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Forging Pathways from Poverty

Local Minimum Wage Overview

According to the National Conference of State Legislatures, 15 states have enacted laws prohibiting local units of government from adopting minimum wage laws for their jurisdictions. Colorado was one of the first states to pass legislation preempting local minimum wage hikes in 1999.[1] Despite the widespread prohibitions, 20 cities and counties nationwide have implemented minimum wages higher than the state or federal minimums, and at least five more are considering doing so.

It is critical that Colorado's localities have the ability to follow suit. While it appears that Colorado's economy is recovering from the recession, more families are struggling to make ends meet because wages have failed to keep pace with productivity and inflation. In fact, while Colorado's $8.23/hour minimum wage is higher than the federal minimum wage, as a full-time income it totals only $17,077—well below the federal poverty level of $19,790 for a family of three.[2] Colorado is a very diverse state, with highly variable costs of living. For example, the cost of living for a parent and two children in Pitkin County ($31.54/hour; $66,607/year) is well over twice that in Kit Carson County ($14.25/hour; $30,089/year).[3] If the preemption were repealed, Colorado's cities and counties would have the power to adjust for these wide differences and better provide for their residents.

The potential impact of a federal increase to $10.10 provides insight into potential benefits among Colorado's low-wage workforce and the entire state. In Colorado, a hike of this magnitude would affect 18.1 percent of the workforce - 269,000 directly and another 141,000 indirectly. Increased wages would total $578 billion and the GDP impact would be as large as $365,962,000 (.15 percent of total state GDP).[4] Local minimum wage increases would, of course, impact only a fraction of this population, but would likely have an effect among similar proportions of the workforce relative the entire workforce in that locality.

Background

The industries affected by local minimum wage hikes are largely food services, retail trade, building services, home health care, child care, leisure and hospitality. A robust body of research indicates that employees, employers and local economies benefit from minimum wage hikes. The impacts of implementing a local minimum wage have been most extensively explored in San Francisco, CA and Santa Fe, NM. The two cities were the first in the nation to do

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[1] Colorado Revised Statute, Minimum Wage of Workers, 8-6-101.
[2] U.S. Department of Health and Human Services. (2014). "Annual update of the HHS poverty guidelines," Federal Register, 79, 3593-3594. Available at: https://federalregister.gov/a/2014-01303
[3] Diana M. Pearce, "The Self Sufficiency Standard for Colorado 2011," Center for Women's Welfare, Prepared for the Colorado Center on Law & Policy.
[4] David Cooper, "Raising the Federal Minimum Wage to $10.10 would Lift Wages for Millions and Provide a Midest Economic Boost," (2013) accessed January 11, 2015, http://www.epi.org/publication/raising-federal-minimum-wage-to-1010/

so in 2004.[5] San Francisco's minimum increased from $8.50 to $10.47 - a 31 percent jump - and Santa Fe's increased from $5.15 to $8.50 - a 66 percent hike. Data regarding more recent hikes is limited because not enough time has passed for the effects to be fully realized. This paper will, however, cite projected outcomes of wage increases in select localities.

Effects on workers

Ample research concludes that workers benefit significantly from minimum wage increases. A long-term study on San Francisco's 2004 hike estimated that 55,000 workers received higher pay, totaling $1.2 billion in wages in the ten years since its implementation.[6] Santa Fe's increase was expected to directly or indirectly affect 17,000 workers, resulting in an increase of $2,647 in annual earnings per person, on average.[7] Overall, wages of retail trade and fast-food workers increased by 5-15 percent in San Francisco.[8] San Jose's increase from $9.00 to $10.15 in 2013 was projected to lift pay for about 69,000 employees, or 19 percent of the workforce.[9] Similarly, Chicago's recent minimum wage hike from $8.25 to $13.00 by 2019 is expected to impact 379,000 employees, equaling 25 percent of the city's workforce.[10] Seattle's increase from $9.32 to $15.00 by 2017-2021[11] will mirror these projections, upping pay for 102,000 people, or 24 percent of the workforce.[12] Estimates of the number and percent of the workforce to feel the impact of each wage increase includes both direct and indirect effects.

