

The Potential Economic Impact of Increasing the Minimum Wage

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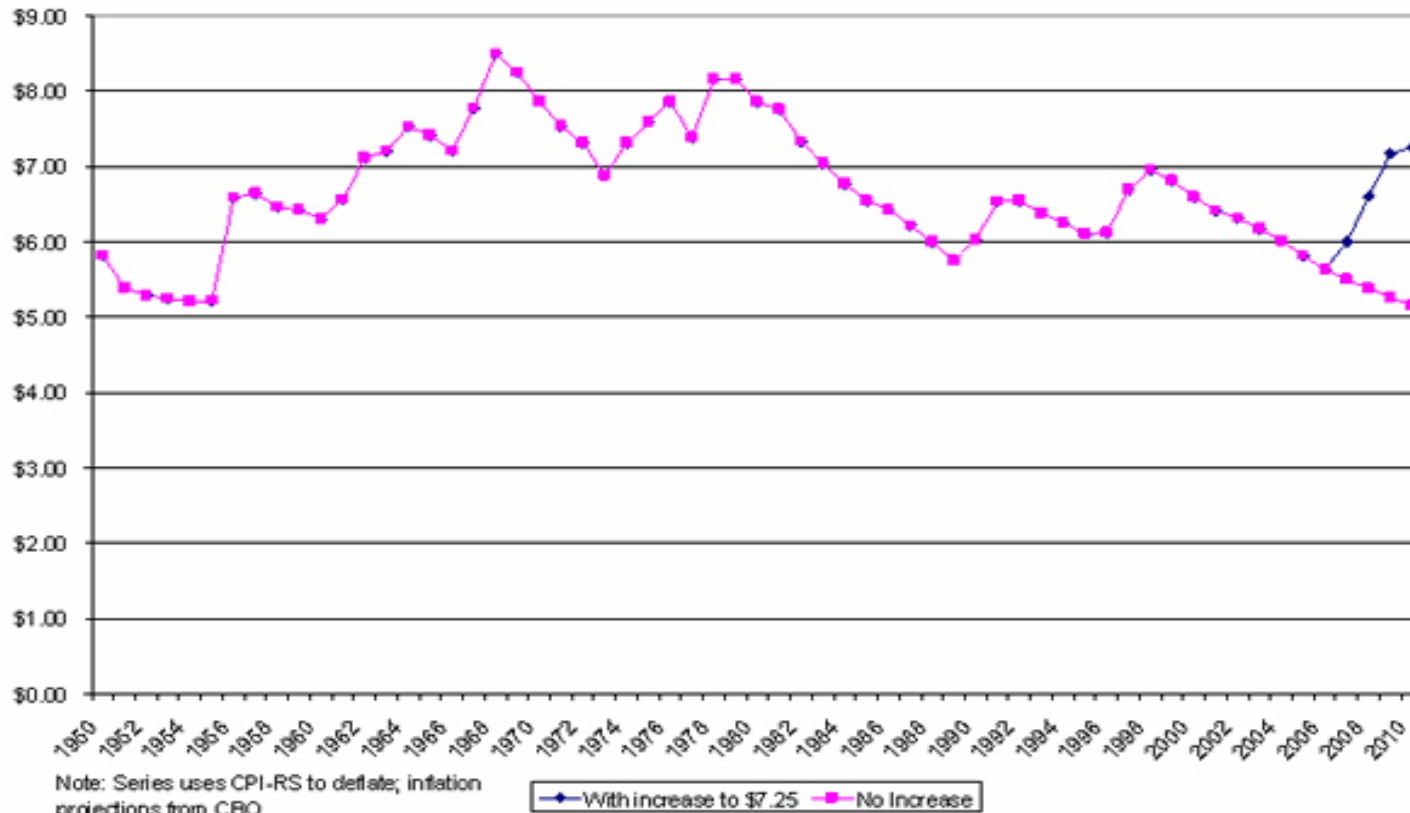
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How does the minimum wage differ from the livable wage?

- The **livable wage** is a wage sufficient to pay for basic needs such as food, rent, healthcare, transportation, daycare, utilities and other household needs.
- The **minimum wage** is a wage rate established by government regulation, specifying the lowest rate at which workers may be employed.

