

A REPORT FROM:

POLICY MATTERS
OHIO



ROOM TO GROW:
OHIO CAN AFFORD A HIGHER
MINIMUM WAGE

REPORT AUTHORS:

JOHN BURTON
AMY HANAUER

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AUTHORS

John Burton is Research Associate for Economic Policy at the Center for American Progress. Before joining the Center, John was a research associate at the Council on African American Affairs, and an economist at America's Community Bankers. A native of Miami, Florida, John graduated magna cum laude from Harvard University in 2001.

Amy Hanauer is founding Executive Director of Policy Matters Ohio. Hanauer has a Master's of Public Administration from the LaFollette Institute at University of Wisconsin, Madison and a B.A. from Cornell University. She has previously done research and policy work in Wisconsin, Colorado and Washington D.C. For Policy Matters, in addition to running the organization, Amy does research on work, wages, tax policy, energy policy and other issues.

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POLICY MATTERS OHIO, the publisher of this study, is a nonprofit, nonpartisan statewide research institute dedicated to researching how our economy can work better for everyone in Ohio. Other areas of inquiry for Policy Matters have included workforce policy, education, housing, energy, tax and budget policy, consumer policy and economic development.

EXECUTIVE SUMMARY

The minimum wage proposal on the November ballot will raise wages for more than 700,000 Ohio workers whose pay has not kept pace with strong state and national productivity growth, massive increases in corporate profits nationally, and steep increases in executive compensation.

In Ohio and nationwide, worker productivity has outpaced wages:

- In Ohio, productivity (measured as output per worker) increased at an average annual rate of 2.1 percent between 2000 and 2005, while the average weekly wage increased at an average annual rate of only 0.2 percent during the same period. The median worker wage actually declined over this time period.
- Productivity measured as output per work hour has increased at an even faster pace nationally, but cannot be calculated at the state level. After growing 1.4 percent a year from the mid-1970s to the mid-1990s, hourly output per U.S. worker grew 2.5 percent a year between 1995 and 2000, then leapt to 3.3 percent a year from 2000 to 2005.

In Ohio and nationwide, chief executive pay has outpaced wages:

- In Ohio, chief executive pay grew at an average of 3.4 percent between 2000 and 2005—compared to much slower average weekly wage growth of 0.2 percent.
- In the U.S., chief executive pay grew at an average of 3.3 percent between 2000 and 2005—compared to much slower average weekly wage growth of 0.5 percent.

Overall U.S. corporate profits have increased by a staggering fifty percent in the last five years alone while Ohio and U.S. median worker wages have remained stagnant.

Wage growth remains weak but profits in the low-wage retail sector are strong:

- During the current business cycle, which started in March 2001, the national retail trade profit rate has averaged 9.2 percent.

Workers are not fully sharing in the economic gains of the last few years, despite their increased productivity. Ultimately, increasing the minimum wage is a good first step towards shared prosperity.

INTRODUCTION: SHARING THE GAINS IN OUR ECONOMY

Ohio and the United States are witnessing record levels of productivity and overall economic growth. Profits are growing, too, but wages for most workers are not. For those at the very bottom of the pay scale, a wage increase is long overdue. Ohio workers earning the federal minimum wage of \$5.15 have not seen a wage increase since 1997. In fact, for those who've stayed at minimum wage jobs, the real value of their paycheck has been declining. In real terms, the federal minimum wage is lower than it has been in more than fifty years.

A proposal on the November 2006 ballot will give Ohio voters the opportunity to vote to raise Ohio's minimum wage to \$6.85 an hour with adjustments for cost of living thereafter. This proposal would increase the wages of 719,000 Ohio workers, some of whom are currently paid less than \$6.85, and some of whom would see spillover effects as employers adjust pay scales to accommodate higher wages in the lowest-paid positions. States with higher minimum wages have generally had more overall job growth as well as more job growth in small businesses and retail positions, which are considered to be disproportionately affected by the minimum wage. More than 22 states have now taken action to raise their minimum wages above the federal level and more than half of American workers now live in a state where they are protected by a higher minimum wage than the federal.

Why not Ohio? After all, labor productivity gains outpaced wages and company profits between 2000 and 2005, yet it was chief executives and owners of capital who reaped the rewards.

OHIO'S ECONOMIC GAINS NOT SHARED WITH WORKERS

Productivity is the amount of output created per unit of input used. Measurements of worker productivity (labor productivity) are calculations of *total output per worker* or *total output per worker-hour*. Productivity is important both to individual businesses and to society more broadly. For a business, productivity enhances the ability to compete against other businesses because output is created at a lower cost. For society more broadly, productivity increases can bring about economic growth and improved living standards and quality of life.

American workers are more productive than ever before, and productivity has been rising sharply in recent years. After growing 1.4 percent a year from the mid-1970s to the mid-1990s, hourly output per worker grew 2.5 percent a year between 1995 and 2000, then leapt to 3.3 percent a year from 2000 to 2005. The measure of hourly output per worker is the best national measure of labor productivity, but this information is not available at the state level.

