

November 26, 2004

KEEPING IT REAL

The Effects of Increasing and Indexing the Massachusetts Minimum Wage

by Jeff McLynch

Executive Summary

On paper, the Massachusetts minimum wage is the same today as it was in 2001, when legislation originally enacted in 1999 raised it to \$6.75 per hour. Due to inflation, however, the real value of the minimum wage – namely, what it enables workers to buy each day – has dropped over the last three years and will continue to do so unless corrective action is taken. Moreover, without a timely increase in the minimum wage, minimum wage workers in Massachusetts will fall further and further out of the Commonwealth's economic mainstream and teeter ever closer to the brink of poverty.

Accordingly, this report examines three options for restoring the Massachusetts minimum wage: (1) an increase in the minimum wage to \$7.65 per hour by 2007, which would compensate for the purchasing power lost due to inflation since 2001; (2) an increase in the minimum wage to \$8.25 per hour by 2007, an increase that would be the same size as the last full increase, and; (3) an increase in the minimum wage to \$9.23 per hour by 2007, which would restore all of the purchasing power lost due to inflation since the minimum wage reached its real peak some 35 years ago. Each of these options would also index the minimum wage to inflation, beginning in 2008, in order to preserve its real value over time.

In addition, the report explores the effects that prior increases in the minimum wage have had on wages, poverty, and employment across the Commonwealth.

Among the principal findings of the report are as follows:

- The real, inflation-adjusted value of the minimum wage now stands well below the levels it achieved from the mid-1960s through the late 1970s. In 1968, the Massachusetts minimum wage reached an inflation-adjusted peak of \$8.46 per hour, 28.6 percent higher than its present level. In 1978, the minimum wage stood at \$7.48 per hour in real terms – still 13.7 percent above its present level – before dropping precipitously from the early 1980s until the mid-1990s. The increases that have been adopted since 1995 have not been sufficient to restore the purchasing power lost during the preceding period.

- Legislation enacted in 1999 brought about a two-stage increase in the minimum wage. In 2000, the minimum wage rose from \$5.25 to \$6.00 per hour and, in 2001, it went from \$6.00 to \$6.75 per hour, its present level. In the absence of new legislation, inflation could erase the value of the second phase of that 1999 legislation as early as 2006; it could wipe out the value of the entire increase by 2010.
- Minimum wage workers today are further away from the Commonwealth's economic mainstream than they were in the late 1970s and early 1980s. In 2003, the ratio of the hourly wage earned by the typical – or median – worker in Massachusetts to the minimum wage was 2.40; in other words, the typical worker received, in exchange for an hour's worth of labor, nearly two and a half times what a minimum wage worker garnered. Between 1979 and 1983, that ratio was noticeably lower, ranging from slightly less than 1.8 to just above 2.0 and thus suggesting a more equitable distribution of wages. Assuming no future changes in the minimum wage and continued growth in the median hourly wage, the ratio of the median hourly wage to the minimum wage could grow to 2.89 by 2009, its highest point in three decades.
- While the Massachusetts minimum wage is sufficient to lift some families above the federal poverty threshold – assuming the workers in such families are able to secure full-time, year-round employment – it still fails to meet more comprehensive measures of need, such as the Massachusetts Family Economic Self-Sufficiency (MassFESS) Standard, developed for the Women's Educational and Industrial Union. The MassFESS Standard for a single person living in Boston in 2003 was \$21,362; for a single parent with one school-age child, it was \$36,480; and, for a family of four with two working parents and two school-age children, it was \$47,018. By this measure and for these families, the Massachusetts minimum wage is clearly inadequate, providing an annual income worth only 38 to 66 percent of the Standard.
- Anywhere from 150,000 to 404,000 Massachusetts workers – or 5.3 percent to 13.8 percent of the total Massachusetts workforce – would receive a raise as a result of an increase in the minimum wage along the lines of the options detailed in this paper. Women in particular would benefit; for, although women comprise about 50 percent of the total Massachusetts workforce, they would represent roughly 60 percent of the workers affected by an increase in minimum wage. In addition, the vast majority of workers who would be affected by an increase in the minimum wage are adults aged 20 and older, while the plurality of workers who would benefit work full-time.
- Most of the gains associated with an increase in the minimum wage would be realized by the least affluent households in the Commonwealth. At present, the bottom 20 percent of households in Massachusetts account for just 5 percent of total earnings; the average weekly earnings for a household in this group is \$312. Households in this group would receive 36.7 percent of the additional earnings arising from an increase in the minimum wage to \$8.25 per hour. Households in the next lowest 20 percent of the earnings distribution currently receive 10.8 percent of earnings, but would enjoy 22.0 percent of the benefits from a jump in the minimum wage to \$8.25 per hour.

- Workers who would be affected by an increase in the minimum wage under the options outlined in this report provide, on average, between 44 and 52 percent of their families' weekly earnings. In fact, in roughly a third of all the families in which a potentially affected worker lives, that worker serves as the sole source of earnings.
- The increases in the Massachusetts minimum wage that have been adopted over the past decade suggest that further increases could yield positive results. Increases adopted in recent years have likely helped to improve wages for workers at the lowest end of the economic spectrum in Massachusetts and may have contributed to a reduction in poverty, but, in so doing, have not hindered the Commonwealth's ability to compete economically.
 - Beginning in 1995, the minimum wage in Massachusetts rose considerably in real terms, climbing from \$5.13 per hour to \$6.75 per hour, a jump of 31.5 percent. These gains, in turn, appear to have helped to push up wages for workers at the lowest end of the economic spectrum. During that same 1995-2003 period, wages for workers at the 10th percentile of wage distribution in Massachusetts grew from \$7.11 per hour to \$7.90 per hour, an increase of 11 percent. Wages for workers at the 20th percentile grew by roughly the same proportion, rising from \$8.91 per hour to \$9.89 per hour.
 - A number of economic studies have found that increases in the minimum wage can help to reduce poverty rates. Events in Massachusetts over the past few years are broadly consistent with those findings; since the latest increases in the minimum wage were implemented in 2000 and in 2001, the Massachusetts poverty rate has fallen, dropping from 10.8 percent for the 1999-2000 period to 9.4 percent for 2000-2001. Changes in the poverty rate since that time have not been statistically significant. One must be careful not to equate correlation with causation, but the sustained decline in the poverty rate in Massachusetts is still somewhat remarkable, given that it has occurred in the wake of the national recession of 2001 and the Commonwealth's struggles to recover from it.
 - While it is true that the Commonwealth has witnessed sharper job losses in recent years than most states, those losses have been concentrated in sectors such as manufacturing and information, neither of which rely on minimum wage workers to any large degree. In contrast, employment in two sectors with a preponderance of minimum-wage workers – leisure and hospitality and other services – not only grew more quickly than employment elsewhere in Massachusetts, but also expanded more rapidly in Massachusetts than throughout the nation as a whole. Employment in these sectors grew by nearly 8 percent between January 2000 and January 2004 in Massachusetts, with the same sectors nationwide realizing much smaller gains.

Introduction

On paper, the Massachusetts minimum wage is the same today as it was in 2001, when the second phase of legislation enacted in 1999 brought it from \$6.00 to \$6.75 per hour. (The first phase of that legislation, implemented in 2000, increased the minimum wage from \$5.25 to \$6.00 per hour.) Due to inflation, however, the real value of the minimum wage – namely, what it enables workers to buy each day – has dropped over the last three years and will continue to do so unless corrective action is taken. In fact, in the absence of new legislation, inflation could erase the value of the second phase of that 1999 legislation as early as 2006; it could wipe out the value of the entire increase by 2010. Moreover, without a timely increase in the minimum wage, minimum wage workers in Massachusetts will fall further and further out of the Commonwealth’s economic mainstream and teeter ever closer to the brink of poverty.

Accordingly, this report examines three options for restoring the value of the Massachusetts minimum wage. It begins with a brief overview of the history of the minimum wage in Massachusetts and then moves on to discuss the decline in the relative value of the minimum. Next, it details the specific options for increasing the minimum wage and analyzes the gains that workers in the Commonwealth would realize from them. Finally, it reviews the effects of prior minimum wage increases in Massachusetts on wages, poverty, and employment.

Overview of the Massachusetts Minimum Wage

Massachusetts has a long history of attempting to ensure that workers receive a fair and adequate wage in exchange for their labor. The first minimum wage of any kind in the United States was enacted by the Commonwealth in 1912 in order to prevent the exploitation of female and child laborers in certain industries. While that 1912 legislation failed to establish effective enforcement procedures, it did, interestingly, stipulate that the wage boards created as part of the bill should set the minimum wage at rates sufficient “to supply the necessary cost of living and to maintain the worker in health.”¹

More recently, over the past thirty years, the effective minimum wage in Massachusetts has been increased fifteen separate times, from \$2.10 per hour, in nominal dollars, to \$6.75 today. (The “effective” minimum wage – that is, what workers actually earn – is the higher of the statutory federal minimum wage and the statutory Massachusetts minimum wage, although, as noted below, recent changes in law mean that Massachusetts now will always have a higher minimum wage.) Thirteen of those increases were the result of legislation adopted in Massachusetts, with about half coinciding with identical increases in the federal minimum and the remainder producing a Massachusetts minimum wage that was higher than the federal one. Indeed, the latter set of increases has helped to compensate for two periods of neglect on the part of the federal government in maintaining a robust minimum wage. Since the inception of the federal

¹Waltman, Jerold, *The Politics of the Minimum Wage*, University of Illinois Press (2000), p. 29. See also Nordlund, Willis J., *The Quest for a Living Wage: The History of the Federal Minimum Wage Program*, Greenwood Press (1997).



minimum wage as part of the 1938 Fair Labor Standards Act, the two longest stretches it has gone without an increase have been January 1981 through April 1990 and September 1997 to the present. In both instances, Massachusetts has stepped into the breach and provided for a higher wage floor, raising its minimum wage in 1986, 1987, 1988, 2000, and 2001.