Any given increase in minimum wage affects 10-20 percent, and sometimes up to 30 percent, of the labor force, including direct and indirect effects.[13] Adult workers, workers of color and women are the primary beneficiaries. One study on the San Francisco increase projected that of those workers affected, 70 percent would be over age 26, nine percent would be white, 18

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[5] Arindrajit Dube, Suresh Naidu and Michael Reich, "The Economic Effects of a Citywide Minimum Wage," Industrial & Labor Relations Review 60, no. 4 (2007): 522-43, accessed December 14, 2014, http://www.irle.berkeley.edu/cwed/wp/economicimpacts_07.pdf.

[6] Michael Reich, "When Mandates Work: Raising Labor Standards at the Local Level," Berkeley CA: University of California Press (2014) 1-43.

[7] Robert Pollin, Expert Testimony, "New Mexicans for Free Enterprise v. City of Santa Fe, No. D-0101-CV-2003-468," (N.M. 1st Jud. Dist Ct., Mar. 9, 2004).

[8] John Schmitt and David Rosnick, "The Wage and Employment Impact of Minimum-Wage Laws in Three Cities," Center for Economic and Policy Research (2011) 1-30, accessed December 14, 2014, http://www.cepr.net/documents/publications/min-wage-2011-03.pdf.

[9] Michael Reich, "Raising the Minimum Wage in San Jose: Benefits and Costs," Policy Brief, Center for Wage and Employment Dynamics, UC Berkeley (2012) accessed on December 14, 2014, http://www.irle.berkeley.edu/cwed/briefs/2012-01.pdf.

[10] Emma Stieglitz, "Chicago Approves $13 Minimum Wage –Largest U.S. City to Raise Wage Locally," National Employment Law Project (2014) accessed December 14, 2014, http://www.nelp.org/page/-/Press%20Releases/2014/PR-Chicago-Approves-$13-Minimum-Wage.pdf?nocdn=1

[11] 2017 for schedule 1 employers (>500 employees); 2018 for schedule 1 employers (>500 employees) with medical benefits; 2019 for schedule 2 employers (<500 employees) with minimum compensation; 2021 for schedule 2 employers (<500 employees)
Office of the Mayor, accessed January 21, 2015, http://murray.seattle.gov/minimumwage/#sthash.jNeKM2q6.dpbs

[12] Amy Martinez, "Study: $15 wage floor would lift pay for 24% of Seattle workers," Seattle Times, March 24, 2014, accessed December 14, 2014, http://seattletimes.com/html/businesstechnology/2023218294_minimumwageseattlexml.html

[13] Dale Belman and Paul J. Wolfson, New Minimum Wage Research, Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, forthcoming.

percent African American, 21 percent Asian, and 22 percent Hispanic.[14] An analysis of the Santa Fe hike mirrored these estimates, with some variation among the composition of communities of color.[15]

Minimum wage increases push up the wage floor relative to median wage, pulling people out of poverty, reducing extreme poverty, and diminishing reliance on public services.[16] Although data regarding the effects of minimum wage increases on the use of public assistance is more readily available for state and national increases, it is worth considering. A 2013 study reported that 60 percent of spending on SNAP and 47 percent of nation-wide TANF funds are spent to provide support to members of working families. Of fast food-workers, 52 percent are enrolled in at least one public assistance program.[17] Taking into account state and federal minimum wage increases from 1990-2012, on average, a 10 percent increase reduces SNAP enrollment by between 2.4-3.2 percent, decreasing program costs by 1.9 percent,[18] or $1.4 billion annually.[19]

Effects on workplace

A number of studies reveal that implementing a local minimum wage leads to improved employee retention rates. Among employees in food service who were impacted by the San Francisco ordinance, tenure was five months longer on average.[20] When the minimum wage for security screeners at the San Francisco airport was raised from $5.75 to $10 in 2005, turnover declined by 80 percent.[21] Evidence suggests that on a city/county level, for every one percent increase in wages, turnover decreases by 1.45 percent.[22] Preventing turnover is a prime cost-saving benefit to private sector employers. The cost of replacing a low-wage worker is approximately 16 percent of the employee's annual salary.[23] Local minimum wage increases can mitigate these costs.

