



**WOMEN'S FUND**  
*of the* **GREATER CINCINNATI FDN.**

**Pulse Briefing:**  
**The Status of the Minimum Wage in the United States**

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Research by the Research Committee  
of The Women's Fund of The Greater Cincinnati Foundation

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## **Executive Summary**

In the Greater Cincinnati Area there are 145,000 individuals living in poverty. Of those individuals, 85,000 are women. On average, 63% of able-bodied individuals in poverty have jobs. We know that the average annual income of a working single mother in Hamilton County is \$19,700 (about \$9.50 an hour, if working full time) and that this is barely above the poverty line and less than half the income needed for a mother with one child to be self-sufficient. Given this trend and the national conversation surrounding the minimum wage, The Women's Fund felt it was important to gain a clearer understanding of the impact of raising the minimum wage. We have surveyed 8 cities, selected based on raising the wage to \$10 or higher, and a minimum of one year since the changes were made. We also examined 4 companies who have raised their internal minimum wage, chosen based on availability of data and time since implementation.

We have taken a comprehensive approach to examining the “effects” of raising the minimum wage- including implications for the local economy, workers, and businesses- to determine the cumulative effects. Overall, the conclusions were murky. It is always challenging to discern the impact of a single variable on the state of the economy. With this particular issue, you have to tease out whether what is happening is due to local changes or national trends, or other elements of the economy that are entirely unrelated to raising the minimum wage. However, there were some important takeaways from our research.

### **Municipal or Local Minimum Wage Increases**

As of mid-2016, according to the National Employment Law Project, 39 municipalities had some form of minimum wage that surpassed the state minimum wage, with an additional

12 municipalities proposing increases. We have reviewed three municipalities that have raised their minimum wage: Syracuse, San Jose, and Seattle, and three with demographics similar to Cincinnati that attempted to raise the minimum wage, but were unsuccessful: Louisville, Cleveland, and St. Louis. The latter three cities all faced state laws prohibiting local minimum wage increases.

- Overall, the economy is not conclusively impacted (negatively or positively) by increasing the minimum wage
- There is some evidence that after local wage increases unemployment goes up and some evidence that the unemployment rate goes down. Ultimately, in places that saw a significant change in unemployment rates, the rates were either following national trends, or the trend was the same as before the wage was increased.
- While there is anecdotal evidence that worker hours were decreased in response to the wage increase, the net number of hours worked in the local economy did not change.

### **Company Wage Increases**

There are four companies included in this review, Walmart, IKEA, Aetna, and Costco. We had hoped to gather information on more companies, like TJMaxx and others, but many companies do not make the impact metrics of raising their minimum wage public. From the examples we have, we can conclude that if nothing else, increased wages don't seem to hurt the businesses and in fact, increase employee loyalty, provided there is not a corresponding cut in hours.

- In at least one example, Starbucks cut worker hours after raising their minimum wage. However, when confronted, leadership at Starbucks claimed the hour cuts

were unrelated and worked to ensure that no hours were cut in response to the wage increase.

- There is a small increase in product costs associated with companies raising wages. When spread across all products, the increase is negligible.
- The impact on corporate profits is inconclusive. There is no evidence that raising wages either helps or hurts the company's bottom line.

Considering the lack of detrimental evidence, we do know that raising the minimum wage has a very positive effect for individual workers and families. Minimum wage workers are not teenagers working after-school. Most minimum wage workers are women over the age of 20. Raising the minimum wage would have a significant impact on single, female-headed households: 40% of all single mothers are making minimum wage. A disproportionate number of single, female-headed households are headed by women of color. Raising the minimum wage, even to \$12/hr, would have a tremendous impact on the economic security of women and families.

In conclusion, it would be the recommendation of the Research Committee that the Women's Fund support practical and well-considered efforts to increase the minimum wage, whether locally, at the state level, or in the business sector.

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## INTRODUCTION

Historically, the American dream has been one in which every person who works full-time should be able to meet his or her needs. It is contrary to our national identity that someone working for a living should still live in poverty or require financial assistance to meet basic needs. However, for many workers, this is the unfortunate reality. Wages are simply too low and do not reflect the cost of living in much of America. However, opposition from business interests has prevented serious movement toward an increased minimum wage. Small businesses, many argue, cannot afford the higher labor costs[1] Other reasons cited for opposition are potential loss of many low-wage jobs for unskilled workers and increased cost to consumers because of hikes in menu and product hikes. [2] The fears, combined with lobbying efforts supported by big business, have prevented Congress from taking action to raise wages.[2]

However, across the United States, states, municipalities, and corporations have acknowledged that the workers' wages have not kept pace with their basic needs, and have been passing legislation to raise minimum wages at varying rates as described below. They have in part been responding to grass root pressure, such as the Service Employees International Union and its Fight for \$15 campaign. The 2016 presidential campaign revived the debate, with many progressive candidates advocating a universal \$15 minimum wage. The strength of both the support and the opposition surrounding an increased minimum wage continues, with both parties contributing data and research to all facets of the debate.

