

Raising the Minimum Wage to \$10.10 per hour in Wisconsin

Workers Affected and the Broader Impact on the Wisconsin Economy February 2014

Given federal and state proposals to raise the minimum wage to \$10.10 per hour, COWS offers this overview of the workers who stand to gain and the broader impact of minimum wage increases on the Wisconsin economy.

Key Findings:

- Increasing the minimum wage to \$10.10 by July 2016 would increase wages for over half a million Wisconsin workers. Assuming the federal schedule of increases, **587,000 workers** —over one-in-five workers in the state – **would see wages up by \$816 million over the phase-in period.**
- **404,000 workers** currently earning less than \$10.10 per hour would be directly affected by the increase. Another 183,000 workers who earn wages just over \$10.10 per hour would see wages increase due to a positive ripple effect from the increase.
- With parents who will see wages go up, **some 234,000 Wisconsin children will see family income rise** as a result of the minimum wage increase.
- Extra wages in workers' pockets would provide a modest boost to the economy. We estimate that wage increases would **increase economic activity by \$517 million** over the course of the increases. That growth would generate **3,800 new jobs as businesses expand** to meet the consumer demand.
- Some demographics on the 587,000 Wisconsin workers who would be affected by raising the wage to \$10.10:
 - o 57 percent are women.
 - o 87 percent are 20 years old or older.
 - o 47 percent have at least some college education.
 - o 42 percent work more than 35 hours per week.
 - o Nearly two-thirds (64 percent) are in families with income below \$60,000.
 - o The average affected worker currently earns about 44 percent of his/her total family income.
- Increasing the minimum wage does not “kill jobs.” 600 economists, including seven Nobel prize winners and eight past presidents of the American Economic Association, have called for an increase in the minimum wage. Their letter sums up the case on jobs: “In recent years there have been important developments in the academic literature on the effect of increases in the minimum wage on employment, with the weight of evidence now showing that **increases in the minimum wage have had little or no negative effect on the employment of minimum-wage workers, even during times of weakness in the labor market.**”

COWS

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About COWS

Based at the University of Wisconsin-Madison, COWS is a national think-and-do tank that promotes “high road” solutions to social problems. These treat shared growth and opportunity, environmental sustainability, and resilient democratic institutions as necessary and achievable complements in human development. COWS is nonpartisan but values-based. We seek a world of equal opportunity and security for all.

About the Data

Estimates describe affected population, where indicated, within specified state of Harkin/Miller proposal to raise the federal minimum wage to \$10.10 via three incremental increases over three years. Demographic profile reflects affected population in third year (i.e., in step up to \$10.10/hour).

Source: EPI analysis using Current Population Survey Outgoing Rotation Group microdata.

Introduction

In recent months, proposals to increase the minimum wage to \$10.10 per hour have been offered at both the federal and state level. Here we provide an overview of the economic impact and demographic profile of workers who stand to gain if the minimum wage is raised. We also discuss the economic literature on minimum wages, which shows no negative employment impacts of raising the floor under wages. And we note the ways that a minimum wage increase helps build a stronger economy by strengthening labor standards and providing a stimulative boost to the economy.

Inflation Reduces the Value of Minimum Wage Each Year

The current minimum wage is \$7.25 per hour. Each year the purchasing power of the minimum wage declines as prices rise. Without policy attention at the local, state, or federal level, workers at the bottom of the labor market get left behind. The current \$7.25 minimum is well below the 1968 benchmark, worth \$9.40 in today's dollars. And the workers at the bottom of the labor market today are better educated and more productive than they were in 1968.