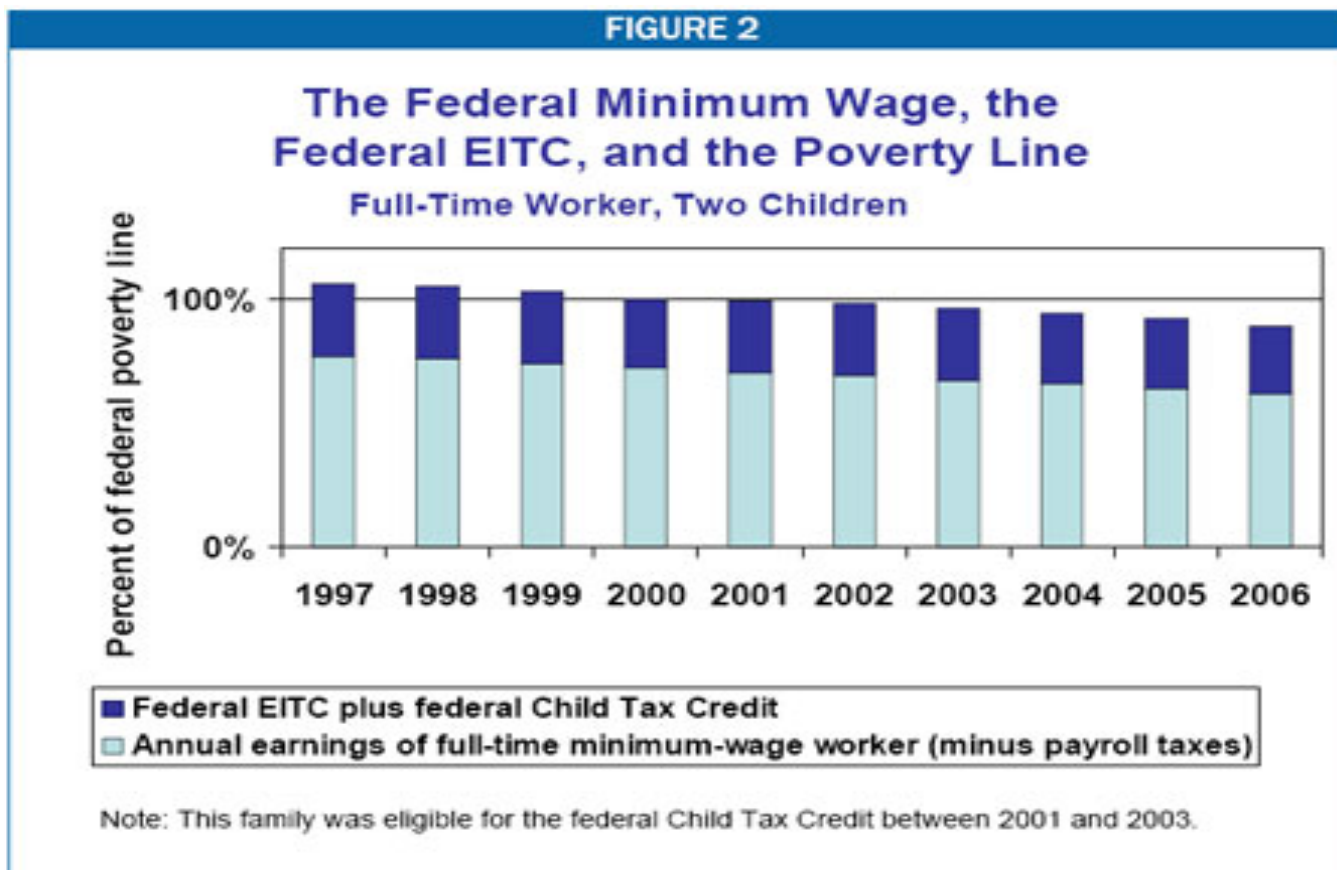
Since the last increase in the minimum wage, inflation has eroded one-fifth of its value...

Federal Minimum Wage, Inflation Adjusted, With and Without Proposed Increase to \$7.25
(2010 Dollars)



Jared Bernstein. "Tax Incentives for Businesses in Response to a Minimum Wage Increase" Testimony before the U.S. Senate Committee on Finance, January 10, 2007.

... having a direct impact on families close to the poverty line.



Jason A. Levitis and Nicholas Johnson. "Together, State Minimum Wages and State Earned Income Tax Credits Make Work Pay." Center on Budget and Policy Priorities. November 20, 2006.

What are the potential costs and benefits of raising the minimum wage?

