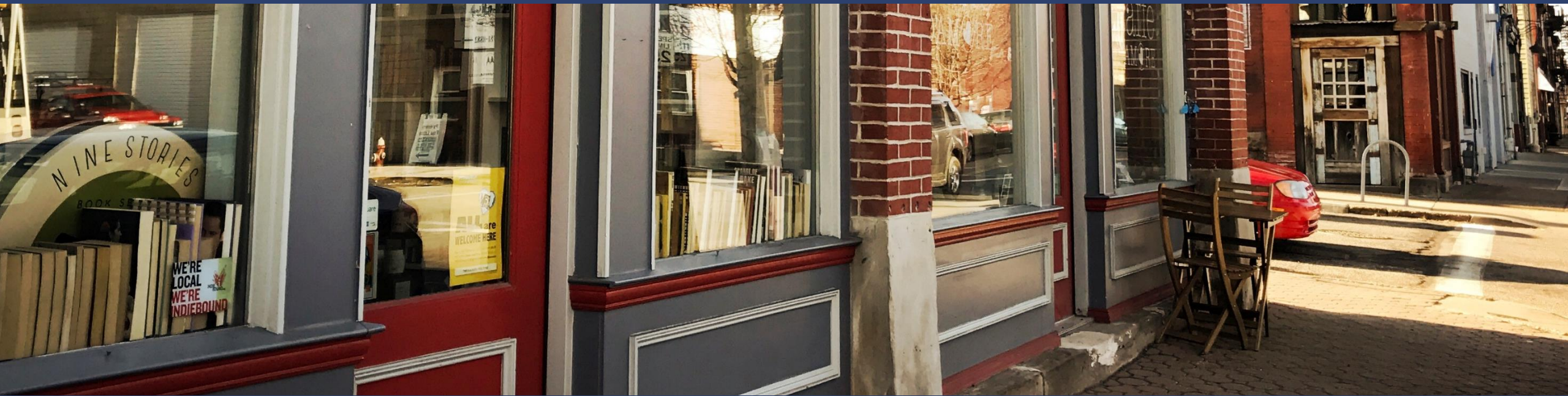


# Raising the Minimum Wage to \$12.00

Presentation for the PA Economy League  
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# The Pennsylvania Labor Market

	Annual Growth Rate, Change or Level				
	2015	2016	2017	2018	2019
Net Jobs Created (000s)	46.2	48.8	58.8	65.6	55.0
Unemployment Rate	5.3%	5.4%	4.9%	4.3%	3.9%
# Unemployed (000s)	339	348	314	276	255
Total PA Population	0.0%	0.0%	0.1%	0.0%	0.1%
Age 20-64	-0.3%	-0.4%	-0.3%	-0.2%	-0.3%
Age 65-74	3.7%	3.5%	3.3%	2.7%	3.5%

Note: Payroll jobs only. Data include full- and part-time jobs. Excludes self-employed and independent contractors.

# Where is the Jobs Growth?

	Net Jobs Created (000s)			
	2015	2016	2017	2018
<b>All Payroll Jobs</b>	<b>46.2</b>	<b>48.8</b>	<b>58.8</b>	<b>65.6</b>
Social Assist: Elderly-Disabled	5.7	8.8	10.4	9.7
Social Assistance: All Other	2.0	3.3	3.5	2.1
Home Healthcare	4.2	4.8	4.5	5.9
All Other Healthcare	-0.8	5.4	8.0	9.4
All Food Service	5.8	8.0	6.3	5.2
Construction	6.4	3.7	9.9	7.0
Transportation-Storage	10.9	9.2	7.3	9.1
All Other Sectors	12.0	5.5	8.8	17.3

Note: All Other Healthcare includes ambulatory care, hospitals and nursing/residential care facilities.  
Source: U.S. Bureau of Labor Statistics, State and Area Employment.

# The Minimum Wage Proposal

## **Increase minimum wage from \$7.25 to \$12.00/hr (+65.5%).**

- *Note: average wage for workers earning <\$12.00 is \$9.73 (+23.3%).*
- Effective July 1, 2019. Applies to entire state.
- On July 1, 2020 begin six-year phase-in to \$15.00 by 2025.
- 50 cent increment each year.
- Annual inflation adjustments thereafter.

## **Increase cash minimum wage for tipped workers.**

- From \$2.83 to \$12.00/hr. Same as non-tipped workers. No tip credit.
- The IFO did not analyze this provision due to lack of existing research.

