

EMPIRE CENTER

Testimony of Edmund J. McMahon
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Before the New York State Senate Labor Committee
January 7, 2016

The notice for this hearing is appropriately focused on the core question you need to consider in weighing Governor Cuomo's proposal for a statewide minimum wage of \$15 an hour.

What impact would such a policy have on workers, employers and the state as a whole?

I believe there is compelling evidence in support of the following answer:

On balance, a mandated statewide \$15 minimum wage would be a counterproductive policy with a negative impact. It would disrupt labor markets, reduce job creation, drive up prices and chill the business climate.

As far as individual New Yorkers are concerned, I would suggest the negative effects will be felt most strongly by the very people this policy is supposed to help: marginal, younger, low-income workers struggling to get or keep a foothold in the economy. On a geographic basis, the negative impacts are likely to be disproportionately concentrated in upstate New York – and will be worst of all in those upstate regions already struggling to retain and create jobs.

My organization recently co-sponsored research to estimate the impact on employment. Before getting into our findings, however, I would like to establish some context for this discussion. The historical path of the minimum wage, adjusted to 2015 dollar values, is illustrated by Figure 1, attached to my written testimony. Some key landmarks are as follows:

- The original 1938 federal minimum wage equated to \$4.20 an hour in today's terms. During a 25-year period, coinciding with the nation's postwar economic boom, the federal minimum wage was repeatedly increased, hitting the equivalent of more than \$10 an hour at the end of the 1960s.
- New York's minimum wage peaked in 1970 at the equivalent of \$11.35 an hour, but over the past 50 years has averaged \$8.36 an hour.
- Our current minimum wage of \$9 an hour is New York's highest in 37 years.
- Even discounting for projected future inflation over the next six years, assuming the same phase-in schedule adopted by the Labor Department Wage Board for fast-food chain restaurants, a statewide minimum wage of \$15 an hour as of 2021 easily would be the highest in New York's history.

A minimum wage of \$15 an hour would be considerably higher than the minimums currently scheduled to take effect over the next few years in our closest neighbor states. And while some cities elsewhere in the country, such as Seattle, have enacted local laws aiming for a \$15 an hour minimum wage, such a policy has not been enacted on a statewide basis anywhere.

As illustrated in Figure 2, adjusting for exchange rates and purchasing parity differences, \$15 an hour also is higher than the minimum wage now in effect in other countries around the world. Indeed, as of 2014 only seven of 25 developed nations had minimum wages higher than \$9 an hour, and none had a minimum of more than \$12.¹

Most pertinent of all, from your standpoint in weighing this proposal, are the wide differences in prevailing market wage levels in different regions of the state. Based on Labor Department data, the attached Figure 3 shows how the medians for different New York regions line up against the 2015 statewide minimum of \$8.75 as well as the proposed \$15 level.

As of 2014, the median hourly wage of all full- and part-time jobs ranged from a high of \$21.73 in the New York City metro area (including the White Plains and Wayne, NJ, metros) to a low of \$15.30 in the Glens Falls area. Other upstate regions with median wages just above \$15 include Utica-Rome at \$15.91, along with the non-metro areas of Capital/Northern New York at \$15.77, Central New York at \$15.59 and Southwest non-metro New York at \$15.49.

Even assuming these medians move, in tandem, at the same rate as projected for total statewide wages over the next few years, a statewide minimum wage of \$15 an hour will represent a very high percentage of the current hourly median wage throughout upstate New York — especially in those regions that have struggled most to create new jobs.

Which brings me to our own study. The authors, economists Douglas Holtz-Eakin and Ben Gitis of the American Action Forum, drew on three credible research models to estimate low, medium and high impacts from raising the statewide minimum wage to \$15.

Their key finding, as further explained in the attached paper, was that a \$15 minimum wage — phased in as the governor proposed — ultimately would cost the state a minimum of 200,000 jobs, with proportionately the largest employment decreases in upstate regions. This estimate represented the so-called “low-impact” scenario, based on a model developed a few years ago by the Congressional Budget Office, of which Dr. Holtz-Eakin is a former director.

Our research team also applied the methodologies of two other research models, published respectively by Texas A&M economists Jonathan Meer and Jeremy West, and by Jeffrey Clemens and Michael Wither of the University of California at San Diego. The Meer & West model indicated a \$15 an hour minimum wage would result in 432,200 fewer jobs. The Clemens-Wither model suggested the negative impact over the six years would be even larger, at 588,000 jobs.