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[14] Alex Lantsberg, "Assessing the Distribution of Wage Increases and Answering Public Policy Questions Regarding a San Francisco Minimum Wage," UC Berkeley Labor Center (2003) accessed December 14, 2014, http://laborcenter.berkeley.edu/minwage/minwage.pdf.

[15] Robert Pollin, "The Wage and Employment Impact of Minimum-Wage Laws in Three Cities." Center for Economic and Policy Research (2011) accessed January 11, 2015, http://www.cepr.net/documents/publications/min-wage-2011-03.pdf

[16] Dube, Naidu and Reich, "The Economic Effects of a Citywide Minimum Wage," 522-543.

[17] Sylvia Allegretto, Marc Doussard, Dave Graham-Squire, Ken Jacobs, Dan Thompson and Jeremy Thompson, "Fast Food, Poverty Wages: The Public Cost of Low-Wage Jobs in the Fast-Food Industry," UC Berkeley Labor Center (2013) accessed December 14, 2014, http://laborcenter.berkeley.edu/publiccosts/fastfoodpovertywages.shtml.

[18] Rachel West and Michael Reich, "The Effects of Minimum Wage on SNAP Enrollments and Expenditures," Center for American Progress (2014) accessed December 14, 2014, http://www.americanprogress.org/issues/economy/report/2014/03/05/85158/the-effects-of-minimum-wages-on-snap-enrollments-and-expenditures/.

[19] USDA, Supplemental Nutrition Assistance Program Participation as of January 9, 2015, accesses January 11, 2015, http://www.fns.usda.gov/sites/default/files/pd/SNAPsummary.pdf

[20] Dube, Naidu and Reich, "The Economic Effects of a Citywide Minimum Wage," 522-543.

[21] Michael Reich, Peter Hall and Ken Jacobs. "Living wage policies at the San Francisco Airport: Effects on workers and businesses," Industrial Relations (2005) 44(1), 106-38, accessed January 11, 2015, http://onlinelibrary.wiley.com/doi/10.1111/j.0019-8676.2004.00375.x/abstract

[22] Ken Jacobs and Dave Graham-Squire, "Labor Standards for School Cafeteria Workers, Turnover and Public Programs Utilization," Berkeley Journal of Employment and Labor Law (2010) 21(2): 447-458, accessed January 11, 2015, http://scholarship.law.berkeley.edu/bjell/vol31/iss2/6/

[23] Healther Boushey and Sarah Jane Glynn, "There are Significant Business Costs to Replacement Employees," Center for American Progress (2012) accessed December 14, 2014, http://www.americanprogress.org/wp-content/uploads/2012/11/CostofTurnover.pdf.

Concerns are often expressed that minimum wage hikes increase product and service prices. A number of studies show that if there are increases, they are generally small and do not decrease demand. After passage of San Francisco's ordinance, which increased the minimum wage by 31 percent, table-service restaurants increased their prices by 2.8 percent and fast-food restaurants increased their prices by 6.2 percent relative to prices in neighboring Alameda County. For example, In-N-Out Burger in San Francisco currently charges $4.24 for a Double-Double. A price hike of this size would be equivalent to a 25 cent increase in the price of the burger. These small increases did not decrease product demand.[24] Overall, businesses that adopt higher minimum wages are at no disadvantage relative to competitors with regard to prices.[25] One report indicated that, on average, a 10 percent increase in the minimum wage results in a .7 percent increase in restaurant prices, slightly lower than the price increase seen in San Francisco.[26] In most other low-wage industries, price increases are not detectible.[27]