# How Does PA Compare?

	2019	2020	2021
California	\$12.00	\$13.00	\$14.00
Washington	\$12.00	\$13.50	\$13.84
Massachusetts	\$12.00	\$12.75	\$13.50
New York	\$11.10	\$11.80	\$12.50
Maryland	\$10.10	\$11.00	\$11.75 <sup>1</sup>
New Jersey	\$10.00	\$11.00	\$12.00
Delaware	\$8.75	\$9.25	\$9.25
West Virginia	\$8.75	\$8.75	\$8.75
Ohio	\$8.55	\$8.72	\$8.94
<b>Pennsylvania</b>	<b>\$7.25</b>	<b>\$7.25</b>	<b>\$7.25</b>
20 Other States	\$7.25	\$7.25	\$7.25

<sup>1</sup>For employers with less than 15 employees, the minimum wage is \$11.60/hr.

# Minimum Wage: A Contentious Topic

## Traditional Theory: All price floors create excess supply.

- For labor market, excess supply = unemployment. Fewer jobs.
- Labor market fully competitive: minimum wage = higher prices.

## Newer Research: Moderate increases have little/no effect.

- Hundreds of "natural" state experiments. Median increase ~ +10%.
- Labor market not fully competitive: minimum wage = (1) higher prices, (2) lower profits, (3) business savings (e.g., reduced turnover).

## **Critical Factor: what would have happened if no change?**

- Most of the impact is subtle: a slower pace of hiring vs. layoffs.

# Both Sides Raise Valid Points

## **Raised by Advocates:**

- Alleviates poverty.
- Greater job satisfaction.
- Less turnover.
- Expands the economy and generates tax revenues.
- Reduces expenditures on healthcare programs (Medicaid).

## **Raised by Opponents:**

- They are "starter" wages paid to inexperienced workers.
- Most who earn minimum wage are dependents.
- Reduces number of jobs.
- Makes entry into labor market more difficult.
- Affects smaller/rural firms disproportionately.

# There is Some Consensus

## **Key: how "binding" is the current minimum wage?**

- How many workers really make \$7.25/hour?
- How high is the new minimum? What is the state median?

## **There will be spillover effects and wage compression.**

- Spillovers extend up to \$3.00 above new minimum wage.
- Employers want to maintain some wage differentials.

## **There are offsetting cost savings.**

- Reduced labor turnover. Higher employee productivity.



# Profile of Non-Tipped PA Workers (2018)

## Characteristics of PA Workers

Hourly Rate	Share of Jobs	Share Part-Time	Share Female	24 Years Old or Less	Single, No Kids
Under \$8.00	2.0%	78.1%	56.1%	63.2%	79.8%
\$8.00 - \$9.99	6.6	63.4	55.2	48.8	67.9
\$10.00 - \$11.99	10.8	50.6	58.5	27.9	54.1
\$12.00 - \$14.99	14.5	24.8	55.0	17.7	45.8
\$15.00 or more	66.1	10.9	45.2	5.3	34.1
All Workers	100.0	22.0	49.1	13.6	41.1

Note: Includes all primary and secondary jobs, all full- and part-time. Excludes self-employed and independent contractors.  
Source: "Analysis of Revenue Proposals," IFO (March 2019).

# Projected Employment Impact (2018)

Hourly Rate		Part-Time (000s)			Full-Time (000s)		
Lower	Upper	% Change Avg Wage	# Jobs Affected	Change # Jobs	% Change Avg Wage	# Jobs Affected	Change # Jobs
\$7.25	\$7.99	63.3%	89	<b>-11.3</b>	60.2%	26	-2.3
\$8.00	\$9.99	38.2	239	<b>-11.4</b>	32.9	137	-4.5
\$10.00	\$10.99	18.2	194	-2.7	17.4	170	-1.5
\$11.00	\$11.99	7.1	<u>119</u>	<u>-0.2</u>	6.7	<u>137</u>	<u>-0.2</u>
<b>Total</b>			<b>641</b>	<b>-25.6</b>		<b>470</b>	<b>-8.6</b>
<b>Total Part- and Full-Time</b>						<b>1,110</b>	<b>-34.2</b>

Source: "Analysis of Revenue Proposals," IFO (March 2019).

# Projected Annual Income Impact (2018)

Hourly Rate		Part-Time		Full-Time	
Lower	Upper	Total Gain (\$ million)	Per Worker \$ Gain	Total Gain (\$ million)	Per Worker \$ Gain
\$7.25	\$7.99	\$241	\$2,708	\$167	\$6,423
\$8.00	\$9.99	574	2,402	658	4,803
\$10.00	\$10.99	281	1,448	529	3,112
\$11.00	\$11.99	<u>93</u>	<u>782</u>	<u>200</u>	<u>1,460</u>
<b>Total</b>		<b>1,189</b>	<b>1,855</b>	<b>1,554</b>	<b>3,306</b>
<b>Spillover Effects (4% wage gain)</b>					
\$12.00	\$14.99	<b>106</b>	517	<b>660</b>	1,063
<b>Total Income Gain (\$ million)</b>				<b>3,510</b>	

Note: Total gain includes incomes lost due to projected employment contraction. Computations assume all workers moved to \$12.00/hour. In practice, some would receive a higher hourly wage to maintain wage differentials.  
Source: "Analysis of Revenue Proposals," IFO (March 2019).