Over the last 45 years, the US economy has expanded dramatically as productivity and education have increased. In spite of the fact that productivity has doubled over this period, the minimum wage has stagnated and even declined. Figure 1 shows the inflation adjusted value of the minimum wage since 1968. It also provides the context of the size of the overall economy and the average wages in the economy. Had the 1968 minimum wage kept pace with the growth in wages of the typical worker, today's minimum wage would be \$10.65 per hour and it would be projected to be about \$10.89 by 2016. If the minimum wage had grown at the same rate as productivity, it would be \$18.30 today. Given the erosion of the value of the minimum wage, spiraling inequality in the

FIGURE 1: Real value of the federal minimum wage, 1968–2013 and 2013–2016 under proposed increase to \$10.10 by 2016, compared with its value had it grown at the rate of productivity or average worker wages (2013 dollars)



* Productivity and average wage projections from 2013 to 2016 do not include the Harkin-Miller proposal.

Note: Dollars deflated using CPI-U-RS and CBO inflation projections. Projected wage values based on CBO inflation projections, average wage and productivity growth from 2002 to 2006 (the last full regular business cycle), and, in the case of the "real minimum wage" line, the proposal to raise the federal minimum wage to \$10.10 by 2016.

Source: EPI analysis of Total Economy Productivity Data from the Bureau of Labor Statistics Labor Productivity and Costs program, Bureau of Labor Statistics Current Employment Statistics, Current Population Survey Outgoing Rotation Group public-use microdata, and U.S. Department of Labor Wage and Hour Division (2012)

American economy, and the nearly impossible task of making ends meet for low-wage workers, raising the minimum wage is back on the policy agenda. Raising it to \$10.10 by 2016 sets it just above the 1968 value. We turn now to providing a picture of the workers impacted by the proposed wage increase.

Wisconsin's Affected Workers

Some 587,000 Wisconsin workers would take home more pay if the minimum wage was raised to \$10.10 per hour by July 2016. In a workforce of some 2.6 million workers, just over one-in-five (22 percent) would feel the impact of the increase. Of the 587,000 workers, 404,000 would be directly impacted by the increase as they currently earn below \$10.10 per hour. Another 183,000 workers earn just above the minimum wage and are expected to see wages increase as well. Furthermore, 234,000 children live in households of affected workers. The increased pay of these 587,000 workers would total to \$816 million over the three-year phase in of the new minimum wage.

Demographics of Affected Workers

Table 1 provides demographic details on Wisconsin workers who would be affected by the \$10.10 minimum wage. The simple stereotype of the teenager from a middle class family working part-time for gas money does not hold up. Most important, 87 percent of affected workers are at least 20 years old or older. And three of four affected workers are employed for 20 hours or more each week (with over 40 percent of workers who stand to gain in full time work). The minimum wage is about living standards for adults, for families, and for children.

TABLE 1: Demographics of Wisconsin Workers Affected by Minimum Wage Increase to \$10.10

	Workforce	Directly Affected	Indirectly Affected	Total Affected	Percentage of the total affected
Total	2,622,000	404,000	183,000	587,000	100.0%
Sex					
Female	1,305,000	238,000	96,000	333,000	56.7%
Male	1,318,000	167,000	88,000	254,000	43.3%
Age					
Less than 20	145,000	104,000	20,000	124,000	21.1%
20 to 29	549,000	158,000	64,000	222,000	37.8%
30 to 39	512,000	42,000	28,000	70,000	11.9%
40 to 54	855,000	45,000	42,000	87,000	14.8%
Race					
White, non-Hispanic	2,244,000	300,000	142,000	442,000	75.3%
Black	123,000	32,000	20,000	52,000	8.9%
Hispanic	143,000	46,000	8,000	54,000	9.2%
Asian or other race	113,000	25,000	14,000	39,000	6.6%
Work Hours					
Part time (< 20h)	241,000	118,000	37,000	155,000	26.4%
Mid time (20-34)	439,000	145,000	39,000	185,000	31.5%
Full time (35+)	1,942,000	141,000	107,000	248,000	42.2%
Education					
Less than high school	197,000	97,000	24,000	122,000	20.8%
High School	701,000	123,000	66,000	189,000	32.2%
Some college	900,000	145,000	74,000	219,000	37.3%
Bachelor's or higher	823,000	40,000	19,000	58,000	9.9%

Source: EPI analysis using Current Population Survey Outgoing Rotation Group microdata.