These last two increases in the Massachusetts minimum wage – in 2000 and again in 2001 – were the result of legislation enacted in 1999, which increased the Massachusetts minimum wage in two seventy-five cent steps: from \$5.25 to \$6.00 per hour in 2000 and then from \$6.00 to \$6.75 per hour in 2001. In addition, that legislation modified existing law to stipulate that “in no case shall the minimum wage rate [in Massachusetts] be less than \$0.10 higher than the effective federal minimum rate.”² What’s more, the original version of that 1999 legislation contained a provision that would have indexed the minimum wage to inflation and, thus, would have preserved the real purchasing power of the minimum wage over time. To be specific, it would have raised the minimum wage each year so that it kept pace with the annual growth in the Consumer Price Index for All Urban Consumers (CPI-U), a commonly used measure of inflation compiled by the U.S. Bureau of Labor Statistics. However, while that provision was included in the version of the legislation adopted by one branch of the General Court in the spring of 1999, it was removed during the conference committee’s deliberations.

Massachusetts is among twelve states, along with the District of Columbia, that require employers to pay a minimum hourly wage in excess of the federally-mandated rate of \$5.15 per hour.³ Of note, every New England state, save New Hampshire, has a minimum wage that exceeds the federal level, while two states in the Pacific Northwest, Washington and Oregon, have succeeded in indexing their minimum wages to inflation so that they maintain a constant real value as time passes.

Washington	\$ 7.16 *
Alaska	\$ 7.15
Connecticut	\$ 7.10
Oregon	\$ 7.05 *
California	\$ 6.75
Massachusetts	\$ 6.75
Rhode Island	\$ 6.75
Vermont	\$ 6.75
Illinois	\$ 6.50
Hawaii	\$ 6.25
Maine	\$ 6.25
Delaware	\$ 6.15
District of Columbia	\$ 6.15

In all other states, the minimum wage is the federally-mandated amount of \$5.15 per hour.

* indicates indexed to inflation

² M.G.L., Chapter 151, §1.

³ In January 2005, the Illinois minimum wage will climb to \$6.50 per hour and the Vermont minimum wage will rise to \$7.00 per hour. In addition, in May 2005, the Florida minimum wage will jump to \$6.15 per hour; it will be indexed to inflation in future years.

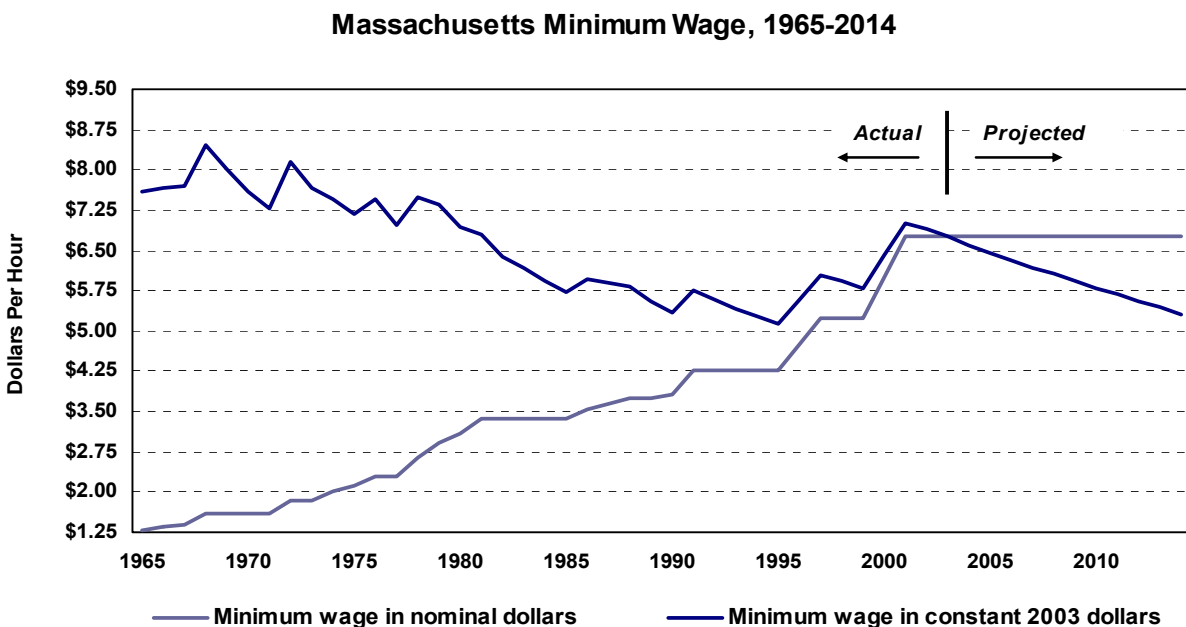
The Relative Value of the Massachusetts Minimum Wage

Despite recent efforts to bolster the Massachusetts minimum wage, it not only remains relatively low by historic standards but also continues to be too small to enable workers to meet their most basic material needs. When compared to both consumer prices and to the wages earned by the “typical” Massachusetts worker, the value of minimum wage today is well below its value in the late 1970s. Further, because of past failures to index the Massachusetts minimum wage – either to inflation or to the overall growth in wages – its relative value will deteriorate further as time passes. Finally, while the Massachusetts minimum wage does exceed the hourly rate necessary to put some families with full-time workers above the official federal poverty threshold, more meaningful comparisons – for instance, to measures of economic need that acknowledge geographic differences and that attempt to account for the full range of expenses working families incur – show that the Massachusetts minimum wage is still insufficient.

The Corrosive Power of Inflation

On paper, the minimum wage is the same today as it was in 2001 – \$6.75 per hour. In reality though, today’s minimum wage is worth noticeably less than the minimum wage of 2001. Due to inflation – that is, the general rise in consumer prices from one year to the next – \$6.75 today buys fewer goods and services than it did in 2001. In fact, after accounting for inflation, the real value of the minimum wage has dropped 6.2 percent in just three years time; expressed in constant 2003 dollars, the real value of the minimum wage was \$7.01 per hour in 2001 and \$6.58 in 2004, as seen in Figure 1 below.⁴

Figure 1.



⁴ Unless otherwise noted, all dollar figures in this report are expressed in constant 2003 dollars. Please see footnote 19 for additional information on the measure of inflation used in this report.

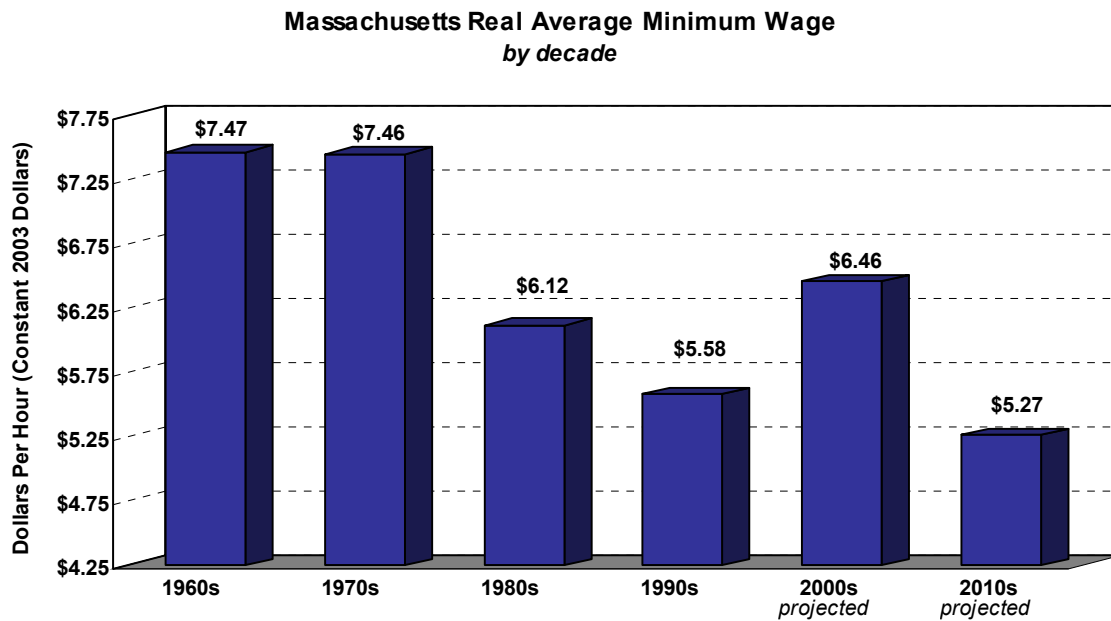
Of course, \$6.75 will buy even less as time passes, meaning that the corrosive power of inflation will simply continue to eat away at the real value of the minimum wage. The Congressional Budget Office (CBO), an independent, non-partisan agency within the U.S. Congress, projects that inflation will be 2.6 percent in 2004, 2.0 percent per year in 2005 and in 2006, and 2.2 percent each year between 2007 and 2014.⁵ If these projections hold, the Massachusetts minimum wage will fall to \$6.32 per hour in real terms in 2006, thus putting it below the real value of the minimum wage for 2000. (In constant dollar terms, the minimum wage was \$6.41 per hour in 2000.) Under the same set of projections, the real value of the minimum wage will be the same in 2010 as it was in 1999, the last time legislation was enacted to increase the Massachusetts minimum wage. Of course, if inflation exceeds the CBO's projections, then its corrosive effects will appear even more rapidly. For instance, if, rather than ranging from 2.0 percent to 2.6 percent annually as the CBO forecasts, inflation were slightly more than three percent per year – which is just above its average annual level over the last 20 years – then the advances made by the 1999 legislation could be completely wiped out as early as 2008.

