BRIEFING PAPER

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A Strong Minimum Wage Can Help Working Families, Businesses and Our Economy Recover

With the worst recession in a generation still being felt across the nation, state and federal leaders are focused on getting their economies moving again while helping working families make ends meet. Raising the minimum wage is a key strategy for doing both and should be part of an economic recovery agenda. This briefing paper details the positive impact of raising the minimum wage – and indexing it to inflation so that it does not continue to fall in real value every year – on working families, local businesses and state economies. By boosting pay in the low-wage jobs on which more families are relying than ever, a stronger minimum wage will help restore the consumer spending that powers our economy and that local businesses need in order to grow. A robust minimum wage is a key building block of sustainable economic recovery.

The Impact on Working Families

In This Economic Climate, Families Are Relying More Than Ever on Low-Wage Jobs

Even before the recession, our economy was shifting, with fewer and fewer middle-class jobs, and a growing low-wage workforce. The recession and tepid recovery have only accelerated this shift. While net job losses in 2008-2009 were widely distributed across industries and included significant losses in higher-wage industries, new job growth in 2010 and 2011 has been driven disproportionately by industries with median wages below $15 per hour. In fact, the top three occupations in industries that experienced job growth in 2010 were retail sales persons, cashiers, and food preparation workers – all occupations with median wages below $10 per hour.[1]

This means that working families are relying more than ever on low-wage jobs to make ends meet. Households with an out of work construction worker are being supported by the earnings of a home health aide. And workers who lost manufacturing jobs are now working as cashiers or in restaurants.

A Strong Minimum Wage Boosts Pay Scales in the Jobs Where Millions of American Adults Spend Their Careers

This is not just a short-term trend. Seven of the top ten growth occupations as projected by the Bureau of Labor Statistics for the next decade are low-wage jobs, including home health aides, customer service representatives, food preparation and serving workers, personal and home care aides, retail salespersons, and office clerks.[2] In the years to come, the minimum wage will therefore play an ever bigger role in shaping wages as the economy's shift to low-wage service jobs accelerates.

A stunning 35 million Americans – 26 percent of our workforce – earn less than $10.55 an hour. And another 18 million – totaling close to 40 percent of American workers – earn just a few dollars more.[3]

Contrary to stereotypes, the overwhelming majority of low-wage workers are adults, not teens, and they contribute a substantial portion of their households' incomes. 76% of the workers earning at or near the current very low minimum wage of $7.25 are adults 20 or over.[4] And if the minimum wage were raised to around $10.00, the workforce affected would be even more overwhelmingly adult:

Age	*% of Workers Affected by a $10 Minimum Wage*
16-19	16.6%
20-24	15.7%
25-34	24.1%
35-44	17.2%
45-54	16.0%
55-64	10.4%

Source: Economic Policy Institute[5]

When one considers that three of the fastest growing low-wage occupations are types of home health aides – a field where the average worker age is close to 40[6] – it is easy to see why this is true.

Families rely heavily on the wages these workers earn. An analysis of the 1996-97 federal minimum wage increase found that the average minimum wage worker contributed more than half (54%) of her family's weekly earnings.[7]

The minimum wage is our only national policy that sets standards for pay at the bottom end of our economy. When it is kept at a meaningfully high level, it boosts pay scales broadly for workers in the frontline industries that make our economy run.

However, because it has been allowed to erode, the minimum wage is not doing the job that it was meant to do. Instead, it has dragged down pay for low-wage workers at the very time that our changing economy has made low-wage jobs more central than ever. The minimum wage would be more than $10.00 per hour if it had kept pace with the rising cost of living since 1968. Instead it stands at just $7.25 per hour – not nearly enough to support a low-wage worker. Moreover, research has shown that this erosion of the minimum wage is a key factor contributing to widening economic inequality over the past thirty years.[8]

The Impact on the Economy

Increasing the Minimum Wage Boosts the Consumer Spending that Local Economies Need to Grow – and Ultimately Create Jobs

Consumer spending is the engine that powers our domestic economy, comprising 70 percent of gross domestic product. Restoring consumer demand is essential for stabilizing the economy and allowing local businesses to expand and create jobs.