Potential increases in operating costs that may worry businesses are largely absorbed thanks to a myriad of money-saving factors. An analysis of the San Francisco Airport increase indicated that employers saw a 35 percent improvement in overall employee performance, a 47 percent improvement in morale, a 29 percent reduction in absenteeism, a 45 percent reduction in grievances, a 44 percent decrease in disciplinary issues and a 45 percent improvement in customer service.[28] Taking into account these benefits, a prospective study of the San Francisco minimum wage increase suggested that a 26 percent increase would result in a net increase of 1.1 percent in operating costs to the organization.[29] A more recent aggregate study determined that a 10 percent increase would result in increased operating costs of .56 percent.[30] It is important to note that the San Francisco 2007 study showed no indication of diminished health insurance coverage to off-set the increase in wages. Nor were there signs of increased business closures.[31]

Effects on local economy

Low-wage industries generally serve locally based populations including residents and visitors. Businesses in affected industries cannot practically be relocated outside the city or county while maintaining their customer base, preventing flight. For example, the In-N-Out Burger located the Fisherman's Wharf in San Francisco relies on business from tourists who come to enjoy the

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[24] Dube, Naidu and Reich, "The Economic Effects of a Citywide Minimum Wage," 522-543.

[25] Michael Reich, Ken Jacobs and Annette Bernhardt, "Local Minimum Wage Laws: Impacts on Workers, Families and Businesses," Report prepared for the Seattle Income Inequality Advisory Committee (2014) 1-32, accessed January 12, 2015, https://escholarship.org/uc/item/9pf1225f

[26] Daniel Aaronson, "Price Pass-Through and the Minimum Wage," The Review of Economics and Statistics (2001) 83(1):158-169, accessed January 11, 2015, http://www.mitpressjournals.org/doi/abs/10.1162/003465301750160126#.VLNvZWTF_e0

[27] Reich, Jacobs and Barnhardt, "Local Minimum Wage Laws: Impacts on Workers, Families and Businesses," 1-32.

[28] Michael Reich, Peter Hall and Ken Jacobs, "Living wage policies at the San Francisco Airport: Effects on workers and businesses," Industrial Relations (2005) 44(1), 106-38, accessed January 11, 2015, http://onlinelibrary.wiley.com/doi/10.1111/j.0019-8676.2004.00375.x/abstract

[29] Michael Reich and Amy Laitinen, "Raising Low Pay in a High Income Economy: The Economics of a San Francisco Minimum Wage," UC Berkeley, Institute for Research on Labor and Employment, Report for the San Francisco Board of Supervisors (2003) accessed December 14, 2014, http://irle.berkeley.edu/research/minimumwage/minwage_may03.pdf.

[30] Reich, Jacobs and Bernhardt, "Local Minimum Wage Laws: Impacts on Workers, Families and Businesses," 1-32.

[31] Dube, Naidu and Reich, "The Economic Effects of a Citywide Minimum Wage," 522-543.

view of the bay and business men and women who work in the nearby office buildings. Were the restaurant to relocate to San Rafael to avoid having to pay its employees more, its regular customer base would not cross the Golden Gate Bridge to get a burger, but would instead get a hot dog at near-by Johnny Rockets. The success of the types of businesses that are impacted by minimum wage increases is strongly tied to geographical location. The evidence reveals that localities with an increased minimum wage thrive in comparison to their neighbors.[32]

One study found that between July 2004 and July 2005, employment growth in leisure and hospitality was higher in Santa Fe, at 3.2 percent, than in nearby Albuquerque, Las Cruces and Farmington. Total non-farm employment growth in Santa Fe during this same time period was equal to the state wide level, at 2 percent. These results indicate negligible or positive effects on employment growth.[33]

A comparison of San Francisco with neighboring Alameda County is also telling. Restaurant pay and the rate of employment growth were similar in these two areas before the ordinance was enacted. Nine to ten months after the wage ordinance in 2004, employment growth was markedly higher in San Francisco, at 2.1 percent, than in Alameda, where it declined by .03 percent.[34] Longer-term impacts are even more remarkable. From 2004-2011, private sector growth reached 5.6 percent in San Francisco, while neighboring counties saw a 4.4 percent decline. Among food-service workers, employment increased by 17.7 percent, greatly outpacing other Bay Area counties.[35]