Moreover, the real, inflation-adjusted value of the minimum wage now stands well below the levels it achieved from the mid-1960s through the late 1970s. For example, in 1968, the Massachusetts minimum wage reached an inflation-adjusted peak of \$8.46 per hour, 28.6 percent higher than its present level. In 1978, the minimum wage stood at \$7.48 per hour in real terms – still 13.7 percent above its present level – before dropping precipitously from the early 1980s until the mid-1990s. To be sure, several minimum wage increases did take effect in Massachusetts during that time span, but those increases were either too small or too infrequent to compensate for inflation. Consequently, the real value of the minimum wage fell 31.4 percent between 1978 and 1995. The increases that have been adopted since 1995 have not been sufficient to restore the purchasing power lost during the preceding period.

Figure 2 illustrates changes in the real value of the Massachusetts minimum wage over time even more clearly. During both the 1960s and the 1970s, the real value of the minimum wage averaged just over \$7.45 per hour. In stark contrast, it averaged \$6.12 per hour during the 1980s and only \$5.58 per hour in the 1990s. Again, minimum wage increases implemented since 1995 have helped to reverse some of the decline that occurred during the 1980s and into the early 1990s, but by no means have they undone its effect altogether. If the CBO's inflation projections for 2004 through 2009 hold, then, in real terms, the minimum wage will average \$6.46 per hour in the current decade. However, in the absence of legislative action to bolster the Massachusetts minimum wage, that earlier decline will resume in the next decade. Specifically, if inflation remains constant at 2.2 percent throughout the next decade – the level currently anticipated by the CBO for the 2010 to 2014 period – then the real average value of the minimum wage will sink to \$5.27 per hour. In fact, for the real average minimum wage throughout the 2010s to match the real average minimum wage during the current decade, the minimum wage would have to rise to \$8.28 per hour in 2010 (provided that it was not also indexed to inflation).

⁵ *The Budget and Economic Outlook: An Update*, Congressional Budget Office, September 2004; available at <http://www.cbo.gov/ftpdocs/57xx/doc5773/08-24-BudgetUpdate.pdf>

Figure 2.



The Massachusetts Minimum Wage and the Economic Mainstream

In addition to understanding the real value of the minimum wage and how it has changed over time, it is also important to consider where minimum wage workers stand relative to other members of the labor force, since the distribution of wages and incomes has enormous consequences for the health of the Commonwealth's economy, the health of its political system, and even the health of workers themselves.

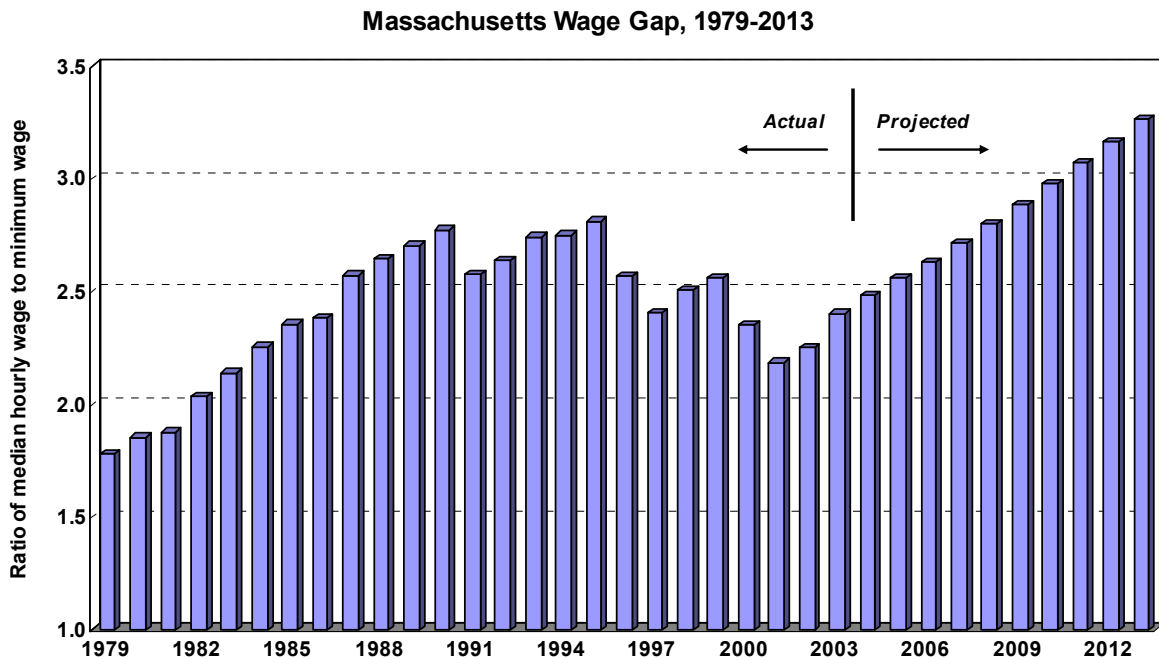
One method of assessment is to calculate the ratio of the hourly wage earned by the typical – or median – worker in Massachusetts to the minimum wage and to examine the changes in that measure over time. The larger that ratio, the further minimum wage workers are from the economic mainstream. Similarly, an increase in that ratio from one year to the next would suggest that minimum wage workers are falling behind their counterparts in the labor force.

In 2003, the median hourly wage in Massachusetts was \$16.20.⁶ Thus, the ratio of the median wage to the minimum wage that year equaled 2.40; in other words, the typical worker received, in exchange for an hour's worth of labor, nearly two and a half times what a minimum wage worker garnered. In 1993, the corresponding figure was 2.74. Consequently, it would appear that the minimum wage increases of the mid- to late-1990s were successful in promoting greater wage equity. However, as Figure 3 reveals, the ratio of the median wage to the minimum

⁶ Economic Policy Institute analysis of Current Population Survey data

wage was lower still in the late 1970s and early 1980s, ranging from slightly less than 1.8 to just above 2.0 between 1979 and 1983. Moreover, as Figure 3 also indicates, that ratio could climb to a new high sometime in the next decade. To be specific, assuming that the minimum wage remains at \$6.75 per hour and that the median hourly wage continues to grow in the years ahead at the same rate that it has over the past twenty-five years – 0.9 percent per year in real terms, to be exact – then, by 2009, that ratio could grow to 2.89, its highest point in three decades. It could reach as high as 3.26 by 2013. Thus, increasing and indexing the minimum wage would not only help to restore greater wage equity today but would also help to prevent the existing rift from growing still deeper in the future.

Figure 3.



The trend presented in Figure 3 is, for the most part, simply the mirror image of the trend found earlier in Figure 1. That is, if all other wages are hold steady or grow in real terms, a decline in the real value of the minimum wage will produce an increase in the wage gap; similarly, an increase in the real value of the minimum wage, holding all else equal, will shrink that gap. Thus, when the real, inflation-adjusted value of the minimum wage was at its zenith in the late 1970s and early 1980s, the ratio of the median wage to the minimum wage was at its nadir. While the real value of the minimum wage declined almost continuously until the mid-1990s, the ratio of the median wage to the minimum grew nearly unchecked. The former has rebounded modestly in recent years, just as the latter has been reduced. Despite this relationship, Figure 3 hints at a much different aspect of the Commonwealth’s economy: its exceptionally unequal distribution of incomes and wages. Indeed, at the close of the 1990s, income was distributed

more unequally in Massachusetts than almost anywhere else in the nation. For the period 1998 to 2000, the ratio of the average income of the top 20 percent of families in the Commonwealth to the average income of the bottom 20 percent of families was 10.5 to 1. Just four states – New York, Louisiana, Texas, and California – have higher top-to-bottom income ratios.⁷ Similarly, in 2003, workers at the 80th percentile of the wage distribution in Massachusetts earned \$28.01 per hour, nearly 2.8 times more than the \$9.89 per hour earned by workers at the 20th percentile in the distribution; that disparity was among the largest in the country at the time.⁸ Had Massachusetts’ minimum wage not been raised in 1997 and again in 2000 and 2001, it is likely these gaps would be even wider than they are today; another raise could mitigate economic inequality in Massachusetts even more.

Such an outcome should not be overlooked, for economic inequality can have profoundly ill effects, not just for low-income individuals and families but for society as a whole. Indeed, a number of different analyses have found links between income inequality and adverse health outcomes. To cite one recent example, a 2001 study in the *American Journal of Public Health* determined that: “Individuals living in high-income-inequality states were at increased risk of mortality...compared with individuals living in low-income-inequality states.”⁹ Similarly, Timothy Smeeding, the Director of Policy Research at Syracuse University, in a summation of the findings of various papers presented at a 1999 Federal Reserve Board of New York conference on income inequality, notes that: “Increased levels of crime, poor health, mortality, poor schools, and poor housing are associated with higher levels of inequality across cities, states, and nations.” He also points out that: “Social cohesion, trust, and civic engagement all vary negatively with inequality across these same demographic dimensions.”¹⁰ Finally, just as inequality has negative consequences for the political vitality of cities, states, and nations, so too might it impair their economies. For instance, in a paper presented to the Federal Reserve Bank of Kansas City’s 1998 symposium, “Income Inequality: Issues and Policy Options,” Jason Furman and Joseph Stiglitz argue that:

... there are good reasons to believe that there are adverse economic effects of [income] inequality, some of which may be masked by other trends in the economy, and that there would be economic gains from active policies, both microeconomic and macroeconomic, that explicitly take into account ... increased inequality and try to reverse it. At the very least, the results presented in the first section of [our] paper present a persuasive argument that the reduction in inequality would not have an adverse economic effect. The positive broader benefits [from reducing inequality] make a commitment to such policies all the more desirable.¹¹

⁷ McLynch, Jeff, *The Growing Divide*, Tax Equity Alliance of Massachusetts (TEAM) Education Fund, April 23, 2002, p. 4.

⁸ McLynch, Jeff, *The State of Working Massachusetts: Down But Not Out*, Massachusetts Budget and Policy Center, September 2004, p. 17.