Job losses would be smaller, but still more than New Yorkers should be willing to tolerate, if the state was to set the minimum at \$12 an hour, according to Holtz-Eakin and Gitis. Conversely, wage gains from the minimum wage would range from a high of \$10.6 billion, assuming the “low-impact” job loss scenario, to a low of just \$1.3 billion, assuming the high-impact employment scenario envisioning 588,000 fewer jobs.

Based on national labor force data, our paper also estimated that less than 7 percent of the wages generated by a \$15 wage would actually go to households in poverty.

Advocates have suggested a 67 percent boost in the minimum wage will ignite a purely virtuous cycle in which low-wage workers spend all of their higher pay on goods and services, resulting in a net boost to the overall economy. In fact, there are two sides to that coin. A minimum wage won't generate higher incomes out of thin air. It will redistribute incomes — in many cases, among low-wage workers themselves.

Consider how the \$15 scenario is likely to play out in just one important sector that touches many working families across New York State. As of 2014 there were 11,370 child care workers employed in the 11 metropolitan areas of upstate New York, earning hourly median wages ranging from \$9.01 in Binghamton to \$10.88 in Ithaca. The biggest urban metros in upstate New York all had median child care worker wages below \$10 an hour.

Obviously, child care is labor-intensive, and licensed child care centers are subject to strict staffing ratios. Given the figures I just cited, the imposition of a \$15 minimum wage inevitably will result in significant increases in child care costs for hundreds of thousands of parents at all income levels. A significant raise for those 11,000 child care workers will require a significant increase in child care expenses for hundreds of thousands of parents and families. And as salaries rise for child care workers employed in licensed facilities, families with informal child care arrangement also will need to pay more.

The most common assertion we hear in connection with the so-called “Fight for \$15” is, as Governor Cuomo has put it, “no one who works full time should live in poverty.” In fact, this is not a new concern in New York. It was a desire to boost low-wage workers out of poverty that inspired Governor Mario Cuomo to successfully propose, 22 years ago, that New York State supplement the federal Earned Income Tax Credit – a program that has enjoyed broad bipartisan support in Washington since the mid-1970s.

Counting the EITC and other state and federal wage supports – including child tax credits and Supplemental Nutritional Assistance, formerly known as Food Stamps – a single parent of two children, employed full time in a job paying New York’s new minimum wage of \$9 an hour, can collect total cash income of \$34,995 a year, or \$16.81 per hour. These figures do not include additional benefits such as housing and child care subsidies, or health insurance subsidized by Medicaid and the federal Affordable Care Act.

For the single parent of two in our example, a \$6 raise to \$15 an hour will result in a net cash income gain of just \$2.72 an hour, due to a phased-in reduction of the EITC and other means-tested cash supports I mentioned.

It’s one thing for this offset to occur in the course of a low-wage worker’s natural progression up the pay ladder. It’s quite another thing to assume that the only way to boost the incomes of such workers – who make up a small subset of all minimum wage earners – is by forcing employers and their customers across the state to pay billions of dollars more to a much larger number of workers whose family incomes are comfortably above the poverty line.

If poor workers are the real concern here, by far the most efficient way to help them is through improvements to the Earned Income Tax Credit, which encourages poor heads of household to seek work without jeopardizing employment opportunities for anyone.

You have heard it implied that economists somehow have now reached a broad consensus that increases in minimum wages have no negative impact on employment. That’s simply not true. Last month, for example, Professor Clemens of U.C. San Diego published his research findings that recent federal minimum wage increases “reduced employment among individuals ages 16 to 30 with less than a high school education by 5.6 percentage points ... account[ing] for 43 percent of the sustained, 13 percentage point decline in this skill group’s employment rate and a 0.49 percentage point decline in employment across the full population ages 16 to 64.”²

Clemens' latest finding is not inconsistent with research published in 2012 in the Cornell University *ILR Review*, which found that New York's 2004 increase in the minimum wage was "associated with a 20.2% to 21.8% reduction in the employment of less-skilled, less-educated workers, with the largest effects on those aged 16 to 24."^{3,4}

Economists will continue to disagree on the strength and significance of employment impacts from minimum wage increases. But in today's New York context, by far the most important takeaway from the ongoing debate is this: the vast majority of minimum-wage research published by academic economists on all sides of the issue has focused on wage hikes that were much smaller, and much more limited in scope, than what you are now being asked to approve in New York State.

