POLICY MATTERS OHIO

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Testimony of Policy Matters Ohio
on Senate Bill 11 to raise Ohio's minimum wage
before the Insurance, Commerce and Labor Committee
May 24, 2005

Good morning Mr. Chairman, Senators and concerned citizens. Thank you for giving me the opportunity to testify this morning on this important legislation. My name is Wendy Patton, and I am standing in for Amy Hanauer, our executive director who had a family emergency today. Policy Matters Ohio is a non-profit, non-partisan policy research institute, which can be found on the web at www.policymattersohio.org. We do research on issues facing working people and their families. Certainly among the most important of those issues is the wages that are paid to Ohio's lowest-earning workers.

Senate Bill 11 would raise the Ohio minimum wage from its current level of $4.25 an hour to an eventual rate of $7.15 an hour by January 2007, as well as raising the wage for tipped employees from the current level of $2.13 an hour to an eventual rate of $3.57, in two steps.

Ohio's current minimum wage, of $4.25, is actually lower than the federal level, although the federal wage applies to most Ohio workers. We're one of only two states to set our wage below the federal, though there are six states with no minimum wage.

Mr. Chairman, the federal minimum wage of $5.15 an hour has less purchasing power than in all but one of the past fifty years. Since its high point in 1968, the value of a minimum wage paycheck has fallen so that today a full-time minimum wage worker brings in only $10,712 a year, just two-thirds of the federal poverty line for a family of three ($16,090 per year in 2005). Many argue that the poverty line itself is an inadequate measure of basic needs.

The federal government has not raised the minimum wage since 1997 but the issue has seen intense activity in state legislatures in the past year. Fifteen states and Washington D.C. will soon have minimum wages above the federal level and three states have had the higher minimum pass one hurdle (pass the legislature or pass one vote of the people as an initiative). Three states have taken steps to adjust the minimum wage annually, and one has committed to annual reassessment of the wage. Much of this state activity took place in 2004 and 2005.

Who earns the minimum?
In the past, opponents of a minimum wage increase have often argued that most minimum wage earners are teenagers working for spending money. I'd like to thank Jeff Chapman of the Economic Policy Institute and Hee Yon Sohng on my staff for substantial assistance exploring this and other questions. Our research discussing who in Ohio would benefit from a minimum wage increase makes it impossible for opponents to credibly argue that most beneficiaries are underage or affluent. The proposed Ohio

legislation would directly affect 446,000 earning less than $7.15 an hour. Employees who would be directly affected have the following characteristics:

- ♦ The majority are women workers – 60 percent of those who would get a raise are women, even though they comprise just half of the workforce.
- ♦ More than 70 percent are age 20 or older.
- ♦ More than three-fourths of those affected work at least twenty hours weekly and 35 percent work full-time (35 hours or more a week).

The wages of these workers are important to their families:

- ♦ The lowest-earning forty percent of Ohio households would enjoy 57 percent of the gains from the increase. This group currently earns just 16 percent of total wages.
- ♦ Families with employees that would be affected rely on those workers for half of the family's earnings on average. Over one-third (37 percent) rely on those family members for the entire family income.

A brand new national study, released this month by economist Heather Boushey from the Center on Economic Policy Research, adds additional findings for the half of minimum wage workers who are between ages 25 and 54. Boushey finds that 36.6 percent of prime-age workers earning within a dollar of the minimum wage were still earning within that range after three years. So far from providing a stepping-stone, minimum wage jobs appear to sometimes be a place where workers can get stuck.

How does the minimum wage affect the economy?
Now that minimum wage opponents can no longer credibly argue that minimum wage workers are not adults or not important to their family earnings, they have shifted to other arguments, many of which are similarly flawed.

Jobs won't be lost
Those who support low wage floors sometimes argue that increasing the minimum wage will cause job loss. In fact, studies of the issue repeatedly find that not to be the case. One path-breaking Princeton University Press study by economists David Card and Alan Krueger found that the 1992 minimum wage increase in New Jersey did not decrease employment in the New Jersey fast food industry. Compared with neighboring Pennsylvania, whose minimum wage did not change, New Jersey employment levels actually experienced a slight increase, although not statistically significant. Since that seminal study, economists have repeatedly found that moderate minimum wage increases don't result in job loss. In 1999, the President's Council of Economic Advisers concurred that "modest increases in the minimum wage have had very little or no effect on employment."