⁹ K. Lochner, E. Pamuk, D. Makuc, B.P. Kennedy, and I. Kawachi, “State-level income inequality and individual mortality risk: a prospective, multilevel study”, *American Journal of Public Health*, Vol. 91, No. 3 (1999), p. 385.

¹⁰ Smeeding, Timothy, “General Commentary,” *Federal Reserve Bank of New York Economic Policy Review*, September 1999, p. 175.

¹¹ Furman, Jason and Joseph E. Stiglitz, “Economic Consequences of Income Inequality”, *Income Inequality: Issues and Policy Options – Proceedings of a Symposium Sponsored by the Federal Reserve Bank of Kansas City* (1998), p. 255; available on-line at <http://www.kc.frb.org/PUBLICAT/SYMPOS/1998/S98stiglitz.pdf>.

Poverty and Measures of Need

One final means of assessing the current state of the Massachusetts minimum wage is to compare it to a measure of need. Simply put, someone who works full-time, even at the minimum wage, ought to be able to meet his most basic needs and those of his family: food in their stomachs, a roof over their heads, and clothes on their backs.

One such measure of need is, of course, the federal poverty threshold. By that standard, the Massachusetts minimum wage seems sufficient to meet the needs of some families. In 2003, the official federal poverty threshold for a single person under the age of 65 was \$9,573.¹² One person earning the Massachusetts minimum wage of \$6.75 per hour and working full-time (2,080 hours in a given year or 40 hours per week for 52 weeks) would have a total income of \$14,040, thus placing him or her above that threshold.¹³ The federal poverty threshold for a single parent with a child under the age of 18 was \$12,682 in 2003; consequently, that worker and his or her child would not be considered poor by the federal standard either.¹⁴ Nor would a family of four in which both parents work full-time and in which both children are under the age of 18; the federal poverty threshold for a family of that composition was \$18,660 in 2003, while their annual income, assuming both parents earned the Massachusetts minimum wage, was \$28,080. On the other hand, if that same family had only one parent working full-time and earning the minimum wage, it would fall below the federal poverty threshold; the same would be true of a family consisting of a single parent and two children.

There is, however, a broad consensus among academics and other researchers that the official federal poverty threshold suffers from serious limitations and thus understates the annual income an individual or a family would have to earn in order to meet their basic needs, particularly in a relatively high-cost state like Massachusetts. As it is currently constructed, the official poverty threshold is based on a 1955 estimate of the share of income that the average family spent on food. In other words, the poverty threshold is derived by taking the amount of money needed to purchase an adequate diet in 1955 (the most reliable data available in the early 1960s, when the threshold was developed), multiplying by three (since, at the time, the average family used one-third of its income to purchase food), and adjusting for the number of people in a family. It is updated for inflation each year by the U.S. Census Bureau. Consequently, the poverty threshold does not incorporate the actual costs that families may incur, either in securing such essentials such as food, shelter, and clothing or due to taxes, childcare expenses, or out-of-pocket medical

¹² DeNavas-Walt, Carmen, Bernadette D. Proctor, and Robert J. Mills, U. S. Census Bureau, *Income, Poverty, and Health Insurance in the United States: 2003*, U.S. Government Printing Office (Washington, DC), 2004, p. 39.

¹³ In comparing a family's total income to the federal poverty threshold to determine if it is poor, the Census Bureau counts all money income (prior to taxes) as part of that total, but does not count capital gains income or in-kind public assistance such as Medicaid or Food Stamps.

¹⁴ Having a minimum wage that is \$1.60 more per hour than the federally-mandated level is particularly important to single parent workers, since, if they were to earn just \$5.15 per hour, their annual incomes would total only \$10,712 – or nearly \$2,000 below the federal poverty threshold. Unfortunately, though, since the federal poverty threshold is, in effect, indexed to inflation and the Massachusetts minimum wage is not, the Massachusetts minimum wage may soon be insufficient in this regard as well. For example, using the CBO's inflation projections, the poverty threshold for a single parent with one child will grow to \$14,396 in 2009, but, in the absence of legislative action, the annual salary for a full-time minimum wage worker will remain constant at \$14,040 per year.

expenditures. Thus, it necessarily follows that the official poverty measure also does not account for any regional variations in these costs. As a result, as Dr. Robert Pollin and several of his colleagues from the Political Economy Research Institute at the University of Massachusetts, Amherst have observed, the official federal poverty threshold is “probably about 40 to 50 percent too low.”¹⁵ In fact, the U.S. Census Bureau acknowledges that “the official poverty measure should be interpreted as a statistical yardstick rather than as a complete description of what people and families need to live.”¹⁶

Other measures that do provide a more “complete description of what people and families need to live” are available. For instance, the Massachusetts Family Economic Self-Sufficiency (MassFESS) Standard, developed for the Women’s Educational and Industrial Union, attempts to account for the expenses incurred by families of various compositions in each of 39 separate regions across the Commonwealth, including such costs as housing, child care, food, transportation, health care, clothing, and utilities, as well as federal, state and local taxes.¹⁷ The MassFESS Standard for a single person living in Boston in 2003 was \$21,362; for a single parent with one school-age child, it was \$36,480; and, for a family of four with two working parents and two school-age children, it was \$47,018. By this standard and for these families, the Massachusetts minimum wage is clearly inadequate, providing an annual income worth only 38 to 66 percent of the Standard.

In sum, relative to the three standards discussed here – inflation, the median hourly wage in Massachusetts, and comprehensive measures of need – the current Massachusetts minimum wage is deficient and will only become more so in the future. The following section explores three options for ameliorating that problem.

Three Options for Increasing the Massachusetts Minimum Wage

Recent legislative history, taken in combination with the preceding discussion, naturally presents three options for increasing the Massachusetts minimum wage. They are as follows:

- **Option 1 – Inflation since 2001:** The legislation that was enacted in 1999 to increase the Massachusetts minimum wage to its current level of \$6.75 per hour originally included a provision that would have indexed the minimum wage to the growth in the Consumer Price Index for All Urban Consumers (CPI-U).¹⁸ That provision was ultimately dropped from the bill, however. Had it been preserved, the minimum wage, once it reached \$6.75 per hour, would have grown in line with inflation each year and thus maintained a constant real value over time. Under the Congressional Budget Office

¹⁵ Pollin, Robert, Mark Brenner, and Jeannette Wicks-Lim, *Economic Analysis of the Florida Minimum Wage Proposal*, Political Economy Research Institute (Amherst, MA), September 2004, p. 19.

¹⁶ DeNavas-Walt, *et.al.* p. 39.

¹⁷ Pearce, Diana and Jennifer Brooks, *The Self-Sufficiency Standard for Massachusetts*, Women’s Economic and Industrial Union (Boston, MA), April 2003.

¹⁸ Commonwealth of Massachusetts, Senate No. 1706, 1999.

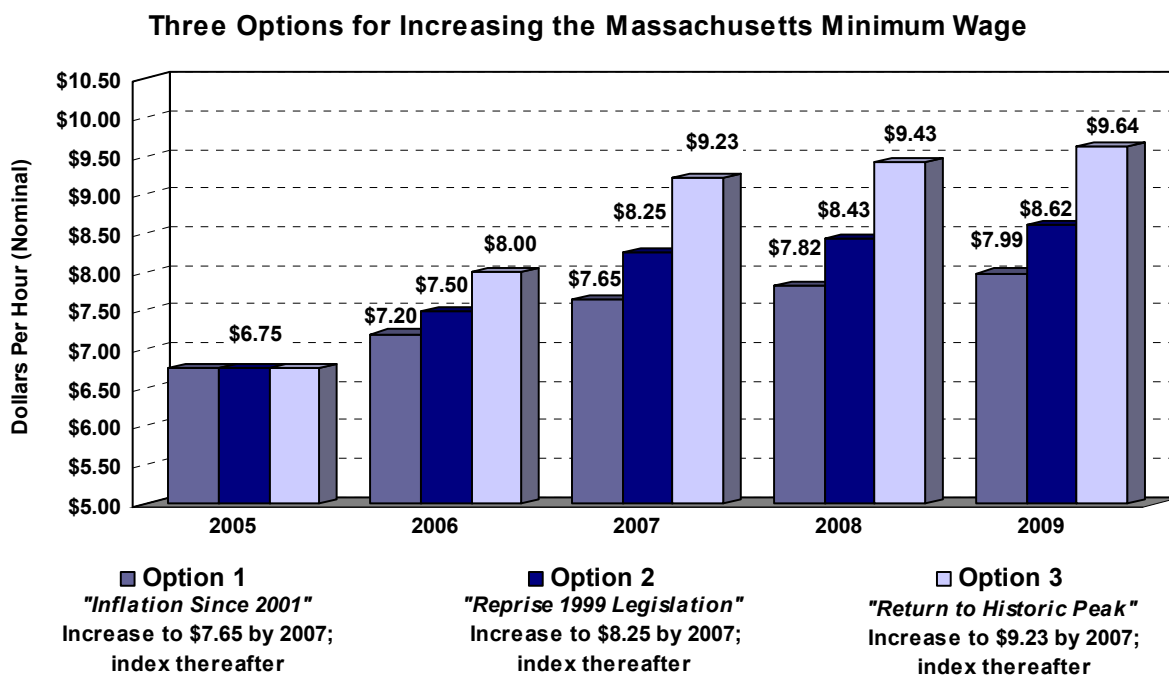
inflation assumptions detailed earlier, a minimum wage of \$7.65 per hour (in nominal dollars) would be necessary to put the minimum wage at the same real value in 2007 as it achieved in 2001. Accordingly, the first option for increasing the Massachusetts minimum wage would be to increase it in two stages – to \$7.20 per hour in 2006 and to \$7.65 per hour in 2007 – and to index it to inflation thereafter.