# Where Do the Income Gains Come From?

## **65% Higher Prices for All Consumers**

- Less spending in other sectors of state economy.

## **20% Reduced Business Profits**

- Businesses cannot pass all costs forward to consumers.

## **10% Lower Turnover and Higher Productivity**

- Greater job satisfaction. Eliminate least productive positions.

## **5% Non-residents (exporting and tourism)**

# Projected Price Impact (2018)

	PA Economy	Food Service	Retail Trade
1 All PA Wages Paid (\$ million)	\$349,000	\$7,200	\$15,100
2 Net Wage Gains (\$ million)	\$3,510	\$562	\$948
3 Percent Increase in Wages	1.0%	7.8%	6.3%
4 Wage Share of Total Costs	50.0%	25.0%	10.0%
5 Increase in Total Costs (3*4)	0.5%	2.1%	0.7%
6 Adjust for Consumer Response	n.a.	4.2%	1.4%
7 Assume 65% is Passed Forward	0.4%	2.7%	0.9%

Note: Increase in Total Costs also includes higher payroll taxes. Adjustment for consumer response assumes a price elasticity of demand equal to -0.5. Assumes constant profit margin.

Source: "Analysis of Revenue Proposals," IFO (March 2019).

# Projected Impact on State Spending

	Part-Year 2019-20	Full-Year 2020-21
Adults eligible for Medicaid	-17,000	-68,800
Children eligible for Medicaid	-6,300	-25,500
Children move to CHIP	6,300	25,500
Medicaid Spending (\$ million)	-\$63	-\$256
Costs for Childcare/Direct Care	\$21	\$114
Costs for CHIP	<u>\$6</u>	<u>\$23</u>
<b>Net State Spending</b>	<b>-\$36</b>	<b>-\$119</b>

Source: All estimates provided by PA Department of Human Services.

# Higher Minimum Wage Should Expand Economy

## **A \$3.5 billion net income transfer to low-wage workers.**

- Most from higher prices. Smaller amount from reduced profits.

## **Three factors drive higher economic output.**

- Low-wage earners more likely to spend all income.
- Income transfer is funneled to PA resident labor. Spending more likely to remain in the state.
- Firms should realize offsetting cost savings.

## **Projected increase in tax revenues: \$50 million.**

# Minimum Wages and Income Mobility

## **Are minimum wages temporary starter wages?**

- Or, do workers rotate among low-wage jobs?

## **IFO examined income mobility using state income tax data.**

- Track low-wage earners from 2010 to 2016. What happened?
- Low-wage earners: earn roughly \$8 to \$12 per hour.

## **Need to follow same people over time.**

- Cannot compare two snapshots.
- Residents enter and leave state.
- Workers enter and leave the workforce.



# Single Filers Income Mobility: 2010 to 2016

	2010	2016 Outcomes		
	Median Income	Lowest Third	Middle Third	Highest Third
<b>Wages: \$15,000 - \$20,000</b>				
Median Income	\$17,461	\$17,111	\$26,141	\$42,346
Avg Annual Growth		-0.3%	7.0%	15.9%
<b>Wages: \$20,000 - \$25,000</b>				
Median Income	\$22,456	\$21,614	\$29,639	\$43,838
Avg Annual Growth		-0.6%	4.7%	11.8%

Note: Includes wage earners only who report that wage compensation comprises at least 90% of taxable income in both years. Filers do not change filing status. First group includes 106,602 filers. Second group includes 103,398 filers.  
Source: Personal income tax microdata file.

# Married Filers Income Mobility: 2010 to 2016

	2010	2016 Outcomes		
	Median Income	Lowest Third	Middle Third	Highest Third
<b>Wages: \$15,000 - \$25,000</b>				
Median Income	\$20,480	\$17,983	\$28,488	\$52,402
Avg Annual Growth		-2.1%	5.7%	17.0%
<b>Wages: \$25,000 - \$35,000</b>				
Median Income	\$30,400	\$27,884	\$39,403	\$63,007
Avg Annual Growth		-1.4%	4.4%	12.9%

Note: Includes wage earners only who report that wage compensation comprises at least 90% of taxable income in both years. Filers do not change filing status. First group includes 32,448 filers. Second group includes 44,309 filers.  
Source: Personal income tax microdata file.

# Analysis Summary

## Nearly all policy decisions have trade-offs.

- IFO task is to identify, document and explain them clearly.

## Benefits

- Higher incomes for low wage earners
- Reduced state spending
- Higher tax revenues
- Offsetting business savings

## Drawbacks

- Fewer job opportunities
- Harder labor market entry
- Smaller/rural firms impacted more
- Moderately higher prices