

EXECUTIVE SUMMARY

For 68 years, the minimum wage has been an important part of an economy that works for all Americans. Recently, the federal government has let the minimum wage deteriorate in real value to its lowest point in more than 50 years. In response, twenty states and the District of Columbia have raised their minimum wages above the federal level, up from three in 1996. A grassroots coalition in Ohio is seeking to put an initiative on the November 2006 ballot to raise Ohio's minimum wage to \$6.85 an hour.

This study compares performance of small businesses (establishments under 500 employees) in the 39 states that accepted the federal minimum wage before 2003 to the twelve states (including the District of Columbia) that had minimums above the federal level in January, 2003. Nine new states have joined the high-wage group since. The study found that between 1997 (when more states began having higher minimums) and 2003:

- ◆ Employment in small businesses grew more (9.4 percent) in states with higher minimum wages than federal minimum wage states (6.6 percent) or Ohio.
- ◆ Inflation-adjusted small business payroll growth was stronger in high minimum wage states (19.0 percent) than in federal minimum wage states (13.6 percent) or Ohio.

More data became available in 1998, allowing further analysis. Between 1998 and 2003:

- ◆ The number of small business establishments grew more in higher minimum wage states (5.5 percent) than in federal minimum wage states (4.2 percent) or Ohio.
- ◆ Small business retail employment grew more in higher minimum wage states (9.2 percent) than in low minimum wage states (3.0 percent) or Ohio.
- ◆ Retail payroll grew more in higher minimum wage states (12.3 percent) than in low minimum wage states (6.4 percent) or Ohio.
- ◆ States with high and low minimum wages had similar growth in number of restaurants, restaurant payrolls, and restaurant employment.

All of the above findings “weight” states with more workers more, but nearly all of the findings remain true with un-weighted data (counting each state equally – for details see footnote 15). The better performance of high minimum wage states also held true for small establishments of varying sizes (under 100, 100 to 500, or under 500 employees).

Contrary to the claims of critics, states with higher minimum wages have generally performed as well or better economically than states with lower minimums since 1997. This is in keeping with most recent empirical research on the minimum wage. A higher minimum wage will help 719,000 Ohio workers better support themselves and their families. It is unlikely to lead to aggregate employment loss, payroll loss or establishment closure among small business. On the contrary, a high minimum wage is consistent with a thriving economy that works better for all Ohioans.