This paper will provide real-world evidence of the effects of increases in the minimum wage in practice. To that end, we will investigate the impact on employees of large corporations who have instituted across-the-board pay increases. We will review municipal minimum wage increases in locations throughout the United States, such as Seattle, St. Louis, Louisville, Cleveland, and the California Bay Area, and discuss the often-conflicting responses at the municipal and state levels. We will highlight the empirical effects of minimum wage increases among diverse groups of workers, and in so doing, demonstrate the importance of revisiting current minimum wage policies. By keeping the minimum wage at the forefront of labor and economic policy, we can ensure that a law first enacted under the guidance of Franklin Roosevelt remains robust and relevant in the 21<sup>st</sup> century and into the future. At a time when a livable hourly wage to support a family is calculated to be several times the minimum wage depending on location, at the very least our

country can no longer tolerate a situation where 2.2 million workers earn at or below the Federal minimum wage of \$7.25 an hour[3]

## I. Background- What is the minimum wage?

### a. The Fair Labor Standards Act

A minimum wage for workers has existed in the United States at the federal level since the passage of the Fair Labor Standards Act (FLSA) in 1938. Princeton University professor and former Chair of the President's Council of Economic Advisors, Alan Krueger, argues that the initial impetus for the establishment of a minimum wage came from the recognition among economists that the existing labor market was driven by an amalgam of factors including employee morale, turnover, and unequal bargaining power (p. 533). [4] Economists at the time recognized that a minimum wage had both economic (increased purchasing power) and moral (less poverty-driven misery) benefits (p. 534).[4] During the Reagan Era, economists began debating whether a minimum wage encouraged reduction in employment, though that premise was infrequently upheld (p. 536).[4] Since its inception at \$0.25, Congress has raised the federal minimum wage 22 times, most recently to \$7.25 in 2009. [5] The controversy over the minimum wage continues to this day as economists and legislators try to balance the needs of workers and employers, while keeping an eye on the effect on consumers and the overall economy.

The FLSA covers approximately 84% of the labor force, or 130 million workers (p. 1).[5] These individuals are covered by one of two separate provisions: "enterprise coverage" or "individual coverage." Enterprise coverage includes certain workers employed by an enterprise with at least two employees with annual sales or business of at least \$500,000. This provision also extends to workers at non-profit institutions such as hospitals, nursing care facilities, schools, and government entities.

Individual coverage applies to individuals regardless of their employer's status, so long as the employee is engaged in interstate commerce or in the production of goods for interstate commerce. This broad definition encompasses employees who work with goods shipped out of state, or who travel out of state or conduct business out of the state using the phone or email. It also includes individuals who provide services in that building, such as janitorial staff. Exemptions are narrowly defined, and include certain executive, administrative, and professional employees, as well as casual, family, and seasonal workers. Further exemptions exist for full-time students, tipped workers, and certain individuals with disabilities (p. 1-2). [5]

## b. Current status of the federal minimum wage

In 2006, 233 Democrats and 83 Republicans passed a bipartisan bill to raise the federal minimum wage from \$5.15 per hour incrementally to \$7.25 per hour. That bill, titled the Fair Minimum Wage Act of 2007 (P.L. 110-28), struggled in the Senate, though the federal minimum wage was ultimately raised to current levels in 2009. Efforts to increase the minimum wage since that time have been unsuccessful at the federal level (p. 169). [6] However, as of 2016, 29 states have passed state-wide minimum wage acts. State minimum wages vary greatly, however, with two states having minimum wages set below the federal level, and six states with no minimum wage at all (p. 169).[6] An analysis by Flavin and Shufeldt shows that the highest state minimum wages are in Massachusetts and Washington (\$11.00), and the lowest is in Wyoming (\$5.15) (p. 170-171).[6] The authors of that study place the discrepancy squarely within the bounds of party politics (claiming that Republicans are anti- and Democrats pro- minimum wage increases); however, the truth is more complicated. For example, Republican-controlled states such as Arizona, Nebraska, and Ohio have minimum wages above the federal level (p. 170-171), with Ohio's minimum wage indexed to inflation.[6]