Jobs won't leave Ohio
Some have argued that jobs will leave high minimum wage states for lower wage states. But the New York-based Fiscal Policy Institute recently compared employment across states and found that employment has grown by equal or greater amounts in states with a high minimum wage as it has in states that accept the federal level. Their study found that

employment increased by 6.2 percent between 1998 and 2004 in states with minimum wages above the federal, while increasing by only 4.1 percent in other states. While there are many reasons for this – affluent and high-performing states are probably more likely to pass minimum wage increases – it helps to disprove the notion that raising the minimum wage will cause jobs to relocate to states with a lower minimum wage.

Prices won't be substantially increased

We've heard arguments that increasing the minimum wage will lead to price increases. Analysts at the Political Economy Research Institute estimated the impact of the proposed Florida wage increase on business. They found that the average Florida firm would have to raise revenues by 1/25th of a percent, to recoup costs for the one-dollar wage increase. At the most affected workplaces, limited-service restaurants (which include fast-food and take-out restaurants) a $2.00 hamburger would cost $2.03 after the minimum wage was raised. Keep in mind that inflation would have increased the cost of that hamburger to $2.05 between 2003 and 2004.

A U.S. Department of Agriculture study found that the minimum wage increases in 1992 and 1997 (12 percent and 9 percent respectively) increased prices at eating and drinking places by less than one percent and increased the price of processed foods by less than half a percent.

Small businesses won't be unduly affected

Some small businesses pay at or near the minimum wage, although they are not significantly more likely to do so than larger employers. The SBA Office of Advocacy found that businesses under 100 employees employed 52 percent of the total labor force and 54 percent of the minimum wage labor force. Business owners that responded to a National Federation of Independent Business survey ranked the minimum wage issue 57th in importance. Remember that anyone forced to raise wages will be competing with employers who have also been forced to raise wages.

Turnover, absenteeism, recruitment costs may fall, productivity may rise

Underpaying workers increases turnover and raises recruitment, training and supervision costs. Raising the minimum wage can stabilize employment and can increase productivity.

For example, at the low-paying Wal-Mart, 21 percent of workers leave within the first year, requiring the company to hire 600,000 new workers annually, at a cost of $2,500 per worker to test, interview and train a new employee, according to Business Week. In contrast Costco, which starts workers at $10.00 an hour and pays an average of $15.97, has lower turnover (6 percent), higher productivity and less theft than Sam's Club and Wal-Mart. Even with higher salaries, labor costs as a percentage of sales are lower at Costco than at Wal-Mart because workers are more productive.

Reduced government costs

Paying low wages hurts more than just the low-paid worker, as you on this committee know all too well. Poorly paid workers may need Medicaid, food stamps, Head Start services, subsidized child care, housing assistance and other forms of government assistance. By requiring employers to pay adequately, you help ensure that labor market income can go further toward meeting basic needs. And while immediate social service costs are easy to measure, harder to assess but equally real are the long-term costs that occur when workers are in poverty – costs in the form of poor nutrition, poor health outcomes, transient and poorly maintained housing, lowered school performance, increased child neglect and the other ugly realities that are inevitable when someone has to decide between buying groceries and hiring a sitter, between taking a child to the doctor and paying the rent, between supervising a child's homework and taking a second job.

High Road

Mr. Chairman, in the final analysis, there is more than one way to make a profit in any sector of the economy. Firms can seek to get ahead by paying the lowest wages, shirking on benefits, and traveling down what we call a low road. Alternatively, companies can seek to pay higher wages, train and retain workers to increase their skills and productivity, and compete on quality. Raising the minimum wage helps firms compete on the high road, and makes it harder to compete on the low road. Requiring all companies to pay $7.15 eases the burden on those firms that were already trying to do so. The payoff, for the companies, can be lower absenteeism, lower turnover and higher productivity. The payoff for the rest of us is much higher. Workers at or near the minimum wage take care of our toddlers, prepare our food, check us out at the grocery stores and help our children cross the street safely. We all benefit when these members of our communities are more adequately compensated and their families are less deeply mired in poverty.

In sum, the federal minimum wage is at an extremely low point. Many states are acting to raise their minimum wages. If Ohio followed suit, the main beneficiaries would be in low-income households that rely heavily on these earnings. We would improve the lives of Ohio's poorest workers while helping Ohio firms in low-paying sectors to remain competitive and pay family-supporting wages.

Thank you for the opportunity to speak today.