Note: Figures do not add up due to rounding.

Some other demographic facts stand out as well. Perhaps obvious, but still important, workers who toil in lower paying jobs gain more when the wage floor is lifted. Women are half of the labor force but 57 percent of the workers affected by the higher wage floor. While 20 percent of Wisconsin's white workers would see wages go up with the minimum wage increase, 35 percent of the state's Asian workers, 38 percent of Hispanic workers and 42 percent of African American workers would be affected by the increase. Raising the floor will also help reduce disparities in our labor market.

It is no surprise that workers with lower levels of education are more likely to gain as a result of a minimum wage increase. But it is also worth noting that many college educated workers will also gain with a higher minimum wage. One-in-four workers with some college education but without a four-year degree will see wages go up if the minimum wage is raised to \$10.10.

Industries of Affected Workers

Just as workers in lower wage jobs are more likely to be affected by raising the floor, specific industries with a preponderance of low-wage jobs are more likely to be affected as well. Table 2 provides data on the jobs of affected workers. Given the long history of strong wages in the state's construction and manufacturing sectors, it should come as little surprise that these sectors have relatively few workers who will see wages go up with the minimum. For example, in Wisconsin just 4 percent of construction workers and 12 percent of manufacturing workers would see wages go up with the floor compared to 22 percent of workers overall. At the other end of the spectrum is the leisure and hospitality industry where 61 percent of workers would see wages increase if the minimum was raised to \$10.10 per hour. And 43 percent of workers in the retail sector would also get a raise if the floor was raised.

TABLE 2: US workers, by industry, who would be affected by increasing the federal minimum wage to \$10.10 by July 2016

	Estimated Workforce	Directly Affected	Indirectly Affected	Total Affected	Percentage of the total affected	Share of this category that is affected
Construction	109,000	3,000	1,000	4,000	0.7%	3.7%
Manufacturing	481,000	34,000	23,000	57,000	9.7%	11.9%
Retail	299,000	95,000	32,000	127,000	21.6%	42.5%
Education and healthcare	659,000	69,000	33,000	102,000	17.4%	15.5%
Leisure & hospitality	229,000	115,000	24,000	139,000	23.7%	60.7%
Other industry	846,000	88,000	71,000	159,000	27.1%	18.8%

Source: EPI analysis using Current Population Survey Outgoing Rotation Group microdata.

Broader Economic Impact of Wage Increase in Wisconsin

Raising the minimum wage builds a stronger wage floor in the state and puts more money in the pockets of the state's lowest paid workers. But a higher minimum wage also promotes growth and stimulates the economy more broadly. As the purchasing power of low-income workers' grows, this new consumer spending supports modest levels of job growth as businesses expand to meet demand. Raising the minimum wage to \$10.10 per hour would boost economic activity by \$517 million over the three-year period of the implementation. That growth would generate an increase of 3,800 Wisconsin jobs as businesses expand to meet the growing consumer demand.