While common stereotypes exist about what a minimum wage worker may look like, the reality is often quite different. According to the Bureau of Labor Statistics, approximately 2.2 million American workers are paid at or below the federal minimum wage. Of those, approximately 54.6 percent are above the age of 25, and 79 percent are older than 20. Sixty-four percent of all minimum wage workers are women. [3] As Bradley summarizes, "the 'typical' minimum wage earner tends to be female, age 20 or older, part-time, and working in a food service occupation" (p. 4).[5] Additionally, 27.5 percent of workers earning at or below the federal minimum wage have at least some college education, with 11.4 percent having a bachelor's degree or higher (p.5). [3] Dale Belman and his colleagues point out that women consistently make up the majority of workers at the lowest wage levels, with a significant portion of low-wage workers being single mothers (p. 595).[7]

The American public generally supports minimum wage increases, though they do not agree exactly on the amount of the proposed increase. A Pew Research Center poll found that 73 percent of Americans supported raising the federal minimum wage to \$10.10 per hour. [CITE] A Gallup poll found that 56 percent of Americans support raising the federal minimum wage to \$15 per hour by the year 2020, a result that led Flavin and Shufeldt to conclude that "a majority of Americans think that the federal minimum wage ought to be increased (p. 168).[6]

## II. Minimum Wage Increases in Municipalities

### a. Effect of minimum wage increase by local ordinance

Given the federal government's failure to act on the minimum wage, many local governments have taken matters into their own hands. An increasing number of cities and counties have raised the minimum wage for some portion of workers within their municipal limits. As of mid-2016, according to the National Employment Law Project, 39 municipalities had some form of minimum wage that surpassed the state minimum wage, with an additional 12 municipalities proposing increases.[8] As will be discussed, in the time since the publication of the NELP report, several of these municipalities have seen their local ordinances pre-empted by state action that limits or eliminates the ability of municipalities to exceed the state minimum wage.

#### i. Syracuse, New York

Syracuse, New York, has raised the minimum wage for some local workers, while the New York State legislature debates whether to raise the minimum wage state-wide. While local officials in New York State lack the authority to increase minimum wages across the board, in 2015, Mayor Stephanie Miner raised the pay of city workers to \$15 per hour, effective immediately. [9] The Mayor was motivated in part by high unemployment in Syracuse, as well as high rates of citizens living at or below the poverty line, a situation existing to this day. While the impact in Syracuse will likely be small due to the small number of affected workers, it will be a test case of increased minimum wage in an economically depressed area. Syracuse has also been ranked among America's poorest cities.[10]

#### ii. San Jose, California

The City of San Jose first voted to increase its local minimum wage to \$10 in 2012. [11] In 2016 the city voted to incrementally increase the minimum wage to \$15 per hour by 2019. Nearby towns of Sunnyvale and Mountain View have voted to increase the minimum wage to \$15 by 2018. Palo Alto, Cupertino, Milpitas, Morgan Hill, and Monte Sereno will reach \$15 by 2019. Statewide, the minimum wage in California will not reach \$15 until 2022.[12]

Unlike Syracuse, the California Bay Area in general has relatively high employment and wages. San Jose, which has lower wages relative to surrounding Santa Clara County, is still more prosperous than California as a whole. Economist Michael Reich has forecast the effects of the higher minimum wage on San Jose and on Santa Clara County. At the county level, an increase in minimum wage to \$15 by 2019 will increase earnings for



250,000 workers and raise average annual earnings of affected workers by 19.4 percent, or \$3,200 (in 2014 dollars). A similar increase just in the city of San Jose will increase earnings for 115,000 workers and raise average annual earnings of affected workers by 17.8 percent, or \$3,000 (in 2014 dollars). The net increase in prices would be 0.3 percent at the city level, and 0.2 percent in the county. [13] The general trend of the San Jose area since the wage increase has been very low unemployment (3.4%) and little to no overall impact on businesses and the economy at large. In Sunnyvale, California, which voted to increase its minimum wage in 2015, unemployment rates trended down after the new wages came into effect. However, it is unclear whether the minimum wage was a cause of that trend, as rates had been going down prior to the wage hike. The same was true in nearby Mountain View, California.[46]

### iii. Seattle, Washington

Seattle first voted to raise its minimum wage in April 2015. It was a phased-in process that differed based on business size and whether the business provided health insurance or paid workers with tips. In June, 2017 researchers from the University of Washington published a working paper that sent shock waves throughout the economic policy community.[14] Titled “Minimum Wage Increases, Wages, and Low-Wage Employment: Evidence from Seattle,” the paper concluded that Seattle’s incremental increase in its local minimum wage (which would culminate in a \$15 per hour rate) had resulted in a net loss of low-wage jobs. This conclusion was contrary to the majority of minimum wage analyses and was heralded by conservatives as evidence of the danger in raising the minimum wage too high.[15] One of the paper’s authors, Jacob Vigdor, cautioned that “[y]ou’ve got to watch out because at some point you run the risk of harming the people you’ve set out to help”. [16]