Raising wages for low and moderate income workers is one of the most effective strategies for boosting demand. Unlike higher earners who can afford to save some of their income, working families spend higher wages on necessities at local businesses, re-circulating them back through the economy.

Raising the minimum wage is a key strategy for boosting consumer spending, and one of the only ways to do so that doesn't worsen state or federal budget deficits. The scale of this spending can be significant. According to the Federal Reserve Bank of Chicago, every $1.00 in wage increase for a minimum wage worker results in $3,500 in new consumer spending by his or her household over the following year.[9]

As a result, the Economic Policy Institute estimates that the modest increase in the federal minimum wage in July 2009 generated $5.5 billion in consumer spending across the economy. And restoring the U.S. minimum wage to its historical level, as President Obama proposed during the 2008 presidential campaign, would do even more to help the economy by creating more than $60 billion in new consumer spending.[10]

In fact, when the federal minimum wage was first enacted in 1938 at the height of the Great Depression, its twin goals were maintaining a wage floor to keep workers out of poverty, and stimulating the consumer spending necessary for economic recovery. President Franklin Roosevelt called for its enactment as "an essential part of economic recovery," explaining that by increasing the purchasing power of those workers "who have the least of it today, the purchasing power of the Nation as a whole – can be still further increased, (and) other happy results will flow from such an increase." [11]

The Impact on Businesses

A Higher Minimum Wage Does Not Cause Job Losses

Contrary to opponents' claims, a large body of rigorous academic research finds that increases in the minimum wage do not lead to job loss. Over nearly two decades, studies of employment levels before and after minimum wage increases – across states, counties, metropolitan areas, and commuting zones – have found that minimum wage increases did not lead to job loss, even during period of high unemployment.

This research began in 1994 with the landmark study by Princeton economists David Card and Alan Krueger examining employment at fast food restaurants on the New Jersey-Pennsylvania border after New Jersey raised its minimum wage while Pennsylvania did not.[12] The authors found no evidence that New Jersey's minimum wage increase led to job losses. In fact, they found that employment increased at fast food restaurants in New Jersey following the increase.

Card and Krueger's study upended conventional assumptions and led to fifteen years of intense research as other economists tested their findings and, in the process, developed more and more sophisticated research models for teasing out the actual impact of minimum wage increases. The result has been that the most rigorous research has confirmed Card and Krueger's findings that changes in the minimum wage do not lead to job losses, and simply are not a major factor, one way or the other, in employer hiring decisions. As a consequence, in 1999, the President's Council of Economic Advisors reported that "the weight of the evidence suggests that modest increases in the minimum wage have had very little or no effect on employment."[13] And in 2006 five Nobel Laureates and six past presidents of the American Economic Association joined hundreds of other economists in called for raising the minimum wage, finding that a higher minimum wage "can significantly improve the lives of low-income workers and their families, without the adverse effects that critics have claimed."[14]

This large and growing body of research has recently been reaffirmed by the most sophisticated minimum study to date, which was published in November 2010 by economists at the University of Massachusetts, University of North Carolina, and University of California. It examined employment levels in the hundreds of neighboring counties in the United States that straddle a border between states that had different minimum wage rates at any time between 1990 and 2006. This approach of comparing pairs of counties rather than pairs of states reflects a significant improvement in minimum wage research. Because of their smaller size, neighboring counties are far more likely to have similar economic conditions than neighboring states, and comparing counties therefore does a better job of controlling for other factors that affect employment at the state level. In their new study, which was published in one of the nation's top scholarly economics journals, these researchers show definitively that even over a period of more than fifteen years, minimum wage increases did not cause job losses in the counties with higher minimum wages.[15]

Equally important for the current economic moment, other new research from 2010 shows that these results hold true even during periods of recession and high unemployment.

Economists at the University of California examined the impact of minimum wage increases during recessions over the past two decades, and found that even the minimum wage increases that occurred during the Great Recession of 2007-2009 did not worsen unemployment, or slow employer rehiring.[16]

The two new 2010 studies also conclusively confirm that previous studies – most notably those by economist David Neumark – claiming to find job losses resulting from minimum wage increases were erroneous. The 2010 studies show that Neumark and others who have used his approach have failed to adequately control for other changes that were taking place at the same time in state economies, such as regional economic shocks and long-term trends in employment growth. The new studies show that when one incorporates improved controls to factor out the impact of those trends, the evidence of job losses resulting from the minimum wage disappears.