In fact, prominent economists otherwise sympathetic to calls for a higher federal minimum wage have pointedly declined to endorse calls for an across-the-board wage floor as high as \$15 an hour. For example, Professor Alan B. Krueger of Princeton University, former chairman of President Obama's Council of Economic Advisers, recently warned that "a \$15-an-hour national minimum wage would put us in uncharted waters, and risk undesirable and unintended consequences."⁵

As Professor Krueger concluded in a recent *New York Times* column: "Economics is all about understanding trade-offs and risks. The trade-off is likely to become more severe, and the risk greater, if the minimum wage is set beyond the range studied in past research."⁶

In sum, a \$15 an hour statewide minimum wage in New York would entail some very big tradeoffs, affecting the livelihoods and finances of millions of New Yorkers – some positively, others negatively. In a prolonged period of slow economic growth, the loss of any jobs, much less a minimum shortfall of 200,000 jobs, is a risk that you should not be willing to take.

The research we have published, and the work of other economists, indicates that enacting the biggest increase ever in New York's minimum wage would benefit some low-income workers (those who still can find work) at the expense of others (those who can't). The biggest losers would be stuck with the ultimate minimum wage: zero.

Thank you again.

¹ Organization for Economic Cooperation and Development, *OECD.Stat*, "Real minimum wages." <https://stats.oecd.org/Index.aspx?DataSetCode=RMW>

² Clemens, Jeffrey, "The Minimum Wage and the Great Recession: Evidence from the Current Population Survey," NBER Working Paper No. 21830, Issued in December 2015 <http://www.nber.org/papers/w21830>

³ Joseph J. Sabia, Richard V. Burkhauser and Benjamin Hansen, "Are the Effects of Minimum Wage Increases Always Small? New Evidence from a Case Study of New York State," *ILR Review*, Vol. 65, No. 2 (2012).

<http://digitalcommons.ilr.cornell.edu/ilrreview/vol65/iss2/7/>

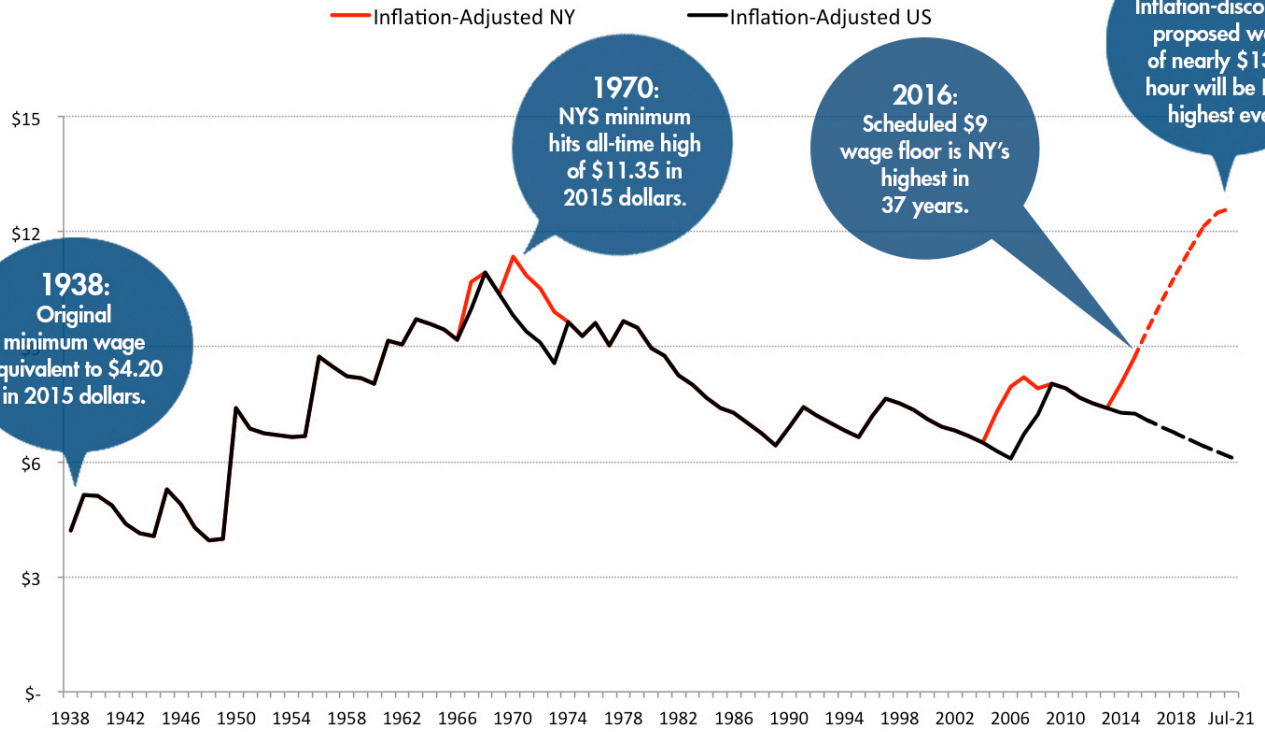
⁴ When their finding was challenged by another economist on technical grounds, Sabia, Burkhauser and Hoffman re-estimated the minimum wage impact using a different set of population data. They once again found what they described as "a relatively large" negative impact on employment of low-skilled individuals, as detailed in a forthcoming *ILR Review* article, "When Good Measurement Goes Wrong: New Evidence that New York State's Minimum Wage Reduced Employment."

