TO: Chairs Dembrow and Holvey, Members Gelser, Knopp, Rosenbaum and Thatcher; Members Barreto, Barton, Doherty, Esquivel, Evans, Fagan, Heard, Kennemer, Nosse and Weidner
FROM: Mary C. King, Labor Economist, Professor Emerita, Portland State University
DATE: April 13, 2015

Economic Thinking on Raising Oregon's Minimum Wage to $15

I am a labor economist, professor emerita in the Economics Department at Portland State University. I support an increase in the Oregon state minimum wage to $15.

In brief remarks, I would like to highlight the following five points, which are elaborated and supported in the following pages of this written testimony.

1. **The value of the minimum wage has fallen significantly since the late 1960s, even in Oregon,** whether measured against inflation, rising productivity, increased GDP per capita or the median wage. Minimum wage workers and their families are falling further and further from the mainstream.

2. **Consequently minimum wage workers – the large majority of whom are adults – are increasingly likely to be living and raising children in poverty or near-poverty.**

3. **Economists' understanding of the impact of increases in the minimum wage has changed dramatically over the past 30 years,** due to significant research advances based on much improved data and methods, including "natural experiments."

4. **The current research consensus is that minimum wage increases in the past 30 years – and different wages in neighboring states – have had negligible or no impacts on employment or business activity.** Wage increases for minimum wage workers are generally a small proportion of operating costs, and are offset by savings due to lowered turnover, higher productivity and increased sales.

5. **UC Berkeley economist Michael Reich's team's study for the Los Angeles City Council, released last month, is by far the most comprehensive and well-crafted study of a proposed increase to $15. In a nutshell, they find that**
   a) Economic benefits will outweigh costs;
   b) Average annual earnings of affected workers will increase by 30%;
   c) Overall business operating costs will increase by 0.9%;
   d) Increased costs, net of savings from lower turnover, will be passed to consumers; but
   e) Lower consumer spending resulting from higher prices will be significantly outweighed by increased consumer spending from higher wages; so that
   f) Sales and business tax revenues will increase by $4.7 million in 2019.[1]

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[1] Michael Reich, Ken Jacobs, Annette Burnhardt and Ian Perry, March 2015. "The Proposed Minimum Wage Law for Los Angeles: Economic Impacts and Policy Options, A Report to

Brief Elaboration of the Foregoing Five Points

The value of the minimum wage has fallen significantly since the late 1960s, even in Oregon, whether measured against inflation, rising productivity, increased GDP per capita or the median wage. Minimum wage workers and their families are falling further and further from the mainstream.

The federal minimum wage hit its peak value in 1968 at $1.60 an hour, which was the equivalent of nearly $11 in 2014.[2] Even our Oregon minimum wage of $9.25 is only 85% of the federal minimum of 50 years ago, adjusted for inflation.

Meanwhile, GDP per capita has nearly doubled, and productivity – the value created per hour worked in the economy as a whole– has doubled. If minimum wages had continued to rise with productivity as wages did for decades until the late 1960s, the federal minimum wage would have reached $22 per hour in 2011.[3]

Consequently minimum wage workers – the large majority of whom are adults – are increasingly likely to be living and raising children in poverty or near-poverty.[4] A recent study by University of Oregon faculty shows the annual cost of public assistance to employees of Oregon industries as $1.8 billion, while Oregon has one of the lowest corporate tax rates in the nation.[5]

Economists' understanding of the impact of increases in the minimum wage has changed dramatically over the past 30 years, based on significant research advances due to much improved data and methods. Earlier work studied changes over time, and was unable to distinguish between changes due to minimum wage increases and changes resulting from other sources. Now much better data is available, and economists have been

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the Los Angeles City Council." Center on Wage and Employment Dynamics, Institute for Research on Labor and Employment, U.C. Berkeley. http://www.irle.berkeley.edu/cwed/briefs/2015-01.pdf

[2] Economic Policy Institute. 2012. "Real Value of the Minimum Wage, 1960-2013 " [chart]. The State of Working America. Washington, D.C.: Economic Policy Institute. April 9, 2015. http://stateofworkingamerica.org/chart/swa-wages-figure-4-ae-real-minimum-wage/

[3] Arindrajit Dube, March 14, 2013, Testimony to the U.S. Senate Committee on Health, Education, Labor and Pensions on "Keeping up with a Changing Economy: Indexing the Minimum Wage," page 5, http://www.help.senate.gov/imo/media/doc/Dube1.pdf.