The UW paper claimed that the reason its conclusions went against the weight of published studies of the minimum wage was the superiority of its dataset. “The contrast between this conclusion and previous literature can be explained largely if not entirely by data limitations that we are able to circumvent in our analysis,” the authors wrote (p. 3).[14] The authors used a dataset gathered by the state of Washington’s Employment Security Department (ESD), and captured both the wages paid to workers as well as the number of hours worked. Previous studies, the authors claimed, could only show the number of workers and average incomes, but not how much each worker was being paid per hour. Other economists had gotten around this limitation by using data from industries that commonly pay at or close to minimum wage, such as the restaurant

industry, but do not have data to show directly what those workers are being paid (p.4).[14] These data would not, therefore, reflect a shift by employers to utilizing higher-paid workers in lieu of lower-paid workers. The UW study also could look directly at low-wage workers and determine whether employers were responding to the increased wages by decreasing hours worked.[17]

The paper defines “low wage workers” as those making less than \$19 per hour. Comparing the effects of the minimum wage increase to \$13 per hour against a hypothetical Seattle in which the minimum wage remained at its pre-2016 level of \$9.47 or post-2016 level of \$11 per hour, the authors found that the increase to \$13 led to a surprising and significant loss in low-wage jobs (p. 5).[14] The authors concluded that the net effect of the increase in Seattle’s minimum wage was a 9.4 percent reduction in hours worked by low-wage workers, representing 3.5 million less hours worked per calendar quarter (p. 35). [14] Interestingly, the increase from \$9.47 to \$11 per hour had a less drastic effect, which Casselman and Casteel suggest is because, in a city known for its high cost of living, it is unlikely that many workers were making less than \$11 per hour anyway.[16] The lost income associated with the decrease in hours was averaged to be \$179 per month, which exceeds the increase in income gained by the higher hourly wage. The end result left the average low-wage worker receiving approximately \$125 less per month (p. 36).[14] The conclusion drawn by the UW authors is that, faced with a mandated increase in minimum wage, employers had responded by reducing hours worked by low wage workers, replacing low wage workers with higher-skill, higher-paid workers, or by deciding not to hire low wage workers at all.

Papers and articles criticizing the UW study were published swiftly. The Economic Policy Institute, writing shortly after the UW paper was published, argued that “the authors’ analysis, however, suffers from a number of data and methodological problems that bias the study in the direction of finding job loss, even where there may have been no job loss at all” (p.1).[18] The authors point out additional worrying shortcomings from the UW study, including that the authors failed to account for “the booming Seattle labor market during the period being studied” (which would independently account for the increase in high-paying jobs), and that the study excludes nearly 40 percent of the Seattle workforce by not including workers at multi-location businesses (pp. 1-2).[18]

The strongest condemnation of the methodology from the UW study comes from Peter Costantini writing in the Huffington Post. He argues that the method for sampling the Seattle workforce used by the UW team to create their experimental and synthetic

control group was flawed from the start, and not representative of the whole workforce. Most troubling is the authors' attempt to parse out which data came from workers within the city of Seattle. The Washington ESD data does not distinguish between workers within the city of Seattle, and those outside of the city. Therefore the UW authors removed any workers employed by multi-site businesses. This leaves out any worker at a national chain, or even a state-wide or metro-area wide chain such as department stores, restaurants, drugstores, etc.[19] By comparison, the method used by competing studies of Seattle's minimum wage (using food service as a proxy and comparing similar jurisdictions to each other) has been repeatedly validated. As Costantini states, it is "no longer new nor experimental; it has become the effective standard for studying minimum wages and a dominant current of labor economics." [19] Costantini ultimately concludes:

If a research team with no previous experience in studying minimum wages walks into a well-established academic field with what they claim to be a fresh approach that rejects much of the existing research, they had better lead with a convincing theoretical and practical critique of the state of the art, and replace it with persuasive and water-tight alternative methodologies and results. The UW study has not succeeded in doing either.[19]

In addition to the data and methodology, other critics have taken issue with the conclusions drawn by the UW authors. As several economists have pointed out, the UW study counts workers who leave a low-paying job for a high-paying job within the category of "lost jobs." Even more confusing is the inclusion of workers who receive raises that bring their jobs above \$19 per hour.[17, 20] While \$19 is technically a "lost low wage job," it is one that results in a net positive for those workers. Others have pointed out that Seattle's unemployment rate is around 3 percent, which hardly represents a city in which large portions of the population are having trouble finding work.[21]