At the state level, we can measure productivity per worker, which does not capture all of the growth that the hourly productivity variable portrays, but does allow for state-to-state comparisons. As indicated in Table 1, productivity per worker increased in Ohio but these productivity gains did not flow back to workers. Between 2000 and 2005,

productivity per worker in the state of Ohio increased at an average annual rate of 2.1 percent. Ohio’s annual productivity growth rate of 2.1 percent ranks 32nd among the fifty states and the District of Columbia (see Table 3).

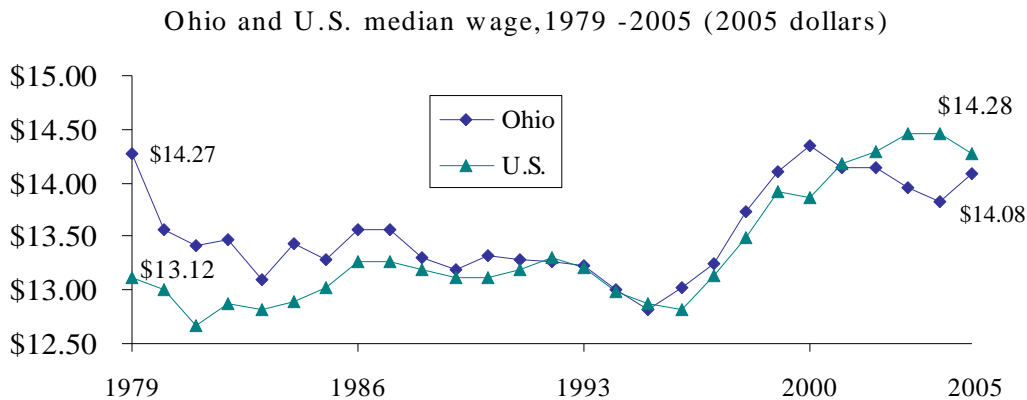
Table 1
Productivity and Wage Growth in Ohio, 2000 to 2005

Variables	Total business cycle growth
Productivity per worker, growth rate, 2000-2005 (based on real GSP)	10.5%
Average weekly wage, 2005	\$706.15
Average weekly wage growth, 2000-2005	1%
Median hourly wage, 2005	\$14.08
Median hourly wage growth, 2000-2005	-1.8%
Chief executive hourly pay, 2005	\$67.17
Average chief executive hourly pay growth, 2000-2005	17.0%

Notes: Data on Ohio chief executive hourly pay are from the Bureau of Labor Statistics (BLS), Occupational Employment and Wage Estimates Survey (current through May 2005). Data on the average weekly wage are from the BLS, Quarterly Census of Employment and Wages (current through third quarter of 2005). The CPI-U was used to deflate wage data and CPI-U data are available from the BLS. The productivity calculation is based on data available from the Bureau of Economic Analysis, Regional Economic Accounts data. Productivity is defined as output per worker and is obtained by dividing the real gross state product by the number of workers. Data on total private employment are available from the BLS, State and Area Employment, Hours, and Earnings.

Unfortunately, these productivity gains did not result in an increase in average or median wages. In fact, the median wage for Ohio workers declined slightly between 2000 and 2005, from \$14.34 to \$14.08 in inflation-adjusted 2005 dollars. Ohio’s median wage is slightly below that of the U.S. but has recovered slightly in comparison to the federal median wage in the past year, as Figure 1 shows.

Figure 1



Source: Economic Policy Institute analysis of Current Population Survey data, Using CPI-U-RS.

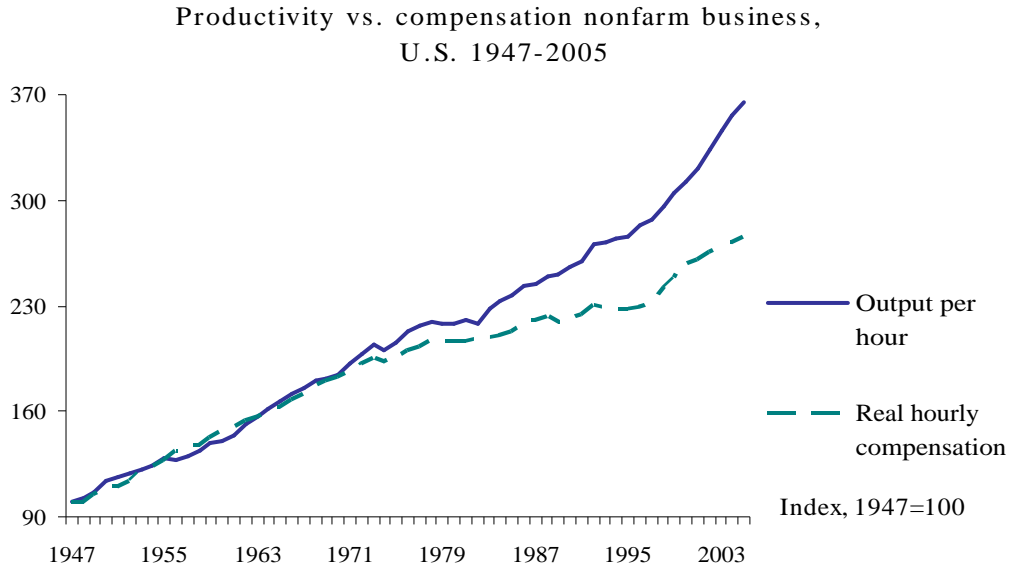
In contrast, the **average hourly** pay of chief executives in Ohio was \$67.17 in 2005.¹ The average weekly wage during the current business cycle was \$706.15, which represents an average annual growth rate of only 0.2 percent between 2000 and 2005, compared to a 3.4 percent annual growth rate for executive pay in Ohio. This business cycle has been marked by increases in productivity and CEO pay in Ohio, but declines in median worker pay and stagnant pay for the average worker.