- **Option 2 – Reprise 1999 Legislation:** Another approach to increasing the Massachusetts minimum wage would be to reprise the original 1999 legislation even more fully, not only by indexing the minimum wage to inflation, but also by adopting an increase of the same dollar amount. Thus, a second option for increasing the minimum wage would be to increase it by a total of \$1.50 per hour – to \$7.50 per hour in 2006 and to \$8.25 per hour in 2007 – and, again, to index it to inflation thereafter.
- **Option 3 – Return to Historic Peak:** The minimum wage in Massachusetts reached its real, inflation-adjusted peak in 1968, when it was \$1.60 per hour in nominal terms – or \$8.46 per hour in constant 2003 dollars. To return to that level or, more simply, to ensure that today’s minimum wage workers earn the same in real terms as their counterparts did nearly 40 years ago, the minimum wage would have to climb to \$9.23 per hour in nominal terms by 2007. This could be accomplished in two stages – by raising the minimum wage to \$8.00 per hour in 2006 and then to \$9.23 in 2007. Of course, to prevent any future erosion of the real value of the minimum wage, this option would also index the minimum wage to inflation.

Figure 4 summarizes these three options and projects the value of the minimum wage under each option for each of the next five years.¹⁹

¹⁹ This report uses the CPI-U in all of its inflation-related calculations, including the conversion of current dollars into constant, real values and the projection of future values of the minimum wage under each of the three options detailed in the report. Although the States of Washington and Florida (in adjusting their minimum wages for inflation) and the U.S. Social Security Administration (in determining the annual cost-of-living adjustment for Social Security beneficiaries) use the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), the CPI-U is the more comprehensive of the two measures, as it covers about 80 percent of the U.S. population, according to the U.S. Bureau of Labor Statistics, the federal agency responsible for compiling various measures of inflation. Consequently, the State of Oregon – the only other state to index its minimum wage to inflation – uses the CPI-U. In addition, in projecting future values of the minimum wage under each of the options examined, this report uses CPI-U values that are lagged one year. This method is employed, since, due to the slight time lag in the release of monthly CPI-U data, as well as the need to inform employers and employees well in advance of any increase in the minimum wage, any effort to index the Massachusetts minimum wage to inflation will likely need to be based on the increase in the CPI-U from August of the calendar year immediately preceding the increase over the CPI-U in August of the calendar year two years prior. For example, under each of the three options described in this report, the minimum wage would be increased for inflation beginning in 2008. Realistically, that increase likely would have to be based on the growth in the CPI-U from August 2006 to August 2007. The Bureau of Labor Statistics generally releases its August data by mid-September, which, in turn, would mean that the Division of Occupational Safety, the entity that administers the minimum wage here in Massachusetts, would then have three months to inform the public about the upcoming increase. Oregon, Washington, and Florida follow this schedule in determining their annual minimum wage increases.

Figure 4.



At first glance, the increases in the Massachusetts minimum wage that would occur if some of these options were put into law may seem somewhat sizable. For the most part, though, these three options are commensurate with previous increases in the Massachusetts minimum wage. More specifically, Option 1, which would increase the Massachusetts minimum wage to \$7.65 per hour by 2007, would represent an 8.7 percent increase in real terms over a three-year span. There have been five other periods since 1960 (1960-1962, 1966-1968, 1995-1997, and 1999-2001) during which the Massachusetts minimum wage rose by as much or more in real terms. Option 2, which would bring the minimum wage to \$8.25 per hour, would constitute a 17.2 percent real increase; two other periods since 1960 have seen larger percentage changes. Only Option 3 – which would amount to a 31.2 percent real increase in three years time – would go beyond the modern historical record.

In addition, a collection of several hundred economists from across the country recently endorsed an increase in state minimum wages in the range encompassed by the options described above. On October 6, 2004, 562 economists, including Nobel Laureates Paul Samuelson and Robert Solow of the Massachusetts Institute of Technology and nearly 70 others from Massachusetts, released a statement expressing support for an increase in the federal minimum wage. As part of that statement, they pointed out that: “As with a federal increase, modest increases in state minimum wages in the range of \$1.00 to \$2.00 can significantly improve the lives of low-income

workers and their families, without the adverse effects that critics have claimed.”²⁰ Indeed, the best criterion by which to judge an increase in the Massachusetts minimum wage is not its apparent size, but its potential impact on workers across the Commonwealth, a topic that is addressed below.

Impact of a Minimum Wage Increase on Massachusetts Workers

Figure 5 presents specific estimates, produced by the Economic Policy Institute (EPI), a non-partisan research organization based in Washington, DC, of the numbers and demographic and economic characteristics of the Massachusetts workers who would benefit directly from an increase in the minimum wage.²¹ Anywhere from 150,000 to 404,000 Massachusetts workers – or 5.3 percent to 13.8 percent of the total Massachusetts workforce – would receive a raise as the result of an increase in the minimum wage, depending upon which of the three options described earlier were adopted. Women in particular would benefit, for, while women comprise about 50 percent of the total Massachusetts workforce, they would represent roughly 60 percent of the workers affected by an increase in minimum wage. In addition, the vast majority of workers who would be affected by an increase in the minimum wage are adults aged 20 and older.²² To be sure, the proportion of workers who would be affected by an increase who are aged 20 and older is smaller than the share of workers aged 20 and older in the Massachusetts labor force as a whole, but it is nevertheless clear that claims that an increase in the minimum wage would solely benefit teenagers working part-time are without substance. The data shown in Figure 5 on work hours refutes such claims as well; for each of the options with statistically valid results, the plurality of workers who would benefit from an increase in the minimum wage work full-time, while over 75 percent work more than half-time. Finally, as Figure 5 suggests, many of the workers who would gain from an increase can be found in retail trade and the leisure and hospitality sector; in fact, upwards of 50 percent of affected workers would be concentrated in these two industries.

²⁰ The statement is available at <http://www.epinet.org/stmt/economistsminwage200410web.pdf>.

²¹ The estimates presented in Figure 5 are estimates of the number of people who would be affected if the minimum wage were higher *today* that it is currently; they are not projections of the effects of the various options once they are fully implemented in 2007. Thus, if the number of positions paying the minimum wage (or wages close to that level) were to grow between now and 2007, then the impact of each option would be greater.

²² As Figure 5 indicates, the samples available to the EPI in generating its estimates were, in most cases, too small to produce statistically meaningful results for Option 1. However, it is unlikely that the effects of Option 1 would be inconsistent or out of line with the effects found for either Option 2 or Option 3. Adults and individuals working more than half-time would still likely be the main beneficiaries of increasing the minimum wage to \$7.65 per hour. Similarly, the workers affected by Option 1 would most probably be concentrated in the retail trade and hospitality industries.

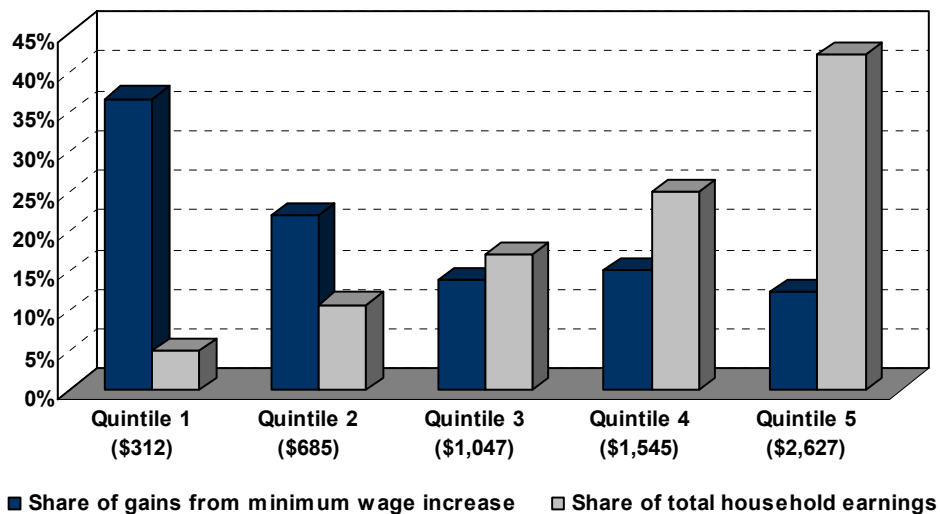
Figure 5.

Impact of Increasing the Massachusetts Minimum Wage				
	<u>Option 1</u> <i>(\$7.65 per hour)</i>	<u>Option 2</u> <i>(\$8.25 per hour)</i>	<u>Option 3</u> <i>(\$9.23 per hour)</i>	<u>Total</u> <u>Massachusetts</u> <u>Workforce</u>
Number of workers directly affected	153,000	261,000	404,000	2,918,000
Affected workers as percent of total workforce	5.3%	8.9%	13.8%	100.0%
<i>Gender</i>				
Male	39.0%	39.2%	40.4%	50.5%
Female	61.0%	60.8%	59.6%	49.5%
<i>Age</i>				
16 to 19	*	24.2%	18.8%	4.3%
20 and older	*	75.8%	81.2%	95.7%
<i>Work hours</i>				
1 to 19 hours	*	23.1%	19.2%	7.2%
20 to 34 hours	*	37.1%	33.2%	14.9%
Full-time (35 or more hours)	*	39.8%	47.7%	78.0%
<i>Industry</i>				
Retail trade	*	26.0%	25.6%	11.3%
Leisure and hospitality	*	25.3%	19.4%	7.9%

Notes: Percentages appearing under various subcategories (e.g. gender, age) are percentages of affected workers; an asterisk () indicates insufficient sample size.*

Figure 6.

Distribution of Gains from an Increase in the MA Minimum Wage to \$8.25 / hour by quintile of household earnings



Figures in parentheses represent average weekly earnings in each quintile.