Julie Weed interviewed developers interested in building in the area of Seattle near SeaTac (the Seattle-Tacoma International Airport). She quotes Michael H. Mahoney of Western International, Taylor Kerns of the Corinthian Development Company, and Steven Lou of Lou Development, all of whom denied that the higher minimum wage had a negative effect on their decisions to build or increase the size of new properties. In fact, each spoke of a desire to recruit higher-skilled workers who would be better performers. For these business owners, the minimum wage was secondary to the ability to compete in

the marketplace for the best employees.[21] Rebecca Smith, writing in the New York Times Opinion section, pointed out several flaws in the UW study, arguing that the conclusions of the study simply did not reflect the facts on the ground in Seattle.[20] “The work is getting done,” she concludes, “and the largest (and best paid) workforce in the history of the city is doing it”.[20]

Seattle’s minimum wage hike has been described as “a great test case” to evaluate the effects on employment, hours worked, and other responses by employers to an increase of the minimum wage to \$15 per hour.[16] However, the UW authors themselves caution against using their Seattle data to project potential effects elsewhere in the country, stating that “[t]he impacts of minimum wage policies established by other local governments likely depend on the industrial structure, characteristics of the local labor force, and other features of the local and regional economy” (p. 38).[14]

#### b. Conflicts between municipalities and state governments

Despite the controversy over the data and methodology of the UW report on Seattle, since the reports’ release in June 2017 state governments have, in part, based decisions on its conclusions. Multiple municipalities have raised their own minimum wage, only to have it struck down by state legislatures who pass new legislation forbidding the increase in local minimum wage above state levels. According to the Economic Policy Institute, between January, 2016 and July, 2017, 15 states passed 27 laws that preempt local labor standards, eight of which relate to minimum wage.[22]The Economic Policy Institute drafted a paper examining the rise in state preemption of local labor ordinances, expressing concern at the recent spate of preemption laws and their effects on workers in urban areas. The author argues that state labor standards were meant to protect workers, not to strip them of additional rights granted by local governments.[22]

#### i. Louisville, Kentucky

In 2014 the combined Louisville/Jefferson County, Kentucky government passed an ordinance establishing a county-wide minimum wage of \$8.10 per hour, to be raised incrementally to \$10.10 per hour by 2017. The local government was promptly sued by the Kentucky Restaurant Association, the Kentucky Retail Federation, and Packaging Unlimited, LLC. The plaintiffs asked the court to void the ordinance as being outside of the authority of the local government, and asked for an injunction barring enforcement of the minimum wage ordinance. The court denied their request, as did the Court of Appeals, and the case was heard in the Kentucky Supreme Court in 2016. The Supreme Court ruled

against Louisville on the theory that a city or county cannot make an ordinance that is directly in conflict with a state law. In essence, the court reasoned, the city was attempting to make it illegal to pay the minimum wage established by the state legislature, which is outside of the bounds of local authority. The court ruled that the only way that a city or county could raise its own minimum wage would be if the state passed a law allowing it to do so.[24] The ruling also struck down a similar minimum wage ordinance in the city of Lexington.[25]

#### ii. Cleveland, Ohio

Advocacy group Raise Up Cleveland petitioned the Cleveland City Council to vote on a 2016 measure raising the minimum wage to \$15 within the city.[26] Although Council members rejected the petition, they were still forced to put the measure on the ballot for public vote in a special election on May 2, 2017. Raise Up Cleveland faced strong opposition from Cleveland City Council and the Cleveland business community. An economic analysis of the measure sponsored by the Ohio Restaurant Association claimed that nearly 2,500 jobs would be lost, of which 70 percent would be jobs held by women.[27]

Prior to the public vote the Ohio legislature tacked on a preemption measure to Senate Bill 331 (which regulated the sales of dogs by pet stores).[28] The measure prohibited the setting of minimum wages higher than the state minimum wage in Ohio. Opponents of Senate Bill 331 filed suit in Franklin County, and in 2017 the Franklin County Circuit judge ruled that Senate Bill 331 was unconstitutional under the Ohio Constitution, which prohibits the filing of multi-subject bills.[29] While not a victory for the minimum wage measure per se, the ruling does open the door for renewed efforts to increase the minimum wage in Cleveland, which Raise Up Cleveland has indicated it intends to push.[28] In the interim, newly re-elected Mayor Frank Jackson has raised the wages of all City of Cleveland employees to \$15 per hour, effective in April, 2018.[30]

