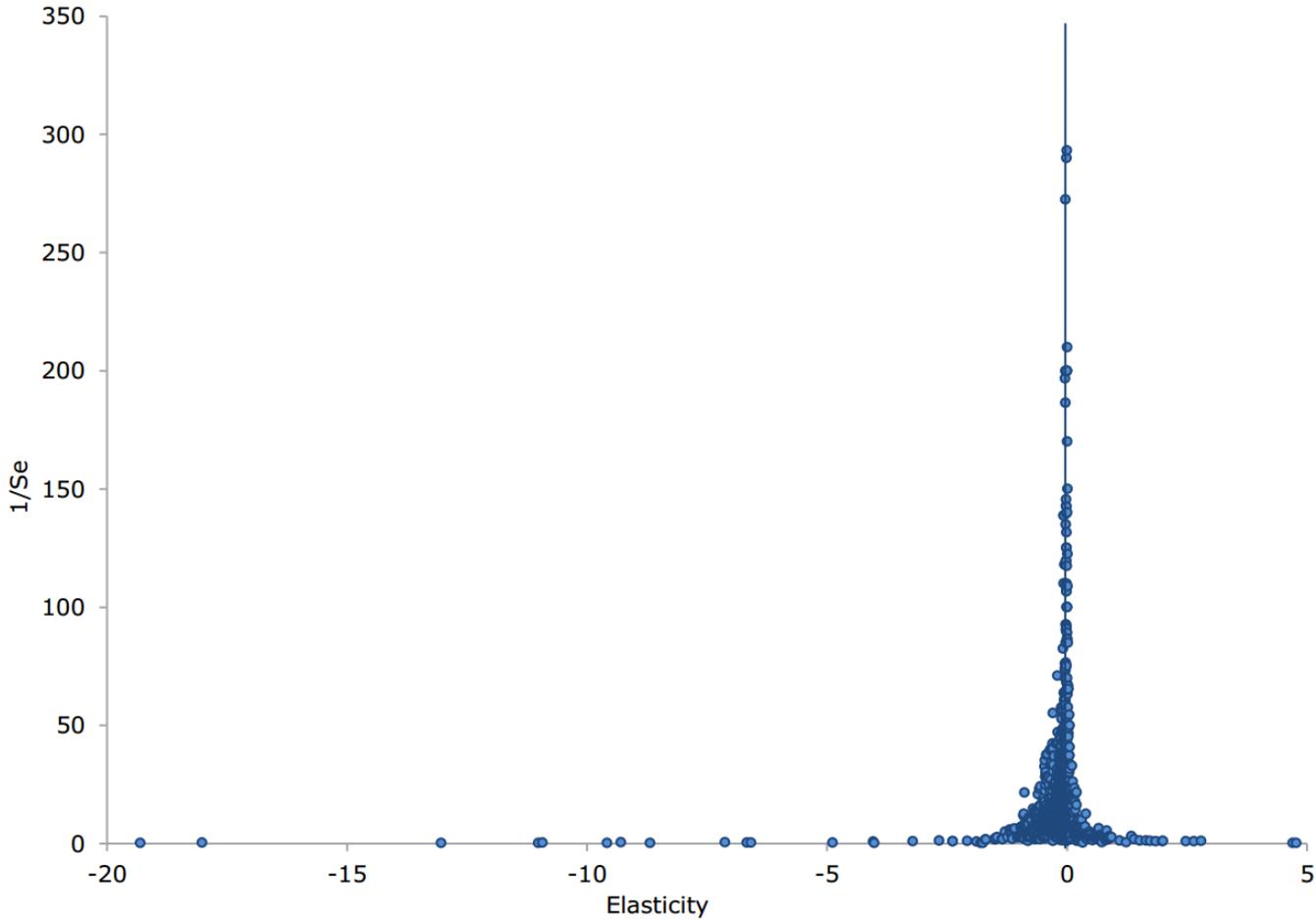
Minimum Wage Effects Across State Borders:
Estimates Using Contiguous Counties



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)