Evidence on Employment Impact of Minimum Wage Increases

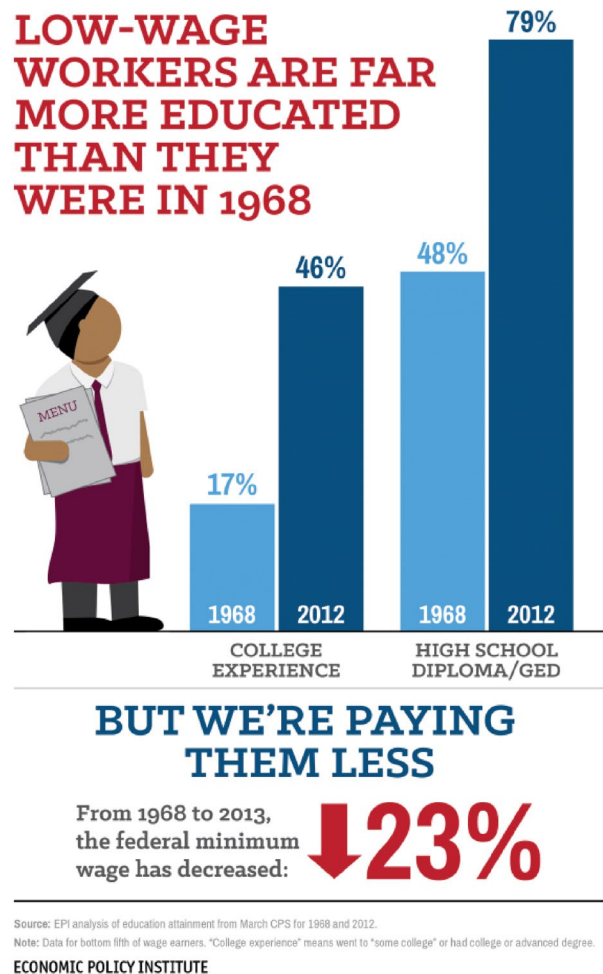
Raising the floor under wages would increase income of low-wage workers, strengthen the economy, and promote more inclusive economic prosperity. As a result, raising the minimum wage is popular with the general public. Polling consistently shows strong majority support for higher minimum wages from conservatives and liberals alike. But broad support for raising the floor doesn't translate into actual increases due to business opposition and the skepticism of political leaders who are convinced that minimum wage increases will be "bad for business." Yet we know that the best economic evidence on minimum wage increases does not support this view. (For a comprehensive review of evidence, see John Schmitt, *Why does the Minimum Wage Have No Discernible Effect on Employment?* (CEPR, February 2013).)

Raising the minimum wage does not increase unemployment or destroy jobs.

The effect of minimum wages on employment has been at the center of economic debate for a very long time. Simple economic models based on the logic of supply and demand predict that raising the minimum wage will lead to job losses for workers whose productivity is too low to justify being paid the higher minimum.

Over the last twenty years, numerous studies have demonstrated that past increases in the minimum wage have not led to lower overall employment. (For a review of studies, see NELP, 2013, *Consider the Source: 100 Years of Broken Record Opposition to the Minimum Wage*) When New Jersey increased its minimum wage above Pennsylvania's, researchers found no employment effect in fast food establishments on either side of the state line. This case was carefully presented in the groundbreaking *Myth and Measurement: The New Economics of the Minimum Wage* David Card and Alan B. Krueger (Princeton University Press, 1997) which reframed the mainstream discussion of minimum wage impacts on employment.

Other studies since have consistently reached the same conclusion: increasing the minimum wage does not destroy jobs. A recent letter signed by more than 600 economists including 7 Noble prize winners summarizes the literature on job loss: "In recent years there have been important developments in the academic literature



on the effect of increases in the minimum wage on employment, with the weight of evidence now showing that increases in the minimum wage have had little or no negative effect on the employment of minimum-wage workers, even during times of weakness in the labor market. Research suggests that a minimum-wage increase could have a small stimulative effect on the economy as low-wage workers spend their additional earnings, raising demand and job growth, and providing some help on the jobs front.” (see Economists’ Letter)

How can a higher minimum wage not reduce employment? One way is by offsetting the cost of higher wages through savings from higher worker productivity and lower turnover. Workers are simply less likely to quit a job that pays more, thereby reducing hiring and training costs. And employees are more likely to invest in improving job skills when they see a decent future ahead for themselves. In other words, employers can actually gain from minimum wage increases in ways that they may not even be able to predict. Some evidence (<http://www.raisetheminimumwage.com/pages/business-case>):

- A 2003 study at the San Francisco Airport found annual turnover among security screeners plunged from 95 percent to 19 percent when their hourly wage rose from \$6.45 to \$10 per hour. After the “living wage” increase, 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.
- A 2006 article in the Harvard Business Review found that higher wage rates at Costco resulted in less turnover and employee theft, and greater productivity compared to competitors.