#### iii. St. Louis, Missouri

In Missouri, both St. Louis and Kansas City passed local ordinances increasing the minimum wage within city limits. St. Louis passed a 2015 ordinance that raised the minimum wage from \$7.90 to \$10.00, with a goal of increasing incrementally to \$11.00 in 2017.[23] This wage increase would affect approximately 38,000 workers in the city.[22] Two years later, nearly 70 percent of Kansas City voters supported a ballot initiative raising their city's minimum wage to \$10 per hour in 2017, increasing to \$15 per hour by 2020.[31]

The State of Missouri, however, overruled these local ordinances and returned minimum wages across the state to \$7.70, preventing cities within Missouri from setting their minimum wages higher than the state limit. The Governor of Missouri explicitly referenced the UW study on Seattle when approving the new state law, as did Illinois Governor Bruce Rauner when vetoing a similar proposal.[23, 32]

### **III. Corporate wage increases**

Minimum wages are precisely that, and companies are always free to pay their employees more than the state or municipal-mandated minimums. In recent years, companies such as Walmart, Costco, Starbucks, IKEA, JP Morgan, and Aetna have all announced wage increases for their lowest-paid employees. While motivations and end results have varied, all have received substantial attention, as they collectively employ large segments of the American population.

#### **a. Walmart**

Perhaps no corporation has received as much attention as Walmart, a company widely known for paying employees such low wages that many depended on public assistance. A 2014 report estimated that Walmart cost the United States nearly 6.2 billion dollars in food stamps, Medicaid, and housing assistance for its employees.[34] The estimated cost for public assistance in Ohio was estimated at 215.9 million dollars.[35] }. In 2015 Walmart announced that, along with changes to its paid time off policy, all workers would be receiving a wage increase to \$10 per hour. “We are committed to investing in our associates,” stated Walmart COO Judith McKenna. Employees who were already working at wages lower than \$10 per hour received raises, and those making above \$10 per hour received their annual pay increase in February rather than at their anniversary date.[36]

Walmart had been suffering from decreasing customer satisfaction both in the physical environment of the store, and in customer service. Shoppers complained that stores were dirty, disorganized, and run by employees who were uninterested in providing assistance.[37] Walmart responded by deciding to “invest” in its staff, hoping that higher wages would result in more loyal and hard-working employees. The wage increase came along with increased attention to training, as well as non-financial benefits such as scheduling improvements. The results were better than expected, with both sales and customer satisfaction up. Following the wage increase, the number of stores meeting targets customer-service levels increased from just 16 percent to 75 percent. [37]

Walmart has seen some reduction in profits, as well as cuts to its workforce. The company claims, however, that the cuts were planned and not due to the wage increase.[38]

b. IKEA

Swedish home-goods chain IKEA also raised wages for its US-based employees, but adopted a location-based approach rather than a flat increase across the board. Like Walmart, IKEA's CFO spoke of the move as one about "investing in employees" in order to increase productivity and loyalty. Employees at Ikea stores across the United States will receive wage increases based on calculations using the MIT Living Wage calculator. This approach takes into account the cost of food, medical care, housing, transportation, and other factors that determine how relatively expensive it is to work in one location or another.[39] In June, 2015, one year after announcing the first wage increase, IKEA announced a second round of increases for its US-based employees. According to CFO Rob Olson, IKEA stores had already seen a five percent reduction in turnover, and more qualified job applicants.[40]

c. Aetna

It isn't just retail companies that are recognizing the value in investing in employees by way of higher wages. Regarding an increase in the corporate wage to \$16 per hour in April 2017, Aetna CEO Mark Bertolini has stated simply that it "isn't fair" for employees of a Fortune 500 company to be struggling to make ends meet, and that better-compensated employees provide better customer service. Bertolini and his executive team had discovered that many Aetna employees were making ends meet with food stamps, Medicaid, and other public assistance. [41] Aetna, however, can make a business case for increased wages as well. The company had been losing nearly \$120 million dollars a year due to turnover, an amount that could be saved if the company was able to retain its workers. Compared with the estimated \$10.5 million dollars per year that the increased wages would cost, the business case was strong.[42, 43] According to Bertolini, even initially skeptical shareholders are starting to come around. He has stated, "[m]any of those who were concerned about the potential financial impact quickly became supportive when they came to understand the total magnitude of the enterprise impact, versus the benefits in employee satisfaction and retention."

d. Costco

In 2016, Costco announced that it would be raising the wages paid to its lowest-paid workers, from \$11.50 to \$13.00 per hour. While Costco was well-known for paying many

of its employees over \$20 an hour, the wages at the bottom of its pay scale had not increased for nearly nine years. In contrast to Walmart, Costco is renowned for its higher wages, high employee satisfaction and low turnover.[44] However, executives recognized that to continue to compete for the best employees during a period of low unemployment, wages must continue to increase.