PRODUCTIVITY GAINS NOT SHARED WITH WORKERS IN OTHER STATES

Ohio differs from a growing number of states in not having a minimum wage above the federal level. But the pattern of wages lagging behind productivity is one that is common to high and low minimum wage states, and to the country as a whole. It was not always this way. From the late 1940s through the late 1970s, productivity grew at a healthy pace overall, and real hourly compensation per worker grew at the same speed, as Figure 2 shows. But since the 1970s, worker output has dramatically outpaced employee compensation. The divergence between the two trends is particularly steep in the past five years, when hourly output per worker climbed by 3.3 percent a year at the federal level. Figure 2 looks at productivity in terms of output per hour, and finds even faster growth in recent years than the measure used above. Data on output per hour is available only at the national level.

¹ Median executive pay was not available. It is appropriate to compare average executive pay to average worker pay, but not to median worker pay. We provide the median worker pay as another interesting economic statistic.

Figure 2



Source: Policy Matters Ohio analysis of Bureau of Labor Statistics data

When several years of the business cycle are combined, the divergence between productivity growth and wage growth is clarified. Between 2000 and 2005, national productivity measured in output per hour grew a total of 16.5 percent. Productivity for all states combined, measured in output per worker grew a total of 11.8 percent. But the average real weekly wage grew only 2.3 percent over this period, and the median wage did not grow at all. Table 2 collects some of this information.

Table 2
National Productivity and Wage Growth for all States, 2000 to 2005

Variables	National Average
Per hour productivity, total growth, 2000-2005	16.5%
Per worker productivity, total growth, 2000-2005 (based on real GSP)	11.8%
Productivity level, 2000-2005 (based on real GSP), 2005 dollars	\$89,874
Average real weekly wage, total growth, 2000-2005	2.3%
Average real weekly wage, current business cycle, 2005 dollars	\$713.58

Notes: The productivity calculation is based on data from the Bureau of Economic Analysis, Regional Economic Accounts data. Productivity is defined as output per worker and is obtained by dividing the real gross state product by the number of workers. Data on total private employment are available from the BLS, State and Area Employment, Hours, and Earnings. The higher minimum wage jurisdictions are: Alaska, California, Connecticut, Delaware, District of Columbia, Hawaii, Maine, Massachusetts, Oregon, Rhode Island, Vermont, and Washington. Data on the average weekly wage are from the BLS, Quarterly Census of Employment and Wages (current through third quarter of 2005). The CPI-U was used to deflate wage data and CPI-U data are available from the BLS.

Per worker productivity and overall wages are higher in states with a higher minimum wage than they are in states like Ohio that accept the federal minimum wage. The states with the highest per worker productivity **levels** are often not the states with the highest productivity **growth**, in part because states with lower productivity can more easily raise their productivity. Less productive areas have more room to grow.

Whether states started at a higher per worker productivity level (such as Washington, DC, Alaska, Delaware or New York), or at a lower productivity level (such as Arkansas, West Virginia or Montana), productivity growth outpaced wage growth in the U.S. In Ohio, as mentioned, the average annual productivity growth rate (per worker, without considering hours) was 2.1 percent but the annual growth rate of the average weekly wage was only 0.2 percent.

Although productivity and wages are higher in states that have a higher minimum wage, productivity growth is higher in states with a federal minimum wage. In both higher and federal minimum wage jurisdictions, productivity growth outpaced wage growth.

Between 2000 and 2005, productivity per worker increased at an annual rate of 2.1 percent in the higher minimum wage states—compared to an increase of 2.3 percent in the states paying the federal minimum wage (see bottom row of Table 3). Many of the higher minimum wage states clustered towards the top of the rankings in terms of productivity level. Ranked by productivity level, four of the top five jurisdictions had a higher minimum wage: the District of Columbia, Alaska, Delaware and Connecticut. With average annual productivity growth of 2.1 percent, Ohio ranked 32nd in productivity growth and, coincidentally, also ranked 32nd in productivity level. Table 3 is sorted by productivity level, from most productive to least productive. If hourly productivity growth rates were available at the state level, it would reflect even greater levels of growth, since national hourly productivity growth was much higher than state GSP per worker for all states combined.