An additional study considered the effects of both the Santa Fe and the San Francisco hikes three years after the respective ordinances were implemented, and found no negative impacts on employment growth rates.[36] A large scale analysis of the impact of state minimum wage increases from 1990-2011 among hundreds of pairs of adjacent counties located in neighboring states revealed similar findings. Controlling for regional and local differences, no statistically significant impacts were found with regard to employment rates or hours among low-wage industries.[37]

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[32] "City Minimum Wage Laws: Recent Trends and Economic Evidence on Local Minimum Wage," National Employment Law Project (2014) accessed December 14, 2014, http://www.nelp.org/page/-/rtmw/City-Minimum-Wage-Laws-Recent-Trends-Economic-Evidence.pdf?nocdn=1

[33] Robert Pollin and Jeannette Wicks-Lim, "Comments on Aaron Yelowitz, 'Santa Fe's Living Wage Ordinance and the Labor Market,'" Political Economy Research Institute, University of Massachusetts Amherst (2005) accessed January 12, 2015, http://scholarworks.umass.edu/cgi/viewcontent.cgi?article=1085&context=peri_workingpapers

[34] Dube, Naidu and Reich, "The Economic Effects of a Citywide Minimum Wage," 522-543.

[35] Michael Reich, Ken Jacobs and Miranda Dietz (eds.), When Mandates Work: Raising Labor Standards at the Local Level, University of California Press, 2014.; Susan Berfield, "San Francisco's Higher Minimum Wage Hasn't Hurt the Economy," Business Week, January 22, 2014, accessed January 12, 2015, http://www.businessweek.com/articles/2014-01-22/san-franciscos-higher-minimum-wage-hasnt-hurt-the-economy.; Carolyn Lochhead, "S.F. praised as model for U.S. on increasing minimum wage," SF Gate, January 28, 2014, accessed January 12, 2015, http://www.sfgate.com/politics/article/S-F-praised-as-model-for-U-S-on-increasing-5183378.php

[36] Schmitt and Rosnick, "The Wage and Employment Impact of Minimum Wage Laws in Three Cities," 1-30.

[37] Reich, Jacobs and Bernhardt, "Local Minimum Wage Laws: Impacts on Workers, Families and Businesses," 1-32.

The minimum wage increases in each city also spurred local spending. Low-wage workers are likely to spend most of their earnings from an increase, energizing local economies.[38] The increase in San Francisco was expected to result in $45 million in additional spending by low-income families on food, clothing and other necessities at local businesses.[39] It was estimated that Santa Fe's 2004 minimum wage increase would lead to an increase in spending of $15 million, upping local retail sales by 5 percent.[40]

It is also important to understand that stagnant wages are having a profound impact on America's large retailers. The Center for American Progress explains that the quickly increasing cost of living in conjunction with disproportionately low wage growth "leaves the median married couple with two kids with $5,500 less to spend annually on food, clothes, and other essentials that retailers sell."[41] Low wages lead to weak demand, which leads to slow growth, which results in low wages. This cycle cripples consumers, companies, and the entire U.S. economy. In fact, eighty-eight percent of top retailers identified weak consumer spending as a risk to their stock prices, and 68 percent call out flat or falling wages as a major factor.[42] It would be in the best interest of businesses to raise pay for their employees in order to encourage families to shop and dine more freely.

Macroeconomic perspective

Macroeconomic observations also indicate the importance of fighting wage stagnation. In 2001, the U.S. ranked fifth among developed countries in its share of low paying jobs. By 2012 the U.S. had leapt to number one.[43] According to Standard & Poor's, the federal minimum wage peaked in 1968 at $1.60, the equivalent of $11 today. Since then, it has faced a serious decline in purchasing power.[44] The federal minimum has stood at $7.25 since 2009.