A Strong Wage Floor Reduces Employee Turnover and Increases Productivity

One of the reasons that the minimum wage ranks so low among the economic factors that influence hiring decisions is because wage increases bring with them benefits that can offset much of their costs.

Most significantly, raising wages reduces costly employee turnover and increases productively. When the minimum wage goes up, employers can enjoy these benefits of paying higher wages without being placed at a competitive disadvantage, since all companies in their field are required to do the same.

Research has documented how, especially in low-wage industries, raising wages reduces turnover, because workers who are paid more stay with their current employer longer. For example, a study of the effect of a wage increase for workers at the San Francisco airport found that annual turnover among security screeners plunged from 95 percent to 19 percent when their hourly wage rose from $6.45 to $10 per hour under a living wage policy. [17] Similarly, a study of a living wage for home care workers in the Bay Area found that turnover fell by 57 percent following an increase in their wages.[18] And a study of the effect of a living wage policy for firms that contract with the city of Los Angeles found that staff turnover rates at firms affected by the policy averaged 17 percent lower than at firms that were not affected.[19]

This reduced labor market churn yields significant savings for employers by reducing recruitment, re-training and re-staffing costs, which are quite substantial, even in low-wage sectors. Academic studies of hotel, retail and restaurant workers in four cities found replacement costs for non-managerial workers ranged from $2,090 to as high as $12,882 per hire.[20] Similarly, trade association analyses by groups including the Coca-Cola Retailing Research Council and the American Hotel and Motels Association have found a replacement cost range of between $3,500 and $8,000 per hire.[21] The *Harvard Business Review* estimates that in skilled and semi-skilled jobs, employee replacement costs are typically 1.5 to 2.5 times the employee's annual salary.[22] The University of California researchers who authored the San Francisco Airport study projected that the re-staffing costs for replacing a low-wage worker at the airport averaged $4,275 per hire.[23]

Studies have also shown that boosting pay for low-wage workers benefits businesses by increasing worker productivity and performance. After wages increased at the San Francisco airport under a living wage policy, 35 percent of employers reported improvements in work performance, 47 percent reported better employee morale, 44 percent reported fewer disciplinary issues, and 45 percent reported that customer service had improved.[24] In Boston, firms who raised wages as a result of the city's living wage policy for contractors reported improved morale and increased work effort among their employees.[25]

Business Leaders Have Recognized the Benefits of a Strong Minimum Wage

Because of these benefits, many businesses across the country support raising the minimum wage – and often pay their workers above the minimum wage – recognizing the benefits that come with compensating employees well. This includes major national employers in low-wage industries, such as retail and home care.

Costco, one of the nation's leading mass retailers, is a case in point. Costco pays starting wages of $11.00 to $11.50 per hour at its stores in all 50 states, while most starting wages for most retailers average a dollar or less above the minimum wage.[26] Costco's average wages are $17 per hour – 40 percent more than Sam's Club, the warehouse chain operated by Wal-Mart. Numerous studies have found that Costco's high-wage approach has paid off, by reducing staff turnover and increasing employee productivity. The *Harvard Business Review* found that Costco's turnover is "unusually low" – 17 percent overall, and just 6 percent after one year's employment, compared with Wal-Mart's 44 percent rate.[27] A 2004 analysis by *Business Week* found that as a result of Costco's compensation practices, its employees were much more motivated and productive, significantly outselling their Sam's Club counterparts, and more than offsetting Costco's higher wages. [28] As Jim Sinegal, Costco's CEO explained, "Paying your employees is not only the right thing to do but it makes for good business."[29]

For these reasons, nearly 1,000 business owners and executives, including Costco CEO Jim Singeal, U.S. Women's Chamber of Commerce CEO Margot Dorfman, Addus Health Care CEO Mark Heaney, Credo Mobile President Michael Kieschnick, ABC Home CEO Paulette Cole, and small business owners from all 50 states, signed a statement supporting the last increase in the federal minimum wage.[30] As their statement explained, "[h]igher wages benefit business by increasing consumer purchasing power, reducing costly employee turnover, raising productivity, and improving product quality, customer satisfaction and company reputation."[31]

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