Table 3
Private Sector Productivity and Wage Growth, 2000 to 2005, by State

State	Private Sector Productivity				Private Sector Wages			
	Growth (average annual rate)	Growth Rank	Level	Level Rank	Growth (average annual rate)	Growth Rank	Weekly Level (current business cycle average)	Level Rank
<i>D.C.</i>	2.6	12	\$147,265	1	1.4	3	\$1,147.64	1
<i>Alaska</i>	0.2	51	\$128,913	2	1.2	8	\$752.42	18
<i>Delaware</i>	2.3	25	\$122,406	3	0.2	35	\$525.46	8
<i>New York</i>	2.5	14	\$115,508	4	-1.3	51	\$985.06	3
<i>Connecticut</i>	2.0	38	\$114,932	5	-0.7	49	\$999.35	2
<i>California</i>	2.3	24	\$110,968	6	-0.6	46	\$864.22	6
<i>New Jersey</i>	2.3	27	\$107,781	7	-0.7	48	\$935.49	5
<i>Washington</i>	1.3	48	\$103,458	8	-0.6	45	\$787.29	13
<i>Wyoming</i>	1.4	47	\$100,709	9	1.7	2	\$602.32	42
<i>Massachusetts</i>	2.5	16	\$100,446	10	-0.7	47	\$958.14	4

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State	Private Sector Productivity				Private Sector Wages			
	Growth (average annual rate)	Growth Rank	Level	Level Rank	Growth (average annual rate)	Growth Rank	Weekly Level (current business cycle average)	Level Rank
Texas	2.5	15	\$98,719	11	-0.1	39	\$773.00	15
Colorado	2.4	17	\$97,397	12	-0.4	44	\$800.05	10
Virginia	3.0	5	\$97,102	13	1.0	11	\$783.97	14
Maryland	2.8	8	\$97,040	14	1.2	5	\$802.09	9
Illinois	2.2	29	\$94,455	15	-0.3	42	\$830.69	7
<i>Hawaii</i>	1.1	50	\$94,385	16	1.2	7	\$654.69	31
New Mexico	1.7	45	\$92,797	17	0.9	15	\$594.18	44
Georgia	2.4	21	\$92,034	18	-0.1	41	\$583.31	17
<i>Oregon</i>	3.4	1	\$90,416	19	-0.1	40	\$695.59	24
Arizona	2.1	30	\$89,629	20	0.8	17	\$713.87	20
North Carolina	2.8	9	\$89,345	21	0.2	37	\$681.31	28
Michigan	1.8	43	\$89,154	22	-0.8	50	\$796.79	11
Louisiana	1.3	49	\$86,819	23	0.6	26	\$626.60	37
Minnesota	2.4	20	\$86,486	24	0.5	30	\$790.52	12
New Hampshire	2.8	7	\$86,011	25	0.2	33	\$771.91	16
<i>Rhode Island</i>	2.1	34	\$85,937	26	0.7	25	\$701.18	23
Nevada	1.9	41	\$85,099	27	1.2	6	\$703.40	22
Pennsylvania	2.0	37	\$82,942	28	0.5	31	\$744.24	19
Florida	2.7	11	\$82,547	29	1.1	9	\$754.00	29
South Dakota	3.1	3	\$82,384	30	1.0	12	\$545.58	50
Tennessee	3.0	4	\$82,018	31	0.7	21	\$682.37	26
Ohio	2.1	32	\$81,170	32	0.2	36	\$706.15	21
Idaho	2.4	18	\$81,108	33	-0.3	43	\$583.31	46
Indiana	2.4	19	\$80,301	34	0.3	32	\$682.29	27
Missouri	1.9	40	\$80,175	35	0.2	34	\$694.85	25
Kansas	2.6	13	\$80,023	36	0.7	24	\$653.47	32
Utah	1.9	39	\$79,712	37	0.1	38	\$628.54	36
Oklahoma	2.4	23	\$79,663	38	1.1	10	\$597.88	43
Kentucky	2.2	28	\$78,610	39	0.8	18	\$646.13	33
Alabama	2.8	6	\$78,555	40	1.0	13	\$642.66	35
South Carolina	2.1	35	\$78,147	41	0.6	28	\$617.92	38
Iowa	2.4	22	\$77,959	42	1.0	14	\$617.49	39
<i>Vermont</i>	3.2	2	\$77,608	43	0.9	16	\$644.42	34
Nebraska	1.8	44	\$76,830	44	0.7	22	\$609.96	41
Wisconsin	2.0	36	\$76,733	45	0.5	29	\$673.59	30
Mississippi	2.3	26	\$74,603	46	0.8	19	\$553.44	49
<i>Maine</i>	2.1	31	\$74,184	47	0.6	27	\$613.47	40
North Dakota	2.1	33	\$73,954	48	1.8	1	\$557.15	48
Arkansas	2.7	10	\$73,877	49	0.8	20	\$582.79	47
Montana	1.8	42	\$72,692	50	1.4	4	\$525.03	51
West Virginia	1.6	46	\$72,688	51	0.7	23	\$584.10	45
Higher MW	2.1	28	\$112,375	16	0.3	29	\$803.66	17
Federal MW	2.3	26	\$82,951	29	0.5	25	\$685.87	29

Notes: All figures are in percent, unless otherwise specified. The productivity calculation is based on data available from the Bureau of Economic Analysis, Regional Economic Accounts data. Productivity is defined as output per worker and is obtained by dividing the gross state product by the number of workers. Data on total private employment are available from the BLS, State and Area Employment, Hours, and Earnings. The higher minimum wage jurisdictions are *italicized*. Data on the average weekly wage are from the BLS, Quarterly Census of Employment and Wages (current through third quarter of 2005). The CPI-U was used to deflate wage data.