#### **IV. Effects of minimum wage increases**

In their review of the economic literature about the minimum wage, Flavin and Shufeldt identify four main arguments in favor of raising the minimum wage: higher incomes, reduced turnover, greater societal benefits, such as connectedness and integration, and increased positive opinions of the government (pp 173-4).[6] The authors capture the inherent nature of the debate over the minimum wage, which is an amalgamation of economic, political, and moral arguments.

##### **a. Effects on employment**

Jeffrey Clemens and Michael R. Strain, writing for the American Enterprise Institute, stress that the impact of a minimum wage increase varies based on the existing labor market. In their words, “[t]he overall impact of the minimum wage, then, depends on its level relative to the productivity of prospective workers and on the bargaining power those workers possess when negotiating wage rates with prospective workers” (p.7).[45] In theory, then, minimum wage increases most affect workers for whom the market value of their work output is low relative to their wage, and who have a reduced ability to negotiate their wages. Clemens and Strain then argue that, based on their economic model, employment is most likely to fall among those with the lowest productivity, as employers are less likely to hire workers whose productivity is worth less than the wages paid to him or her (p. 8).[45] Their analysis shows that employment expanded one percentage point less among low-skilled workers in states that had raised the minimum wage – in other words, that low-skilled workers were held back from employment due to increased minimum wage. They conclude, however, that the short period of time may not accurately reflect long-run effects, and that more study is needed.[45]

The inevitability of raised wages leading to reduced employment was firmly denounced by Paul K. Sonn and Yannet M. Lathrop, in their 2016 brief for the National Employment Law Project. They reviewed wage and employment data from 1938 to 2009 and concluded (pp. 1-2):



The results were clear: these basic economic indicators show no correlation between federal minimum-wage increases and lower employment levels, even in the industries that are most impacted by higher minimum wages. To the contrary, in the substantial majority of instances (68 percent) overall employment *increased* after a federal minimum-wage increase. In the most substantially affected industries, the rates were even higher: in the leisure and hospitality sector employment rose 82 percent of the time following a federal wage increase, and in the retail sector it was 73 percent of the time. Moreover, the small minority of instances in which employment – either overall or in the indicator sectors – declined following a federal minimum wage increases all occurred during periods of recession or near recession. The pattern strongly suggests that the few instances of such declines in employment are better explained by the overall national business cycle than by the minimum wage.[7]

The positive effect of minimum wage increases on employment has been confirmed by other authors, including Belman, Wolfson, and Nawakitphaitoon. These authors investigate the effects on employment among low-wage workers with more granularity, looking specifically at the effects of minimum wage increases among young workers, women, Black and Hispanic workers, and less-educated workers.[7] Young workers are disproportionately affected by changes in the minimum wage, as they tend to be heavily concentrated at or near the minimum wage (p.591).[7] However, as a group, teens and young adults make up a small percentage of the overall low-wage pool of workers, most of whom tend to be older. In their meta-analysis of published reports on the effects of minimum wage increases on young workers, Belman and colleagues conclude that “most studies of young workers’ wages or earnings report a positive effect” and that “the virtual unanimity of the evidence supports a conclusion that increases in the minimum wage raise teen and young adult earnings” (p. 593).[7]

#### b. Effects on earnings

The primary and perhaps most obvious effect of an increased minimum wage is the increased earnings it provides for low-wage workers. Proponents point to the failure of the current minimum wage to provide a livable income for most Americans. For example,

Bradley points out that “a single parent with two children who works full-time, year round at the current minimum wage has earnings of about 78% of the poverty line. An increase in the minimum wage to \$9 per hour would raise that family’s earnings to about 97% of the poverty line, and an increase to \$12 per hour would increase family earnings to 129% of the poverty line” (p. 7).[5] In annual numbers, the difference in pre-tax income between a full-time (40 hours per week) worker in Washington State making \$11.00 and one in Georgia or Wyoming paid \$5.15 per hour would be nearly \$12,000 a year (p.174).[6]

Increasing the earnings of low-wage workers has benefits beyond the immediate increased spending power. The UC Berkeley Labor Center studied the effect of raising wages on employees’ use of public assistance, and found that higher wages would allow both state and federal government spending on public assistance to decrease, freeing up money for use on other programs benefiting the public. According to their research, between 2009 and 2011 state and federal assistance programs resulted in expenditures of \$152.8 billion dollars, of which more than half (56 percent) went to working families.[47]