- Benefit: raises the wages of low-wage workers which may
 - Increase purchasing power of low-wage households
 - Decrease the number of families living in poverty
- Cost: raises labor costs for employers which may
 - Increase prices for consumers
 - Reduce employment (or hours or benefits) for minimum-wage workers
 - Potentially reduce economic competitiveness of firms

What is the typical impact of raising the minimum wage on employment?

- In theory, increasing the minimum wage can lead to a decrease in employment, but this depends on how responsive employers are to rising labor costs.
 - Economics literature suggests that the impact on employment is likely to be small (on the order of one to two percent).
 - U.S. Council of Economic Advisors concluded “the weight of the evidence suggests that modest increases in the minimum wage have had very little or no effect on employment.”

Case Study: What would be the potential economic impact for Massachusetts?

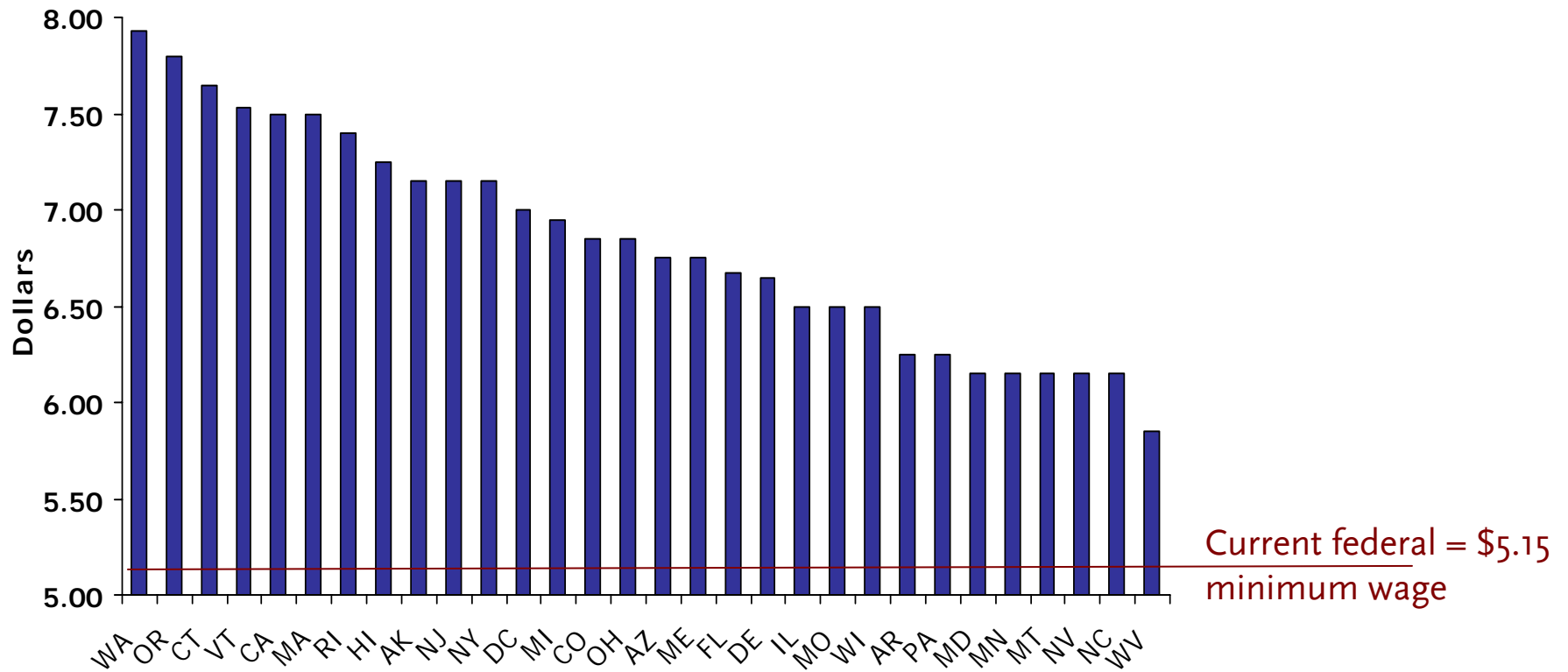
- Impact on employment depends on the
 - Number of affected workers
 - Effective increase in the minimum wage
 - Responsiveness (elasticity) of demand for labor
- NEPPC study found that the proposed increase from \$6.75 to \$8.25 would likely reduce employment by 1 to 4 percent for workers whose wages would be affected.
 - Assuming an employment loss of 2%, net aggregate wages would increase by \$255 million.