In states with higher and lower minimum wages, wage growth consistently lagged behind productivity growth: 0.3 percent annual wage growth in the higher minimum wage jurisdictions and 0.5 percent annual wage growth in the federal minimum wage

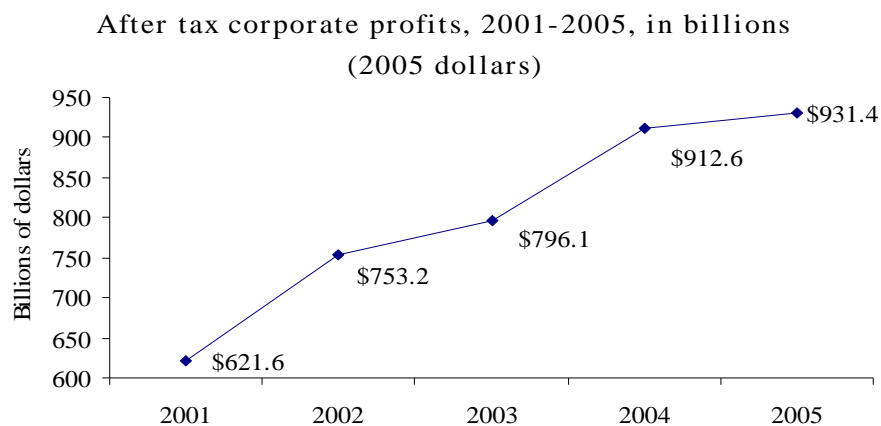
jurisdictions. Higher minimum wage states have higher overall wages: an average weekly wage of \$803.66, compared to \$685.87 in federal minimum wage states, a 17.2 percent difference.

Nationwide, productivity grew faster than wages grew in states with a variety of minimum wage levels. Productivity gains that do not flow to worker wages have tended to flow toward profits and, to a lesser extent, compensation of chief executives and others at the very top of the ladder. Productivity growth indicates that the economy is growing—the pie is larger. But if wages do not grow in line with productivity, than the workers' portion of the pie shrinks in comparison to the slice that goes towards profits.

SKYROCKETING PROFITS, RISING CEO COMPENSATION SHOW WE CAN AFFORD A HIGHER MINIMUM WAGE

As Figure 3 shows, U.S. corporate profits rose by a breathtaking 50 percent in just the five years between 2001 and 2005, when adjusted for inflation. By 2005, after tax corporate profits in the United States were an astonishing \$931.4 billion, up from \$621.6 billion just four years earlier. This has occurred over a time frame when median wages, in both Ohio and the United States, were flat.

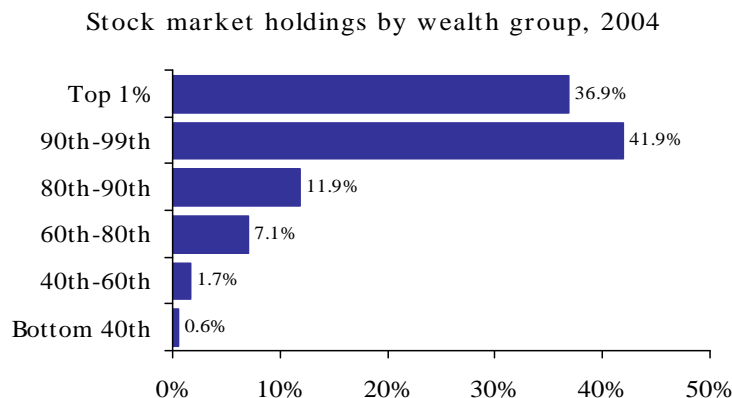
Figure 3



Source: Policy Matters Ohio analysis of Bureau of Economic Analysis's National Income and Product Accounts data

When profits skyrocket as they have in the past five years, stockholders are the primary beneficiaries. Unfortunately, most Americans own little if any stock. In fact, as of 2004, more than 78 percent of stocks were owned by the wealthiest 10 percent of the American population. More than a third of stock holdings were held by the wealthiest one percent of Americans in that year. Middle-class families – those between the 40th and 60th percentiles, held less than 2 percent of stocks in the country in 2004, as Figure 4 shows.

Figure 4



Source: Economic Policy Institute’s *State of Working America 2006-2007*

So while it’s clear that productivity, profits, and stock returns nationwide have skyrocketed, primarily benefiting the very wealthy, some might fear that Ohio has not taken part in this growth in wealth or productivity. But, in fact, despite concerns about the state economy, Ohio’s gross state product has grown sharply when adjusted for inflation, in both recent years and since the 1990s. Ohio’s gross state product of \$394.9 trillion dollars ranked seventh among states in 2005 – the same as our rank in population.

Between 2000 and 2005, chief executive pay in Ohio also grew at an annual rate of 3.4 percent while the wages for the average worker remained stagnant. Data presented in this section finds that national chief executive pay has grown much faster than the average or median worker’s pay, and profit growth has been strong in the economy, in general, and in the retail sector, in particular. This is important because the retail sector disproportionately employs low-wage workers, many of whom earn the minimum wage. Additionally, national productivity growth outpaces worker compensation (which also includes benefits such as health insurance). This mirrors what we found to be the case in Ohio (2.1 percent annual productivity growth compared to 0.2 percent annual wage growth).