Income equality is of growing concern in the United States, and the failure of the minimum wage to keep pace with rising incomes overall contributes to the gap between low-wage and higher-wage workers. (p. 5)[48] David Cooper, writing for the Economic Policy Institute, points out that in 1968, a worker paid the federal minimum wage was making slightly over fifty percent of the average hourly earnings of production workers. In 2014, that same worker made just 35.2 percent of the wages of the same production worker (p.5).[48]

The “Raise the Wage Act” of 2015, sponsored by Senator Patty Murray (D-Wash.) and Rep. Bobby Scott (D-Va.) proposed raising the federal minimum wage to a modest \$12 by the year 2020, and increasing the subminimum wage for tipped employees until it reached \$12. This proposal would be sufficient to allow a family of three to live above the federal poverty line, and when combined with current refundable tax credits, would support a family of four (p. 6).[48] The total impact of a \$12 per hour minimum wage would be an additional \$80 billion in annual wages paid out to 28.4 million low-wage workers (p.8).[48]

According to Belman and colleagues, female workers “are overrepresented at the bottom of the cumulative wage distribution” (p. 594).[7] This disproportionality increases when looking specifically at women who are single mothers (p. 595).[7] The outcomes cited by Raise the Wage proponents would represent a wage increase for 29.6 percent of all wage-earning women, a disproportionate increase compared with men. This is due to the fact that while women make up just 49.2 percent of the total workforce, they make up 55.9

percent of the workers affected by the wage increase. Likewise, 27.3 of working mothers (and nearly 40 percent of all single working mothers) would receive a wage increase under the Raise the Wage Act, compared with 28 percent of single working fathers (p.9).[48] When broken down by race, the Raise the Wage Act would benefit workers of color as well. Nearly a quarter of the affected population (24.3 percent) is Hispanic, and 15.4 percent is African-American. This represents 34.7 percent of all African-American workers and 37.8 percent of all Hispanic workers (p.9).[48]

To summarize, the Raise the Wage Act would benefit all low-wage workers, but disproportionately raise the wages of women, people of color, and single parents (p.11).[48]

#### c. Effects on employee hours

One concern raised by minimum wage opponents is the potential for employers to compensate for higher wages by reducing employees' hours. In 2015, coffee retailer Starbucks announced it would raise the wages of all incoming employees, except in areas where the local minimum wage had already been raised. Not long after, an online petition was circulated that accused Starbucks of reducing hours for its employees. The company denied that the increased wages had resulted in a policy to reduce hours, pointing instead to technological advances such as online ordering and payment by mobile phone. Following discussions with Starbucks leadership, the creator of the online petition told Reuters he was "cautiously optimistic" the leadership was committed to resolving any unintentional issues with decreased hours.[49] Shortly thereafter, Starbucks announced that employees would be receiving increases in total compensation (including wages and stock awards) of between 5 and 15 percent.[50] In July 2017, Starbucks reported record financial and operating results for Q3 2017, and the opening of 575 net new stores.[51]

## IV. Conclusions

In their review of the proposed minimum wage increase in New York State, Michael Reich and his colleagues propose a comprehensive model based on decades of previous minimum wage research. Their model includes simultaneously occurring effects on workers and employers, with the net sum of positive and negative effects representing the overall impact on the employment market as a whole. Specifically, workers experience an "Income Effect," which comprises the sum of effects of 1) increased wages, 2) reduced use of public assistance (offset by increased income taxes), and 3) increased spending power. Employers experience both the "Substitution Effect" (increased use of technology

and automation) and the “Scale Effect.” The Scale Effect includes 1) increased payroll cost, which is offset by 2) decreased turnover and 3) increased worker productivity; and 4) increased prices and corresponding decreased consumer demand.[52] Despite acknowledging that an increase in state minimum wage to \$15 would result in the loss of some jobs, Reich concludes that the overall net result would be a slight increase in employment, as both the Scale Effect and Substitution Effect are offset by the increased Income Effect represented by increased spending by workers who receive pay raises (p. 32).[52]

This conclusion is borne out by other academics, as well as by real world examples of municipalities and corporations who have invested in their workforce by means of higher wages. The examples in this paper suggest that the increases in payroll costs are absorbed by businesses, who then reap the benefits of reduced turnover, higher productivity, and an overall increase in consumer spending. The benefits of an increased minimum wage are not experienced by workers at the expense of businesses. Rather, increased minimum wage benefits the entire economy by moving low wage workers from poverty to participants in the consumer market.

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