Even more importantly, given the minimum wage’s long-standing goal of reducing poverty, most of the gains associated with an increase in the minimum wage would be realized by the least affluent households in the Commonwealth. As Figure 6 demonstrates, the largest share of the gains from an increase in the minimum wage would accrue to those households with the smallest share of total earnings in Massachusetts. According to the EPI, at present, the bottom 20 percent of households in Massachusetts account for just 5 percent of total earnings; the average weekly earnings for a household in this group is \$312, which amounts to an annual salary of \$16,224. Households in this group would receive 36.7 percent of the additional earnings arising from an increase in the minimum wage to \$8.25 per hour.²³ Households in the next lowest 20 percent of the earnings distribution currently receive just 10.8 percent of total earnings, but would enjoy 22.0 percent of the benefits from a jump in the minimum wage to \$8.25 per hour.

Figure 7.

Importance of a Minimum Wage Increase to Working Families			
	Option 1 (\$7.65 per hour)	Option 2 (\$8.25 per hour)	Option 3 (\$9.23 per hour)
Average share of weekly family earnings contributed by affected worker	44.6%	49.3%	51.8%
Share of families with 100% of earnings contributed by affected worker	30.3%	33.6%	34.3%

Finally, as Figure 7 makes clear, a robust minimum wage is absolutely essential for many working families. Data from the EPI show that workers who would be affected by an increase in the minimum wage under the options outlined in this report provide, on average, between 44 and 52 percent of their families’ weekly earnings. In fact, in roughly a third of all the families in which a potentially affected worker lives, that worker serves as the sole source of earnings. As a result, an increase in the minimum wage would directly and noticeably improve their standards of living; failing to restore the value of the minimum wage that has been lost over time, on the other hand, would mean that these families would have to struggle even harder to make ends meet and would fall still further behind the rest of society.

²³ The distribution of gains from an increase in the minimum wage to either \$7.65 per hour or to \$9.23 per hour do not differ substantially from the distribution of gains arising from an increase to \$8.25 per hour. For instance, the bottom 20 percent of households in Massachusetts would receive 38.4 percent of the additional earnings generated by a minimum wage of \$7.65 per hour, 36.7 percent of the additional earnings produced by a minimum wage of \$8.25 per hour, and 36.0 percent of the additional earnings due to a minimum wage of \$9.23 per hour.

Impact of a Minimum Wage Increase on Its Relative Value

Each of the three options examined in this paper would help to improve the value of the minimum wage relative to the prices of consumer goods and services, the wages earned by the typical Massachusetts worker, and various standards of need. For the most part, though, none of these options would produce such large increases in the minimum wage that it would completely return to the relative levels it had achieved during the 1970s, nor would these options raise the minimum wage to such a degree that it would enable individuals and families to achieve full economic self-sufficiency. Consequently, while each of these three options would greatly enhance the quality of life for tens of thousands of workers across the Commonwealth, additional increases would still be warranted.

Figure 8.

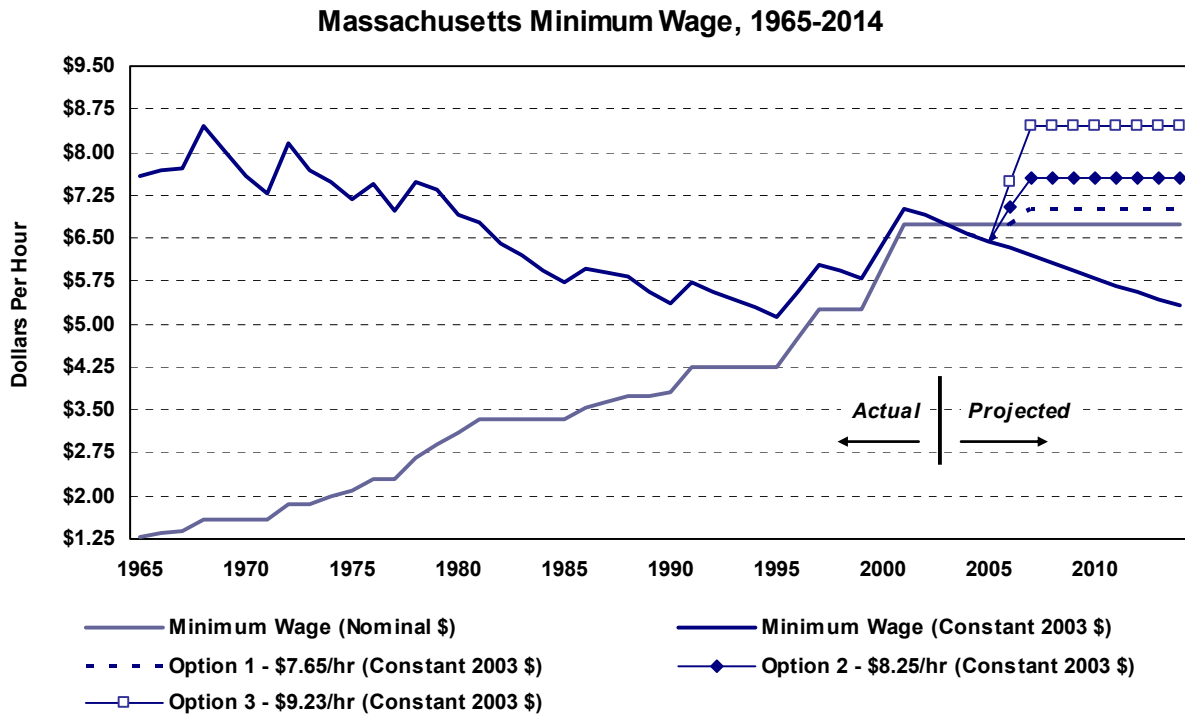


Figure 8 compares projections of the future value of the minimum wage under each of these three options with the real, inflation-adjusted value of the minimum wage over the past forty years. It shows that each of the three options would make significant progress in restoring the purchasing power that the minimum wage has lost to inflation over time. Option 1, the most modest of the three options, would increase the minimum wage to a nominal level of \$7.65 per hour in 2007 and index it to inflation thereafter; thus, it would bring the minimum wage, in real, inflation-adjusted terms, back to its 2001 level of \$7.01 per hour and then hold it there. Option 2, which would raise the minimum wage to a nominal level of \$8.25 per hour in 2007 and which would also index it to inflation, would not only move the minimum wage, in real terms, beyond the recent high point of 2001, but would also put it on a par with the levels sustained during the 1960s and 1970s. More specifically, Option 2 would ultimately result in a minimum wage of

\$7.56 per hour in constant 2003 dollars. While that figure is less than some of the single-year peaks in the real value of the minimum wage – for instance, in constant 2003 dollars, the minimum wage was \$7.59 per hour in both 1965 and 1970 – it is modestly higher than the average real minimum wage for the 1960s and the 1970s – approximately \$7.46 per hour. Only Option 3, which would push the minimum wage to a nominal rate of \$9.23 per hour in 2007 and, again, keep it growing with inflation, would return the Massachusetts minimum wage to its peak purchasing power of \$8.46 per hour. Of course, as noted earlier, that is the very goal it is designed to accomplish.

One feature of Figure 8 is worth emphasizing further. As it shows quite clearly, after 2007, each of the three options maintain their respective real values over time – Option 1 holds steady at \$7.01 per hour, Option 2 sustains an hourly wage rate of \$7.56, and Option 3 remains at \$8.46 per hour. This is the result, under each option, of indexing the minimum wage to inflation. If these options did not follow this approach and, instead, simply provided for nominal increases in 2006 and again in 2007, then Figure 8 would look quite different. The path traced by each of the options would peak in 2007 and would then begin to decline, yet again, due to inflation. Simply put, indexing the minimum wage to inflation allows workers to keep up with changes in the cost of living. Indeed, Governor Mitt Romney, during his 2002 campaign, expressed his support for indexing the minimum wage to inflation, as doing so would “. . . set a realistic minimum threshold for wages and provide planning certainty for employers . . .”²⁴

Nevertheless, future increases in the minimum wage will still be necessary, even if it is indexed to inflation, in order to ensure that it continues to reflect the contribution that minimum wage workers make to the Massachusetts economy (for instance, in the form of productivity improvements) and to prevent the wage gap in Massachusetts from widening still further. Each of the options examined in this report would have the effect of shrinking that gap, as Figure 9 indicates, but that effect would likely fade as the years pass. Again, during the late 1970s and early 1980s, the ratio of the median hourly wage in Massachusetts to the Commonwealth’s minimum wage hovered around 2.0 or lower; for the period 1979 to 2003, it averaged 2.40. As Figure 9 suggests, the current minimum wage results in a ratio that rests above that average; in the absence of legislative action, that ratio will continue to climb over the course of the next decade, attaining its highest level in thirty years by 2009. Option 1 would nudge the ratio of the median hourly wage to the minimum wage closer back to its twenty-five year average, but would still fall shy of it.