Two measures of productivity are presented in Table 4. The first measure, based on real gross state product (GSP), allows for a comparison of the national average annual growth--2.3 percent --to the average of the individual states (see Table 3). The second measure of productivity is based on data from the Department of Labor’s Bureau of Labor Statistics. This productivity measure, based on output per worker-hour rather than output per worker, allows for a direct comparison between productivity and compensation.

Based on this data, we find that productivity (output per hour) increased at an average annual rate of 3.4 percent during the current business cycle, compared to an average annual rate of 2.0 percent during the previous business cycle. Real hourly compensation grew at less than half the rate of productivity—only 1.5 percent during this business cycle and 1.4 percent in the previous business cycle. The weak compensation

growth is striking because health care costs increased throughout the current business cycle. Despite the cost increase of employer-provided health insurance and other benefits, real hourly compensation did not grow as fast as productivity grew.

Table 4
Productivity, Wage, and Profit Growth in the U.S.

Variables	Current business cycle average	Previous business cycle average
Productivity, annual growth rate (based on real GSP)	2.3	n/a
Productivity, annual growth rate (based on BLS data)	3.4	2.0
Real hourly compensation, average quarterly growth rate (annualized)	1.5	1.4
Average weekly wage, 2005 dollars	\$713.58	n/a
Average weekly wage, average annual growth rate	0.5	n/a
Chief executive hourly pay, 2005 dollars	\$66.88	n/a
Chief executive hourly pay, avg. annual growth rate	3.3	n/a
Non-financial corporate sector profit rate, average	2.5	3.1
Non-financial corporate sector profit rate, percentage point shift	2.4	-0.6
Retail trade profit rate, average	9.2	6.2
General merchandise stores profit rate, average	9.6	6.2
Retail food stores profit rate, average	6.2	6.0
Retail trade profit rate, percentage point shift	5.8	6.4
General merchandise stores profit rate, percentage point shift	8.0	11.2
Retail food stores profit rate, percentage point shift	0.4	2.4

Notes: All figures are in percent, unless otherwise specified. Current business cycle data is from 2001:II through 2005:IV; previous business cycle data is 1990:III through 2001:I. N/A indicates that the data needed to calculate the previous business cycle averages were not available. The first productivity calculation is based on data available from the Bureau of Economic Analysis, Regional Economic Accounts data. Productivity is defined as output per worker and is obtained by dividing the real gross state product (for the nation) by the number of workers. Data on total national private employment are available from the Bureau of Labor Statistics (BLS). The second productivity calculation is based on the productivity and costs data for non-farm business productivity growth available from the BLS. Data on the average weekly wage are from the BLS, Quarterly Census of Employment and Wages are the average of the fifty states and the District of Columbia (current through third quarter 2005). The CPI-U was used to deflate wage data and CPI-U data are available from the BLS. Data on U.S. chief executive hourly pay are from the Bureau of Labor Statistics (BLS), Occupational Employment and Wage Estimates Survey (current through May 2005). Real hourly compensation data are available from the BLS. The national non-financial corporate sector profit rate was obtained from the Federal Reserve, *Flow of Funds*, Z.1 statistical release. Profit rates are before-tax. The profit rates for the retail trade sector and the general merchandise stores and retail food stores sub-sectors were calculated using data from the U.S. Census Bureau Quarterly Financial

Report (QFR). The profit rate is calculated by multiplying income by 4, and then dividing by total assets at the end of the quarter. This ratio measures the productivity of assets in terms of producing income.

Chief executives enjoyed healthy pay raises throughout the current business cycle. Recall, that in Ohio, chief executive pay grew at 3.4 percent while average weekly earnings grew at 0.2 percent. In the U.S., chief executive pay grew at 3.3 percent (see Table 4) while average weekly wages grew 0.5 percent annually on average. For direct comparison, if we assume a forty-hour work week, the average weekly wage for chief executives would be \$2,675.20--compared to the average weekly earnings of \$550.97. Shifting to look at profits, we find that profit growth was much stronger than wage growth during the current business cycle. Consequently, labor productivity gains that did not flow towards wage increases but were instead captured in profits can be redistributed to workers through a higher minimum wage. Profit growth is strong enough to support a higher minimum wage.

Nationally, the profit rate (for non-financial businesses) averaged an annual growth rate of 2.5 percent for the current business cycle. This is much stronger growth than the 0.5 percent growth rate of average weekly wages (nationwide) and the 1.5 percent growth in real hourly compensation.

Workers earning the minimum wage tend to work disproportionately in certain sectors of the economy, including the retail sector. Analyzing profits in the retail sector gives us a sense of whether companies that disproportionately hired low-wage workers enjoyed the profits of the 2000-2004 period. Profit growth is healthy in the disproportionately low-wage retail sector. Numerous news articles recount that in Ohio the retail sector slowed throughout 2001 and 2002 and only began to pick up steam in late 2003. Employment and wages in the retail sector continued to slump in 2004 however—even after sales in the retail sector had rebounded from 2002 and 2003 levels. Available data (see Table 4) indicate that the retail trade profit rate is 9.2 percent for this business cycle (2001:II-2005:IV), compared to 6.2 percent in the previous business cycle (1990:III-2001:I). General merchandise stores have a profit rate of 9.6 percent compared to 6.2 percent in the previous business cycle. And retail food stores have a profit rate of 6.2 percent compared to 6.0 percent in the previous business cycle.