Economists’ Letter on the Minimum Wage

Signed by 600 economists including seven Nobel prize winners and eight past presidents of the American Economic Association (Full letter with signatures [here](#).)

Dear Mr. President, Speaker Boehner, Majority Leader Reid, Congressman Cantor, Senator McConnell, and Congresswoman Pelosi:

July will mark five years since the federal minimum wage was last raised. We urge you to act now and enact a three-step raise of 95 cents a year for three years—which would mean a minimum wage of \$10.10 by 2016—and then index it to protect against inflation. Senator Tom Harkin and Representative George Miller have introduced legislation to accomplish this. The increase to \$10.10 would mean that minimum-wage workers who work full time, full year would see a raise from their current salary of roughly \$15,000 to roughly \$21,000. These proposals also usefully raise the tipped minimum wage to 70% of the regular minimum.

This policy would directly provide higher wages for close to 17 million workers by 2016. Furthermore, another 11 million workers whose wages are just above the new minimum would likely see a wage increase through “spillover” effects, as employers adjust their internal wage ladders. The vast majority of employees who would benefit are adults in working families, disproportionately women, who work at least 20 hours a week and depend on these earnings to make ends meet. At a time when persistent high unemployment is putting enormous downward pressure on wages, such a minimum-wage increase would provide a much-needed boost to the earnings of low-wage workers.

In recent years there have been important developments in the academic literature on the effect of increases in the minimum wage on employment, with the weight of evidence now showing that increases in the minimum wage have had little or no negative effect on the employment of minimum-wage workers, even during times of weakness in the labor market. Research suggests that a minimum-wage increase could have a small stimulative effect on the economy as low-wage workers spend their additional earnings, raising demand and job growth, and providing some help on the jobs front.

- A 2005 study of San Francisco's minimum wage increase found workers in fast food restaurants remained employed for longer periods of time (an average increase of 3.5 months) and were more likely to have full-time jobs after the increase.
- A 2005 study of home care workers in the Bay Area found that turnover fell by 57 percent following a mandated increase in wages.
- And a 2005 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.

More than 1000 business owners and executives, including small business owners from all 50 states, as well as Costco CEO Jim Sinegal and U.S. Women's Chamber of Commerce CEO Margot Dorfman, supported the most recent increase in the federal minimum wage.

As their letter of support states, "Higher wages benefit business by increasing consumer purchasing power, reducing costly employee turnover, raising productivity, and improving product quality, customer satisfaction and company reputation." (See the complete statement at www.businessforafairminimumwage.org/statement.)

Some businesses gain from low wages and declining standards — those whose competitive advantage comes from cutting wages and standards. But these are the worst businesses for a community to encourage. In addition to providing the worst jobs, they offer the least worker training, provide the fewest career opportunities, and put the least back into the local community.

Higher-wage businesses that invest in their workers and offer quality products do not compete through low wages. Raising the wage floor actually helps these businesses by making life more difficult for wage-cutters. Wage increases and stronger enforcement of standards help to level the playing field for the businesses that already pay more and comply with the law.

A Stronger Floor

In Wisconsin, raising the minimum wage to \$10.10 per hour would make a significant difference in the quality of life for 587,000 workers.

They take care of the old and the frail and the disabled, allowing them the dignity and independence they deserve. They work in health care but cannot afford health care. They take care of children, but cannot afford quality care for their own. These workers toil over hot oil, hot stoves, and hot water. They scrub counters and windows, haul trash and deliveries. They stock shelves, run cash registers, and manage returns.

These workers, faced with the grinding struggle of making ends meet and meeting demands of work and family, stand to gain the most from a higher minimum wage. But our economy would gain as well. As workers' jobs get better, they become better at their work (because they stay longer) and they can spend more to boost the local economy.

Raising the minimum wage is about strengthening the wage floor under our labor market. And a strong floor helps the entire Wisconsin economy.