Alicia Sasser. "The Potential Economic Impact of Increasing the Minimum Wage in Massachusetts." New England Public Policy Center Research Report Series No. 06-1, January 2006. (<http://www.bos.frb.org/economic/neppc/researchreports/2006/rro601.pdf>)

In July 2006, Massachusetts passed h. 4781 “An Act Increasing the Minimum Wage.”

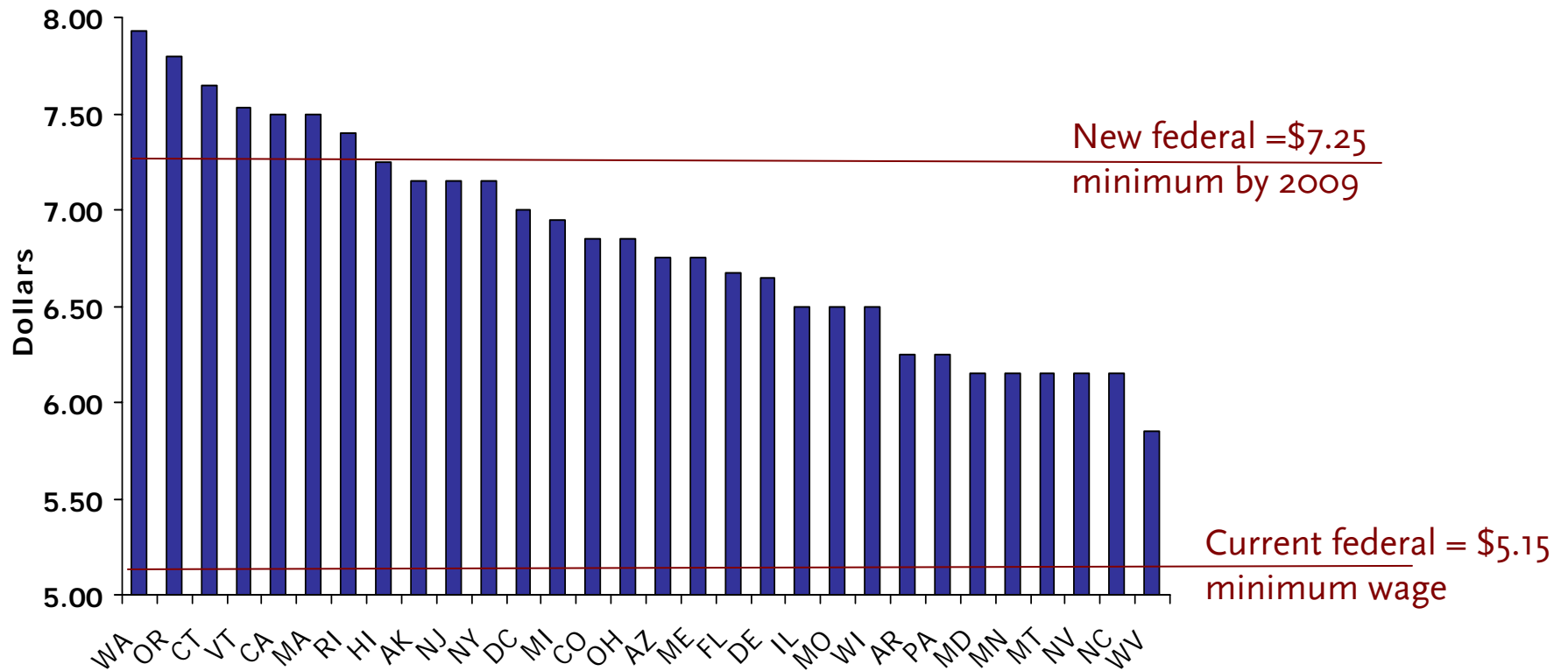
- H. 4781 raises the minimum wage in two stages:
 - from \$6.75 per hour to \$7.50 per hour on January 1, 2007
 - from \$7.50 per hour to \$8.00 per hour on January 1, 2008.
 - With no indexing to future inflation
- Estimated that by 2008, 315,000 low-wage workers will receive a pay increase, the vast majority of whom are adults and nearly half of whom work fulltime.
- Full-time workers earning the minimum wage will see gross pay rise by approximately \$2,500 (in inflation-adjusted dollars) by 2008.

As of 2007, 30 states had a state minimum wage above the current federal level...



U.S. Department of Labor: Minimum Wage Laws in the States (<http://www.dol.gov/esa/minwage/america.html>)

...but that number may decrease by 2009 if a new federal minimum wage is passed.



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