The story of the diverging fortunes of Ohio businesses and Ohio's working families is repeated in the larger national narrative of the diverging fortunes of top executives at America's largest publicly traded companies and the rank-and-file workers. The annual *Wall Street Journal* report on CEO pay examines the full compensation (not just salary but benefits, stock options and other compensation) at 350 of the largest publicly-traded companies in the nation. Accordingly, this survey gives a picture of compensation trends at the very top of the pyramid.

In the fifth year of this business cycle, the fortunes of CEOs and middle-class families pulled further apart. In 2005, the typical CEO at these largest companies received \$11.6 million in total direct compensation--salaries, bonuses, restricted stock grants, gains from stock option exercises and other long-term incentive payouts. This constituted a 24 percent increase over the 2004 average of \$9.3 million. This means that

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in 2005, the average large company CEO made 279 times the average pay of a production non-supervisory worker (see Figure 5), up from 145 times as much in 2002.

Figure 5



Notes: Data prior to 2004 are taken from L. Mishel, J. Bernstein, and S. Allegretto, *The State of Working America 2004/2005*, Ithaca, NY: Cornell University Press. Data for 2004 and 2005 are from the Wall Street Journal, CEO Compensation Survey, April 11, 2005 and April, 10, 2006, and from the Bureau of Labor Statistics, Average Hourly Earnings of Production Non-Supervisory Workers, Washington, D.C.: BLS, www.bls.gov. The annual average hourly earnings of production non-supervisory workers was \$15.67 in 2004 and \$16.11 in 2005. Average worker compensation is calculated by multiplying the average hourly earnings of production non-supervisory workers times 2,080 and then multiplying this figure by the ratio of compensation to wages for 2005 from the Bureau of Economic Analysis, 2006, National Income & Product Accounts, Washington, D.C.: BEA.

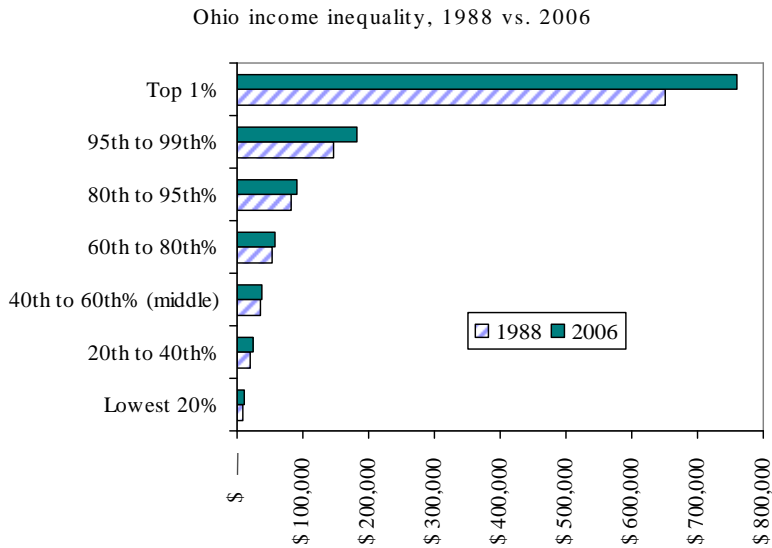
In this recovery, wages have been flat, after adjusting for inflation, in the wake of comparatively low job growth, despite robust economic growth. At the same time, profit growth has been exceptionally strong, mirrored in high and rapidly rising CEO compensation.

The sharp rise in executive compensation and returns to stock, compared to the stagnant median wage and declining minimum wage, has meant a dramatic spike in inequality in Ohio and the U.S. Tax return data from 2006 (based on earnings from 2005) provides a partial glimpse into the degree to which we have grown apart in the last decade.² The top one percent of income tax returns in Ohio in 2006 had an average value

² These income ranges were calculated by the Institute on Taxation and Economic Policy, based on data from the Internal Revenue Service, the CPS and the Public Use Microdata Sample of the U.S. Census. Based on these sources, the model estimates the total pretax cash income of all tax units, including both filers and non-filers and including income not reported on tax returns (such as tax-exempt interest, most

of more than \$760,000, which was more than twenty times what middle-income taxpayers earned, and 75 times what low-income filers (in the bottom 20 percent) earned on average. A glimpse at the distribution of earnings reveals the extremity of our divergence as a state – the lowest-income twenty percent of filers earned just over \$10,000 a year in 2005, a mere \$1,444 increase over what filers at that level had earned eighteen years ago. Middle-income filers earned just under \$40,000 a year, a \$2,967 increase over their 1988 filings (based on 1987 earnings).³ The upper income (95th to 99th percentiles) brought in more than \$181,000, a full \$33,741 increase over their earnings in the first year examined. Yet even these very privileged earners have reason to be shocked at the extreme returns that the economy has bestowed on the top one percent in Ohio – with incomes averaging more than \$760,000, these wealthy households have added \$109,733 to their annual earnings since 1988 (for 1987 earnings). The degree to which their income has increased annually exceeds the entire average annual income of nearly all earners in the bottom 95 percent of the spectrum. In Figure 6 below, filings in 2006 are depicted with the solid green bar, while filings from 1988 are shown by the striped light blue bar.