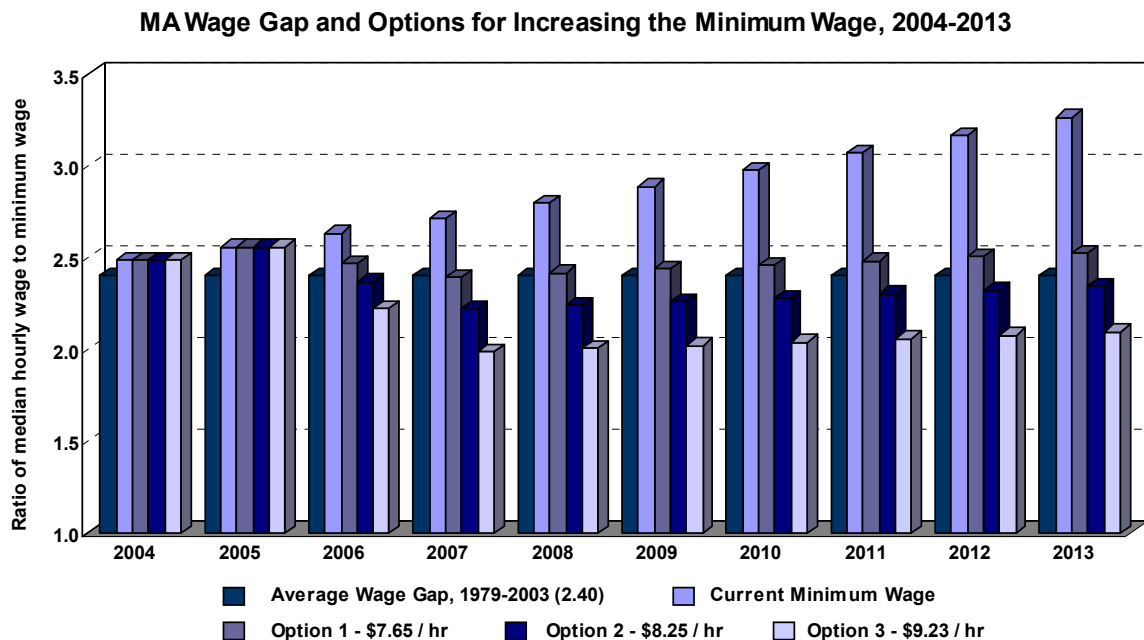
Indexing the Minimum Wage: Prices or Wages?

As an alternative to indexing the minimum wage to inflation, it could also be adjusted each year to reflect more widespread economic growth; for instance, it could be indexed to annual changes in the median hourly wage in Massachusetts or in the median household income. Indexing the minimum wage to broader wage growth, rather than to the rise in prices, would, in turn, help to prevent further expansions in the Massachusetts wage gap. It would also generally produce larger year-to-year increases in the minimum wage, as the growth in wages tends to outpace the growth in prices over time.

²⁴ *Romney/Healey Set Better Jobs as Top Priority*, Romney-Healey Press Release, July 24, 2002.

Options 2 and 3, on the other hand, would move the ratio below the 1979-2003 average, but, assuming that the growth of wages in the middle part of the wage distribution continues to outpace the growth of inflation, Options 2 and 3 still would not prevent the wage gap from slowly expanding once more. For instance, under Option 2, in 2007, the wage earned by the typical worker in Massachusetts would fall to 2.22 times the minimum wage; however, by 2013, under the assumptions used in this report, it would gradually rise to 2.34 – or just slightly below the 1979-2003 average.²⁵

Figure 9.

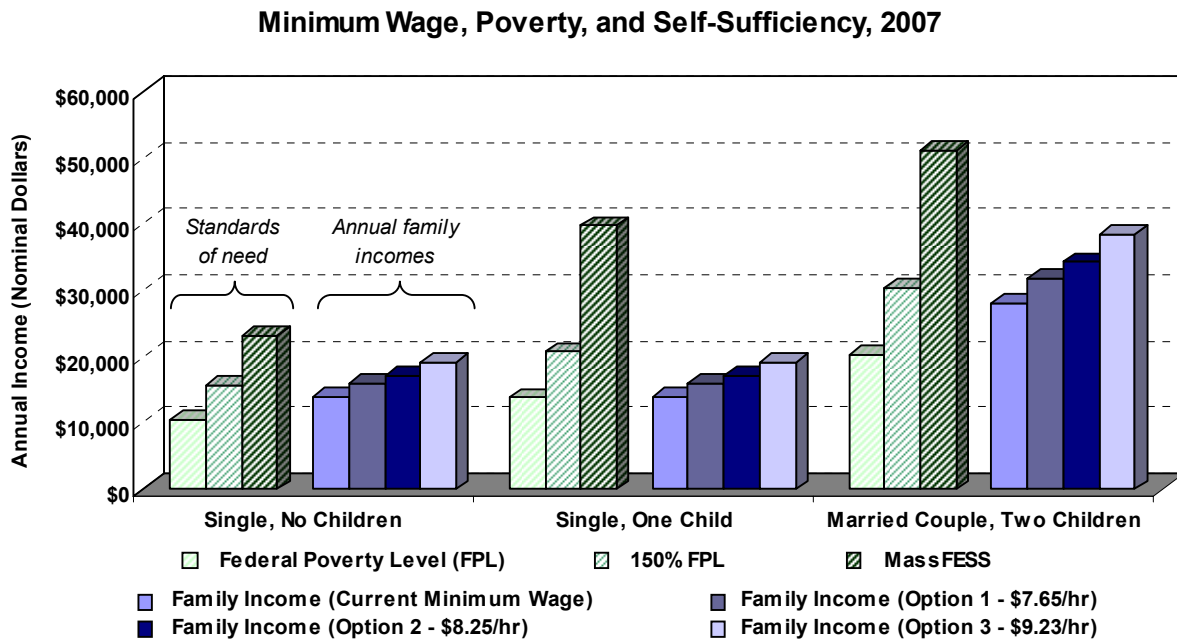


As noted earlier, the Massachusetts minimum wage of \$6.75 per hour is, at present, sufficient to lift some family types – among them single workers with no children, single-parent families with one child, and married couple families with two children – above the federal poverty level, assuming that the adults in each of those families are able to secure full-time employment. Increasing the Massachusetts minimum wage in accordance with the options detailed in this report would not only move individuals and families further away from the brink of poverty; it could also push some families currently below the federal poverty threshold above that mark. As Figure 10 demonstrates, each of the three options would, for single workers and for married couples with two children, generate annual incomes in excess of 150 percent of the federal poverty level. In addition, Options 2 and 3, once fully phased-in, would produce annual incomes sufficient to remove a single parent with two children from poverty, as measured by the U.S. Census Bureau.

²⁵These ratios are based on the same assumption that underpins Figure 3, namely, that the median hourly wage will continue to grow in the years ahead at the same rate that it did over the past twenty-five years – by 0.9 percent per year in real terms. If it were to grow more rapidly, the wage gap would necessarily increase.

Nevertheless, none of the three options would allow the families depicted in Figure 10 to meet all of the needs encompassed by the Massachusetts Family Economic Self-Sufficiency (MassFESS) Standard, although each would represent a marked improvement over the current minimum wage in that regard. By 2007, the present minimum wage will represent, at most, 60.2 percent of the MassFESS for single workers, 35.3 percent of the Standard for single parents with one child, and 54.7 percent for married, two-earner couples with two children. Option 2, for example, would improve those percentages to 73.6 percent, 43.1 percent, and 66.9 percent respectively.

Figure 10.



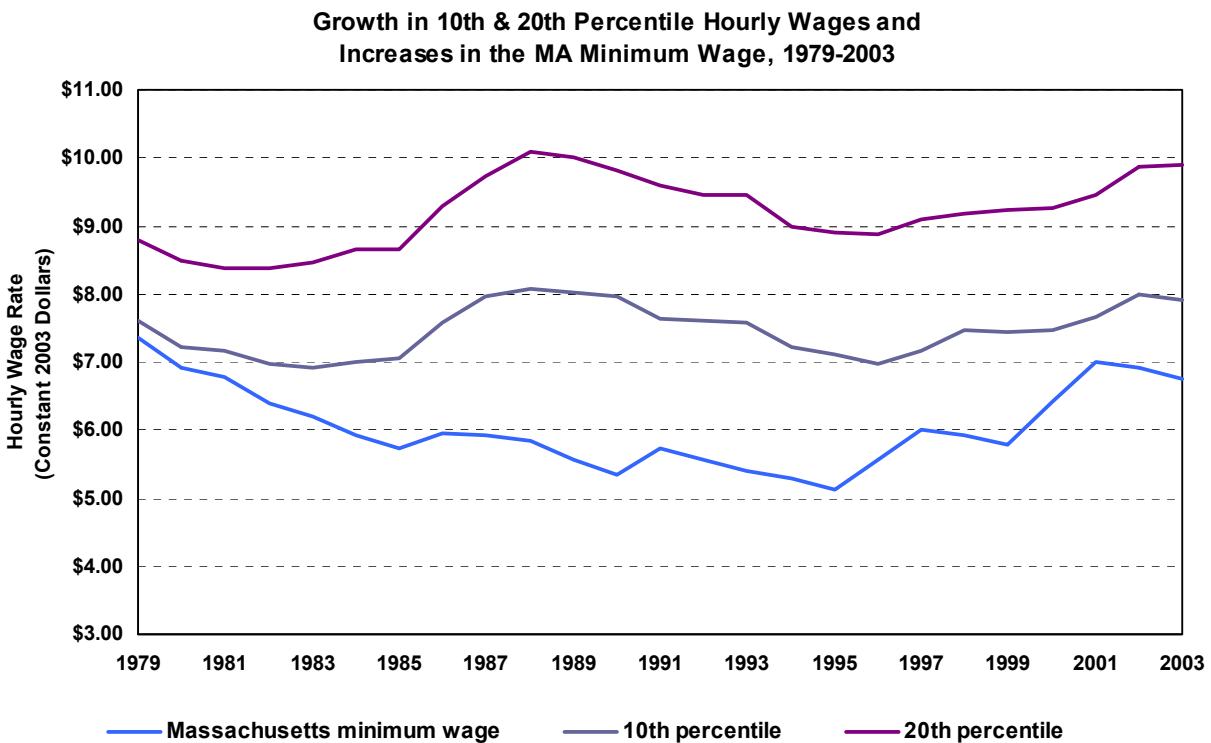
Effects of Prior Minimum Wage Increases

In addition to these projections, recent history also offers some indication as to what might be expected from an increase in the Massachusetts minimum wage. In particular, prior increases in the Massachusetts minimum wage appear to have contributed to real wage gains for other low-paid workers and may have helped as well to reduce the Commonwealth's poverty rate. At the same time, they have not produced the employment losses predicted by one strand of economic theory.

