



Facts and Claims on Raising the Massachusetts Minimum Wage

On Monday, June 19, representatives from a variety of business associations circulated a memorandum among members of the House of Representatives making several claims about an increase in the Massachusetts minimum wage. The following reviews those claims and provides additional information about the research that the MBPC and others have conducted in order that the impact of an increase in the minimum wage on Massachusetts' workers and its economy as a whole may be properly understood.

CLAIM

An increase in the minimum wage “will hurt the competitiveness of our small businesses – the backbone of our economy.”

FACTS

A recent study by the Fiscal Policy Institute of New York demonstrates that higher minimum wages have not been an impediment to economic growth generally or to small business competitiveness specifically.¹ The study observes that, over the period from 1998 to 2003, for the ten states and the District of Columbia that had minimum wages above the federal level, “indicators of economic performance were consistently better than for the other 40 states where the federal minimum wage of \$5.15 an hour prevailed.” In particular, the study finds that:

- “The number of small businesses across the economy with fewer than 50 employees grew by 5.4 percent from 1998 to 2003 in the higher minimum wage states, compared to a 4.2 percent increase for the balance of the states.
- In the higher minimum wage states as a group, small businesses had faster job growth (6.7 percent vs. 5.3 percent for the other 40 states combined); total annual payroll grew more (24.5 percent vs. 21.2 percent); and average payroll per worker increased by 16.7 percent, a greater increase than the 15.1 percent increase for the 40 states observing the federal minimum wage.”

Moreover, empirical research has found little support for the notion that minimum wage increases produce large job losses or impair economic growth. As the 1999 Economic Report of the President states:

... the weight of the evidence suggests that modest increases in the minimum wage have had very little or no effect on employment. In fact, a recent study of the 1996 and 1997 increases, using several different methods, found that the employment effects were statistically insignificant.²

¹ *States with Minimum Wages above the Federal Level Have Had Faster Small Business and Retail Job Growth*, Fiscal Policy Institute, Latham, NY, March 30, 2006, available at www.fiscalpolicy.org.

² *Economic Report of the President*, United States Government Printing Office (Washington, DC), February 1999, p. 111-112.

Finally, in June 2005, over fifty economists from across the Commonwealth signed a statement supporting an increase in the Massachusetts minimum wage. Their statement affirmed the findings of the Economic Report of the President and declared that:

... raising the minimum wage in stages to \$8.25 per hour is unlikely to affect jobs. To the contrary, an increase in the minimum wage will raise purchasing power and could yield other distinct benefits for Massachusetts businesses, such as reduced turnover and lower training costs.³

CLAIM

“This increase will cost us 27,000 more jobs, particularly hurting entry level, untrained workers and teenagers.”

FACTS

The above claim is based on a June 2005 study conducted by the Beacon Hill Institute (BHI). In January 2006, the Federal Reserve Bank of Boston (FRBB) reviewed that BHI study in a separate analysis. The FRBB analysis suggests that the BHI study is flawed, since it engages in a selective reading of prior economic studies and then overstates the results of those studies regarding the effect of the minimum wage on employment. The FRBB analysis notes:

Rather than relying on [a] comprehensive review of the literature...BHI calculates an average elasticity of demand of -0.31 based on only 6 recent studies and excludes those studies where a positive employment effect was found. The authors then ‘scale-up’ this elasticity by a factor of 4 to arrive at a low-wage elasticity of demand of -1.2.⁴

CLAIM

“Over 50% of all minimum wage workers are teenagers; another 5% are in their early 20’s and living with their parents; and 63% of all minimum wage earners are part-timers.”

FACTS

The basis for the above claim is unclear, as the memorandum circulated by business association representatives does not cite any supporting research. Yet, an analysis of Current Population Survey data by the Economic Policy Institute (EPI), a non-partisan research organization based in Washington, DC, shows that, if the Massachusetts minimum wage were raised to \$8.25 per hour, a total of 483,000 low-wage workers in Massachusetts would see their wages rise by 2007.⁵ The EPI’s analysis further demonstrates that, of the nearly half-million workers affected by such a change in the minimum wage:

- 81 percent are adults (i.e. over the age of 20);
- 51 percent work full time (i.e. 35 or more hours per week), and;
- 59 percent are women.

³ *Economists’ Statement Supporting an Increase in the Massachusetts Minimum Wage*, available at http://www.massbudget.org/economist_statement.pdf

⁴ Sasser, Alicia, *The Potential Economic Impact of Increasing the Minimum Wage in Massachusetts*, New England Public Policy Center, Federal Reserve Bank of Boston, January 2006, p. 15.

⁵ *Minimum Wage Increase Could Help Close to Half a Million Low-Wage Workers*, Massachusetts Budget and Policy Center, March 20, 2006.