[4] Elizabeth Morehead and Sheila Martin, November 2014, "Where Ends Don't Meet in 2014" Institute of Portland Metropolitan Studies, Portland State University, April 9, 2015. http://www.pdx.edu/ims/sites/www.pdx.edu.ims/files/Where_the_Ends_Dont_Meet_2014_final.pdf

[5] University of Oregon Labor Education and Research Center, 2014. "The High Cost of Low Wages in Oregon." http://lerc.uoregon.edu/wp-content/uploads/2015/01/2014-Oregon-Workforce-Report-The-High-Cost-of-Low-Wages-in-Oregon.pdf

able to study metropolitan areas like Portland-Vancouver, which comprise one labor market split between two states with different minimum wage laws.[6]

The current research consensus is that minimum wage increases, and different minimum wages in neighboring states, have had negligible or no impacts on employment or business activity. After David Card and Alan Krueger's ground-breaking work in 1994, showing that an increase in the New Jersey minimum wage did not reduce employment there as compared with nearby areas in Pennsylvania, economists have been mining "natural experiments" created by differing polices in states that share metropolitan areas, in the way that the Portland/Vancouver metropolitan area is split between Oregon and Washington.[7] Arindrajit Dube, William Lester and Michael Reich have studied every pair of adjacent counties in states with different minimum wages between 1990 and 2006, finding no discernible impacts on employment in the higher wage counties, whether overall, for teens or for restaurants and retail, industries that employ a relatively high proportion of low-wage workers.

The explanation is that wage increases for minimum wage workers are generally a small proportion of operating costs, and are offset by savings due to lowered turnover, higher productivity and increased sales. Pollin and Lim estimate that decreased turnover would offset 20% of a wage increase in fast-food restaurants from the federal minimum of $7.25 to $15, implemented over four years.[8] Evidently increased pay increases tenure, morale, experience and productivity, so that employers pay more, but also obtain more from their workers. Finally, low-wage workers tend to spend a very high proportion of their earnings, raising sales revenues in localities with higher wages.

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[6] For a readable review, see Arindrajit Dube, March 14, 2013, Testimony to the U.S. Senate Committee on Health, Education, Labor and Pensions on "Keeping up with a Changing Economy: Indexing the Minimum Wage."
http://www.help.senate.gov/imo/media/doc/Dube1.pdf.

[7] David Card and Alan Krueger. 1994. "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania." American Economic Review, vol. 48, no. 4, pp. 772-793.

[8] Robert Pollin and Jeanette Wicks-Lim. January 2015. "A $15 Minimum Wage: How the Fast-Food Industry Could Adjust without Shedding Jobs." Political Economy Research Institute, University of Massachusetts, Working Paper Series #373.
http://www.peri.umass.edu/fileadmin/pdf/working_papers/working_papers_351-400/WP373.pdf

d) Increased costs, net of savings from lower turnover, will be passed to consumers, but
e) Lower consumer spending resulting from higher prices will be significantly outweighed by increased consumer spending from higher wages, so that
f) Tax revenues will increase by $4.7 million in 2019.

This very substantive, 99-page report is by far the best study of a proposed wage increase to $15 (actually $15.25). It is extremely comprehensive, and includes far more than can be briefly summarized here. Particular highlights include a detailed assessment of the wage earners who will be affected – only 3% are teenagers - their neighborhoods and expected non-economic impacts, which include better health outcomes and school performance by children.

The report provides an analysis of increased operating costs by industry, showing the greatest impact to be on the food service industry, with an increase of 7.8% in operating costs by full implementation in 2019. The effect on food service is by far the largest of any industry; the overall business impact is 0.9% of operating costs, despite the fact that the Los Angeles economy includes an unusually high proportion of minimum and near-minimum wage workers.

(Interestingly, restaurants seem to flourish in a wide variety of environments. Many states allow tipped employees to be paid $2.13 an hour, if employers top up wages when necessary to reach the federal minimum hourly wage of $7.25. In Oregon, we enjoy a vibrant food scene, though restaurant employees must be paid $9.25.)

Also included in the LA City Council study is a careful discussion of consequences for the non-profit sector, of which childcare and residential care agencies would be most affected. Reich et al point out that higher pay and higher quality are closely tied in these sectors, so that higher quality should result from lower turnover among staff as a result of the higher minimum wage. However, additional federal or local public funding may be required to avoid cuts in services. As noted above, local tax revenues are expected to increase by $4.7 million in 2019.

Finally, the authors note that wage theft is a problem in Los Angeles, and suggest that an increase in the city minimum wage be accompanied by an increase in enforcement capability.

Based on the economic evidence, I urge you to support an increase in the Oregon minimum wage to $15.