Figure 6



Source: ITEP analysis of IRS and Census Bureau data on the prior year’s pre-tax earnings.

transfer payments, etc.) Cash income does not include the value of non-monetary compensation, such as health insurance coverage. Transfers from the Earned Income Tax Credit are also not represented here.

³ 1988 was the first year for which ITEP could provide filing data – income among the very top actually went down in the early 1990s, so growth at the top could have looked more extreme if we’d used a subsequent year, but we chose to use the earliest year of data we had available.

CONCLUSION

Productivity has grown sharply, measured in a variety of different ways. Corporate profits have also skyrocketed in recent years. And compensation of CEOs and other top earners has increased at a healthy pace. But median and average workers have seen losses or minimal compensation gains, while those earning the minimum wage have seen a real loss in earnings. The Ohio economy is profitable and productive. We can afford to share some of that growth with the minimum wage workers who are trying to make it in our economy. Increasing the minimum wage will improve the incomes of the lowest-wage workers, protect their wages from inflation, and help create an economy that works better for all Ohioans.

APPENDIX 1

RAISING THE MINIMUM WAGE DOES NOT HURT ECONOMIC GROWTH

A review of empirical research on the minimum wage finds that a strong minimum wage is consistent with a strong economy. Although opponents of the minimum wage sometimes claim that minimum wages can cause job loss, business relocation or price increases, the Economic Report of the President indicated—back in 1999—that empirical research consistently finds that modest minimum wage increases do not result in these negative consequences. Research conducted since 1999 continues to bear this out.

In their exhaustive 1995 book, *Myth and Measurement: The New Economics of the Minimum Wage*, Professors David Card (UC-Berkeley) and Alan Krueger (Princeton University) repeatedly found comparable or greater employment growth after minimum wage increases, when compared to similar cases where there was no minimum wage increase. Card and Krueger found that fast food employment in New Jersey grew more after New Jersey raised its minimum wage than did fast food employment in neighboring Pennsylvania, which kept the same minimum wage. They also found that employment growth was higher in those New Jersey restaurants that were forced to increase their wages than in those that were already paying that level. They found similar results for fast-food restaurants in Texas after the federal minimum wage increase, and for teen workers after a state minimum wage increase in California.

Card and Krueger’s cross-state analysis found that after the federal minimum wage increase in 1990-91, states forced to raise the wage of more workers had equal or more job growth than states already paying more. In short, whether comparing states with different wage rates, the same states before and after wage changes, or effects of federal wage increases, Card and Krueger repeatedly found that higher minimum wages are consistent with strong economic growth and were often more closely correlated with strong growth than lower minimum wages.

In 1999, Professor Gianni De Fraja (University of Leicester) conducted a study finding that the employment effects of the minimum wage are limited and that there is a positive spillover on high-wage workers. In his 2003 study entitled “The Impact of the Minimum Wage If Workers Can Adjust Effort,” Richard A. Ippolito, formerly Professor of Law and Economics at the George Mason University School of Law, concluded that “the minimum wage has little effect on rent, employment, output, and profits.”

In 2004, Paul Wolfson, of the Tuck School of Business at Dartmouth, and Dale Belman, of Michigan State University, published similar findings in “The Minimum Wage: Consequences for Prices and Quantities in Low-Wage Labor Markets.” Also in 2004, a report by Amy Chasanov at the Economic Policy Institute (“No Longer Getting By: An Increase in the Minimum Wage Is Long Overdue”) indicated that workers who are paid higher wages have lower turnover; and lower turnover leads to more experienced workers and higher productivity, therefore lowering recruiting and training costs for the employer.

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Another study in 2004, this one conducted by University of Massachusetts Economist Robert Pollin, Mark Brenner and Jeannette Wicks-Lim for the Center for American Progress, examined the likely effects of the Florida minimum wage and found that businesses would not need to lay off workers or relocate, but would instead be able to absorb cost increases through productivity gains and modest price increases (the study found that a typical restaurant could fully cover the cost of the increase by raising the price of a \$20 meal to \$20.14).

In a 2006 paper updating earlier findings, the New York-based Fiscal Policy Institute found that establishments with fewer than fifty workers had greater employment growth in states with a higher minimum wage than in states where the \$5.15 federal minimum prevailed. The study also found that total job growth and retail job growth were stronger in the higher minimum wage states.

And finally, as discussed in a joint research report released by Policy Matters Ohio and the Center for American Progress, *Good for Business: Small Business Growth and State Minimum Wages*, employment in small businesses grew more (9.4 percent) in states with higher minimum wages than federal minimum wage states. Small business payroll growth was stronger in higher minimum wage states, the number of small business establishments grew more in higher minimum wage states, and both retail employment and payroll grew more in higher minimum wage states.

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