⁵ http://www.nytimes.com/2015/10/11/opinion/sunday/the-minimum-wage-how-much-is-too-much.html?partner=rss&emc=rss&_r=1

⁶ *Ibid*

Fig. 1

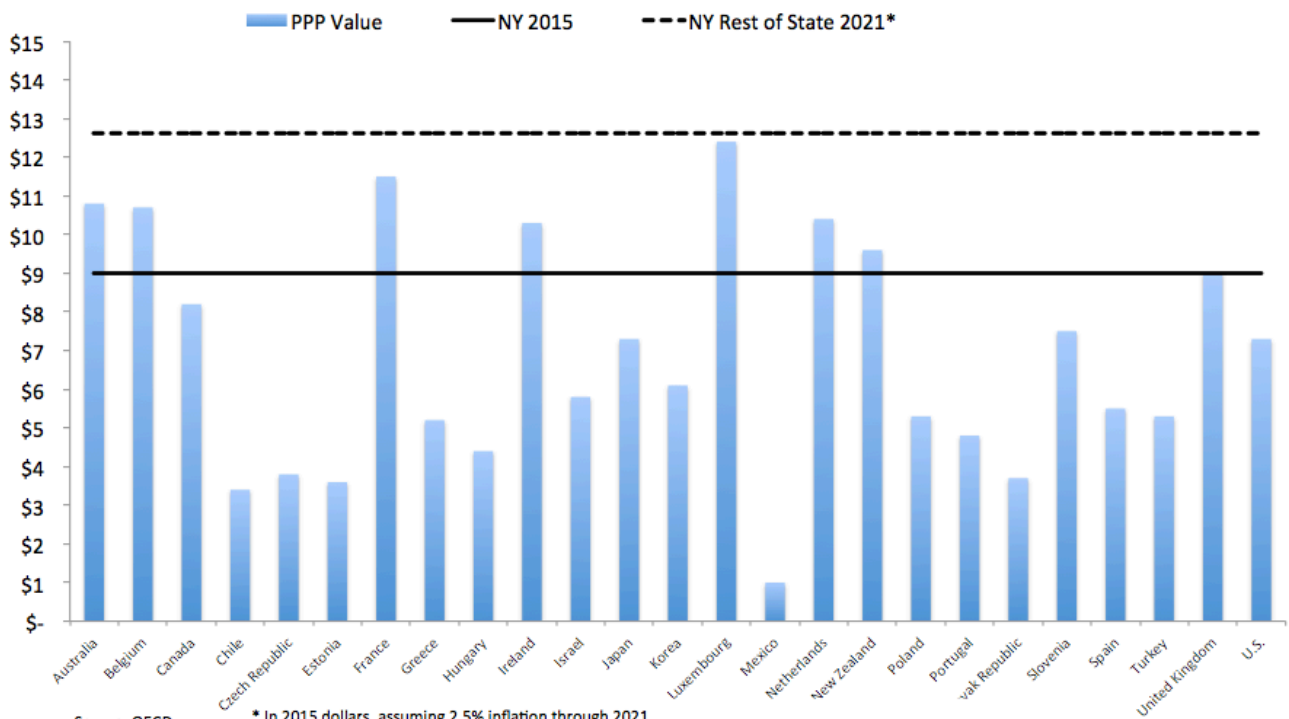
**US and NY Minimum Wage in 2015 Dollars*
1938 Through Proposed Rest-of-State NY 2021**