Low-income individuals rely heavily on their wages to meet their basic needs, whereas those with higher incomes get a large portion of their income from investment income such as capital gains and dividends.[45] Stagnant wages for lower earners and increased inequality has reduced aggregate demand. Relative to the aggregate savings of households and corporations, there is persistently insufficient economic demand.[46] Economic growth is not as robust or well-rounded as it could be due to a lack of consumer confidence and the consequential dearth of spending

[38] David Johnson, Jonathan Parker and Nicholas Soueles, "Household Expenditure and the Income Tax Rebates of 2001," Working Paper 10784, National Bureau of Economic Research (2004) accessed December 14, 2014, http://www.nber.org/papers/w10784.pdf?new_window=1

[39] Lantsberg, "Assessing the Distribution of Wage Increases and Answering Public Policy Questions Regarding a San Francisco Minimum Wage," 1-44.

[40] Pollin, "The Wage and Employment Impact of Minimum-Wage Laws in Three Cities."

[41] Jennifer Erickson, "The Middle-Class Squeeze," Washington: Center for American Progress," (2014) accessed January 11, 2015, www.cdn.americanprogress.org/wp-content/up-loads/2014/09/MiddleClassSqueezeReport.pdf

[42] "Top 100 Retailers Chart 2014," U.S. Securities and Exchange Commission, EDGAR database, accessed January 11, 2015, http://www.sec.gov/edgar/searchedgar/companysearch.html

[43] Where the Rubber Hits the Road: Wage & Salary Growth, May 5, 2014

[44] Standard & Poor's Financial Services LLC, "Economic Research: How Increasing Inequality is Dampening U.S. Economic Growth, and Possible Ways to Change the Tide," 2014, accessed January 26, 2015, http://bit.ly/1lwvNkw.

[45] Ellen Zentner and Paula Campbell, "Inequality and Consumption," Morgan Stanley U.S. Economics, September 22, 2014.

[46] Lawrence Summers, "Crisis Yesterday and Today," Jacques Pollack lecture, International Monetary Fund, November 2013, accessed January 26, 2015, http://www.imf.org/external/np/res/seminars/2013/arc/.

among low-income families. However, when these households have sufficient income to meet their most basic needs, or have discretionary income available for additional spending, economic growth is stimulated. While high earners hold a significant portion of the nation's wealth, they have a lower marginal propensity to consume (MPC) than other households. The MPC of households with an income of less than $35,000 is three times greater than the MPC for households with an income of $200,000 or more.[47] Because those at the top of the income and wealth distribution save at a higher rate, less spending activity is taking place that would stimulate the economy.[48]

Growth trends between 1950 and 2006 reveal that reducing income inequality is critical to sustained, long-run growth. Low levels of income inequality are correlated with periods of extended, rapid growth, whereas higher levels of inequality correspond to economic growth spurts that dissipate quickly. Efficiency and equality are not opposing forces.[49] While not a cure-all, increases in the minimum wage are an important tool for combatting the inequality and wage stagnation that drag down the economy.

Conclusion

The empirical evidence overwhelmingly indicates that restoring power to local governments to set a local minimum wage above the statewide minimum has positive effects on workers, employers and local economies.

[47] Atif Mian and Amir Sufi, "Household Balance Sheets, Consumption and the Economic Slump," February 2013, accessed January 26, 2015, https://www.ucl.ac.uk/economics/non-seminar/macrodynamics/mian.pdf.
[48] Atif Mian and Amir Sufi, Secular Stagnation and Wealth Inequality," House of Debt, March 23, 2014, accessed January 26, 2015, http://houseofdebt.org/2014/03/23/secular-stagnation-and-wealth-inequality.html.
[49] Jonathan D. Ostry, Andrew Berg, and Charalambos G. Tsangarides, "Redistribution, Inequality and Growth," IMF, February 2014; Berg and Ostry, "Inequality and Unsustainable Growth: Two Sides of the Same Coin?," IMF, April 2011; Berg and Ostry, "Equality and Efficiency," IMF, September 2011.