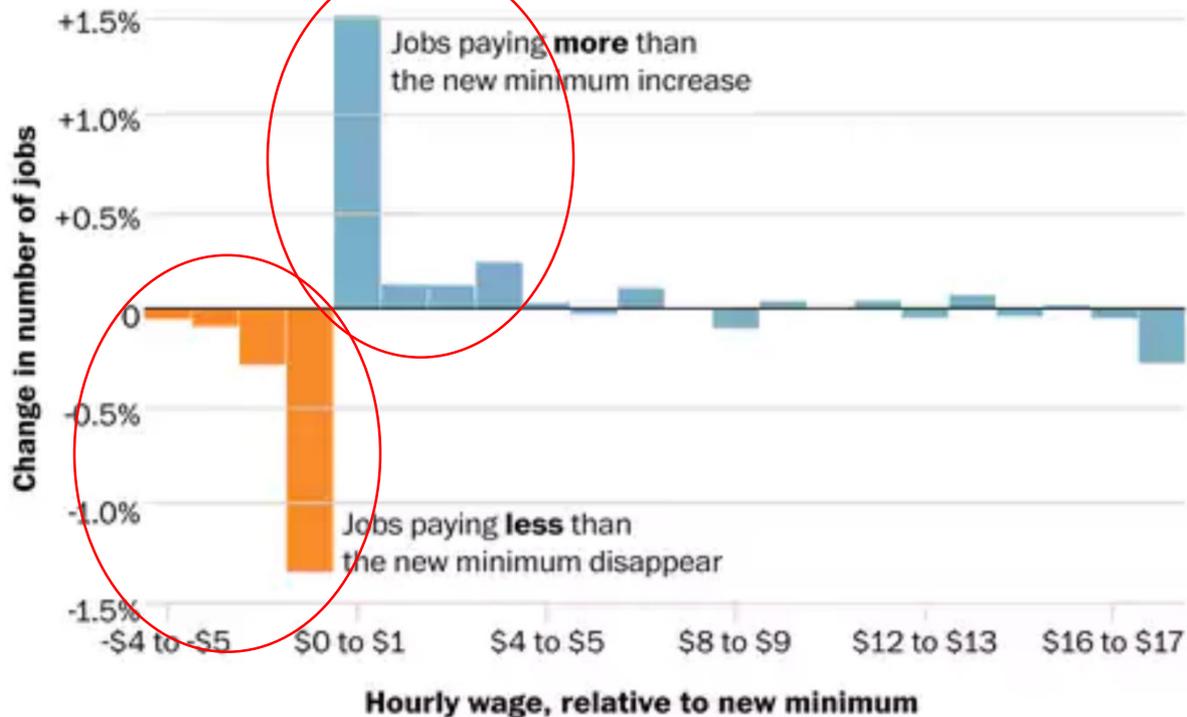


Source: Doucouliagos and Stanley (2009).

Recent NBER study illustrates shift in jobs

What minimum wage hikes do to employment

Percent change in the number of jobs five years after a change in the minimum wage, by wage level relative to the new minimum



Source: The Effect of Minimum Wages on the Total Number of Jobs: Evidence from the United States Using a Bunching Estimator
WAPO.ST/WONKBLOG

Source: Cengtiz, Dube, Lindner, and Zipperer (2019)

Why such a small 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

Concerns about “job loss” are often misleading; welfare is what matters

- Critics sometimes imply low-wage workers get pink slips and never work again
 - In reality, the low-wage labor market has significant churn: 10 percent of the lowest wage workers leave or start jobs every month
- Concerns about “job loss” are really shorthand for reductions in total hours worked over the year
 - Slower growth in hours might mean low-wage workers work less per week or spend longer in between jobs but **earn more per hour when they do work**
- What low-wage workers care about is their total income
 - Even if job growth slowed, workers may work fewer hours per week, fewer weeks per year, and still have the same or higher total income.
 - Recent research affirms these dynamics (Dube 2019, Rinz & Voorhies 2018, U. Washington 2018)

Conclusion

- Today's low-wage workers earn the same, if not less, per hour than their counterparts did 50 years ago, despite tremendous economic growth and productivity improvements
- Past minimum wage increases have been modest and too infrequent, leaving millions without sufficient earnings to afford their basic needs.
- Failure to raise the minimum wage adequately is responsible for rising inequality between the bottom and the middle class
- 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.
- Without bolder increases, we are unlikely to ever achieve a wage floor that affords a decent quality of life

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