* Inflation adjustments based on annual average CPI-U, assuming zero inflation in 2015 and 2.5% annual inflation from 2016 through 2021

Fig. 2

**Minimum Wages in Developed Countries, 2014
US Dollars Adjusted for Purchasing Parity (PPP) and Exchange Rates**

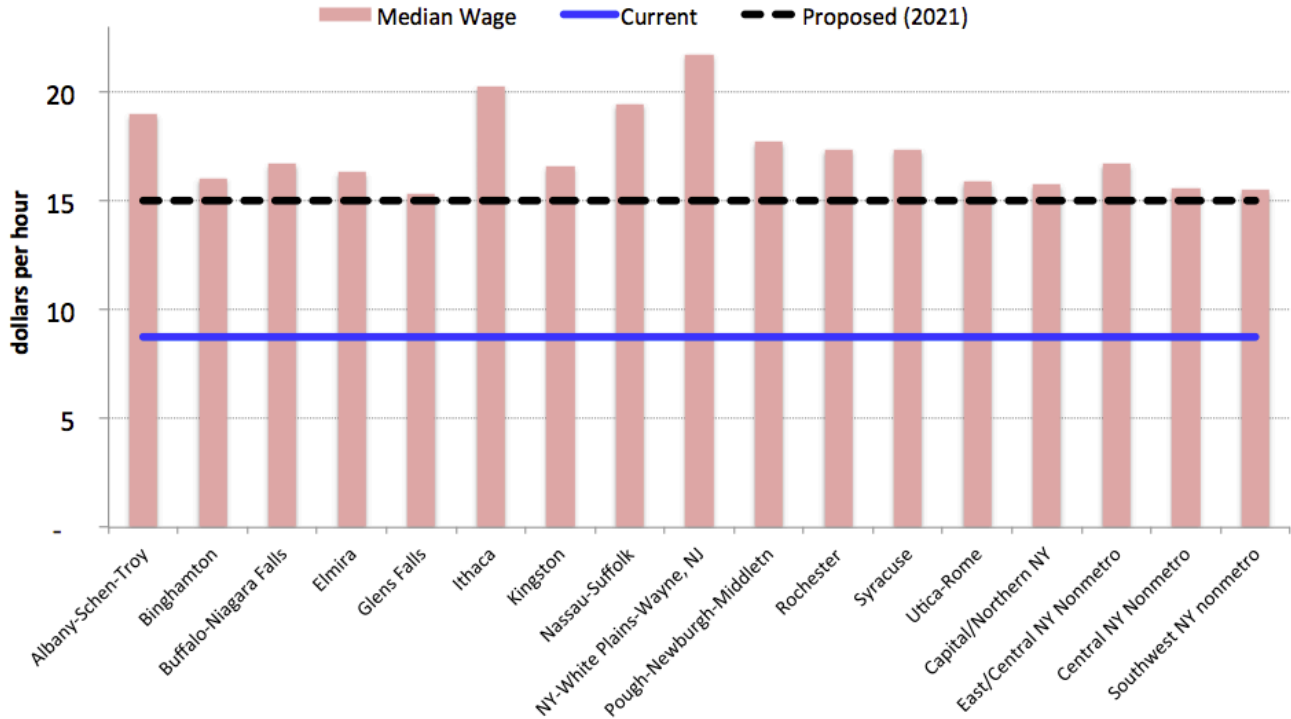


Source: OECD

* In 2015 dollars, assuming 2.5% inflation through 2021

Fig. 3

Median Wage vs. Enacted and Proposed Minimum Wage



Source: US Bureau of Labor Statistics, Occupational Employment Statistics, <http://www.bls.gov/oes/current/oesrcst.htm>