Economists have recognized for some time that increases in the minimum wage produce a “ripple effect” among low-wage workers generally.²⁶ That is, increases in the minimum wage not only directly benefit workers who were earning the old minimum wage as well as workers who were earning a wage below the new, higher minimum. They also lead to higher wages for workers who were paid at a rate just above the new, higher minimum wage. Several factors may be responsible for such an effect: some labor contracts explicitly provide for rates of pay that are a specified dollar increment over and above the prevailing minimum wage, while some employers, in order to maintain the pay scales that were in place prior to an increase in the minimum wage, may decide to raise the pay of other non-minimum-wage workers. Whatever the source of the effect, it appears to have helped to increase the wages of low-income workers across Massachusetts in recent years.

As Figure 11 shows, beginning in 1995, the minimum wage in Massachusetts rose considerably in real terms, climbing from \$5.13 per hour (in constant 2003 dollars) to \$6.75 per hour, a jump of 31.5 percent. These gains, in turn, likely helped to push up wages for workers at the lowest end of the economic spectrum. During that same 1995-2003 period, wages for workers at the 10th percentile of wage distribution in Massachusetts grew from \$7.11 per hour (again, in constant 2003 dollars) to \$7.90 per hour, an increase of 11 percent. Wages for workers at the 20th percentile grew by roughly the same proportion, rising from \$8.91 per hour to \$9.89 per hour.

Figure 11.



²⁶ See, for instance, Spriggs, William and Bruce W. Klein. 1994. *Raising the floor: The effects of the minimum wage on low-wage workers*. Washington, D.C.: Economic Policy Institute.

These events stand in sharp contrast to the period from 1986 to 1995 – also shown in Figure 11 – when both the real value of the minimum wage and wages for workers at the 10th and 20th percentiles of the Massachusetts wage distribution declined noticeably. Over that time, despite nominal increases in the minimum wage in 1986, 1987, and 1988, the inflation-adjusted value of the minimum wage dropped 13.9 percent, from \$5.96 per hour to \$5.13 per hour. At the same time, wages for workers at the 10th and 20th percentiles declined 6.1 percent and 4.0 percent respectively.

A number of economic studies also suggest that increases in the minimum wage can help to reduce poverty rates. In testimony before the U.S. House of Representatives Committee on Education and the Workforce in April 1999, Jared Bernstein, an economist at the Economic Policy Institute, offered a succinct summary of these studies, observing that:

...the vast majority of analyses found small poverty-reducing effects, i.e., increases in the minimum wage were associated with small declines in the poverty rate. In fact, a review of articles on this topic published over the last 10 years in peer-reviewed journals revealed no case in which the increase was associated with significant increases in the poverty rate.²⁷

One other study published since the time of Bernstein’s testimony affirms those findings. It examined changes in poverty rates and in minimum wage laws in 48 states over the period from 1984 through 1998 and determined that “...the minimum wage variable [used in the analysis] is statistically significant and negatively related to poverty rates,” thus indicating that an increase in the minimum wage is one tool that could be used to reduce state poverty rates.²⁸

Recent events in Massachusetts are consistent with these findings as well. Since the latest increases in the minimum wage were implemented in 2000 and in 2001, the Massachusetts poverty rate has fallen, dropping from 10.8 percent for the 1999-2000 period to 9.4 percent for 2000-2001; changes in the poverty rate since that time have not been statistically significant.²⁹ Clearly, one must be careful not to equate correlation with causation; while the increase in the Massachusetts minimum wage has coincided with a decline in poverty, other factors, such as a change in the number of hours worked among low-wage earners, might be just as responsible. Nevertheless, the sustained decline in the poverty rate in Massachusetts is somewhat remarkable, given that it has occurred in the wake of the national recession of 2001 and the Commonwealth’s

²⁷ Bernstein, Jared, “Minimum Wages and Poverty,” Testimony before the U.S. House of Representatives, Committee on Education and the Workforce, April 27, 1999. Among the studies included in Bernstein’s review are:

- Addison, J. T. & Blackburn, M. L. (1999) Minimum wages and poverty, *Industrial and Labor Relations Review*, 52(3), pp. 393-409.
- Card, D. & Krueger, A. B. (1995) *Myth and Measurement: The New Economics of the Minimum Wage* (Princeton, NJ, Princeton University Press).
- Mincy, R. B. (1990) Raising the minimum wage: effects on family poverty, *Monthly Labor Review*, 113(7), pp. 18-25.

²⁸ Stevans, Lonnie K. and David N. Sessions, “Minimum Wage Policy and Poverty in the United States,” *International Review of Applied Economics*, Vol. 15, No. 1, 2001, p. 70.

²⁹ Proctor, Bernadette D. and Joseph Dalaker, U.S. Census Bureau, *Poverty in the United States: 2001*, U.S. Government Printing Office (Washington, DC), 2002, p. 10; Proctor, Bernadette D. and Joseph Dalaker, U.S. Census Bureau, *Poverty in the United States: 2002*, U.S. Government Printing Office (Washington, DC), 2003, p. 10; and DeNavas-Walt, et. al., p. 23. Because of the small size of the sample used to generate state-level statistics, the Census Bureau recommends using two-year averages for comparisons within a state over time.

struggles to recover from it. In short, it would seem that, with these trends as a guide, a further increase in the minimum wage has the potential to produce highly desirable results, chief among them an improvement in wages for low-income workers and a reduction of the proportion of Massachusetts residents living in poverty.

Of course, one strand of economic theory holds that the minimum wage generally – and increases in the minimum wage in particular – produces results far less desirable than higher wages and lower poverty. This theory predicts that, by mandating a price for labor that is higher than the one required to bring the supply of labor into equilibrium with the demand for labor, a minimum wage will result in job losses. Stated slightly differently, in theory, a minimum wage will result in a demand for labor that is lower than would otherwise be the case; the difference between the demand for labor in the absence of a minimum wage (or at a lower minimum wage) and the demand for labor if a minimum wage were instituted (or if it were increased from its previous level) is thus the number of jobs lost.

Recent empirical research has found that this theory, by and large, does not comport with reality. For instance, the 1999 Economic Report of the President states:

A potential side effect of increasing the minimum wage is a reduction in employment: with low-wage labor more expensive, some firms may hire fewer workers. Many studies have examined this issue, and 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.³⁰

Similarly, Steven Landsburg, an economist from the University of Rochester and a critic of proposals to increase the federal minimum wage, declared in a column for the on-line magazine *Slate* earlier this year that “... the power of the minimum wage to kill jobs has been greatly overestimated. Nowadays, most labor economists will tell you that that minimum wages have at most a tiny impact on employment.” Reiterating this basic point, he continued: “...here's what most labor economists believe: The minimum wage kills very few jobs ... It is almost impossible to maintain the old argument that minimum wages are bad for minimum-wage workers. In fact, the minimum wage is very good for unskilled workers.”³¹

Massachusetts' recent experience with minimum wage increases and changes in employment levels also stands in sharp contrast to the negative outcomes predicted by such economic theory. While it is true that the Commonwealth has witnessed sharper job losses in recent years than most states, those losses have been concentrated in sectors such as manufacturing and information. Between January 2000 – when the first stage of the latest increase in the minimum wage took effect – and January 2004, employment in Massachusetts fell 3.4 percent or by 108,200 jobs overall. Employment losses in the manufacturing and information sectors accounted for approximately 90 percent of that net job loss, with manufacturing employment

³⁰ *Economic Report of the President*, United States Government Printing Office (Washington, DC), February 1999, p. 111-112.

³¹ Landsburg, Steven E., “The Sin of Wages: The real reason to oppose the minimum wage,” originally posted to *Slate* July 9, 2004, available at <http://www.slate.com/id/2103486>.

declining 20.3 percent over that period and the information sector reducing its payroll positions by 14.9 percent. Yet, data from the EPI suggest that neither of these sectors rely on minimum wage workers to any large degree. In 2003, across New England, just 7 percent of workers in the manufacturing sector and 8 percent of workers in the information and financial activities sector earned less than \$8.25 per hour; thus, it is highly unlikely that the increase in the minimum wage from \$5.25 to \$6.75 spawned such sizable losses in these areas.

Figure 12.

	Massachusetts		United States	
	<i>Number</i>		<i>Number</i>	
	<i>(in thousands)</i>	<i>Percent</i>	<i>(in thousands)</i>	<i>Percent</i>
Total Nonfarm Employment	-108.2	-3.4%	-573.0	-0.4%
Manufacturing	-82.0	-20.3%	-2966.0	-17.3%
Information	-15.5	-14.9%	-388.0	-11.0%
Transportation and Utilities	-9.6	-10.4%	-212.0	-4.3%
Professional and Business Services	-43.5	-9.4%	-278.0	-1.7%
Wholesale and Retail Trade	-19.8	-4.0%	-617.7	-2.9%
Government	-9.6	-2.3%	932.0	4.5%
Financial Activities	-3.0	-1.3%	306.0	4.0%
Education and Health Services	30.8	5.7%	1783.0	12.0%
Other Services	8.2	7.6%	236.0	4.6%
Leisure and Hospitality	19.3	7.8%	578.0	5.2%
Construction	16.1	14.3%	77.0	1.2%
Natural Resources and Mining	0.4	33.3%	-23.0	-4.0%

In contrast, employment in two of the sectors with the greatest preponderance of minimum-wage workers – leisure and hospitality and other services – not only grew more quickly than employment elsewhere in Massachusetts, but also expanded more rapidly in Massachusetts than throughout the nation as a whole. Again, the EPI estimates that, in 2003, 20 percent of workers in enterprises classified as other services (e.g. drycleaners, hair salons, and parking garages) and 42 percent of workers in leisure and hospitality earned less than \$8.25 per hour. Of course, as Figure 12 shows, employment in these sectors grew by nearly 8 percent between January 2000 and January 2004 in Massachusetts, with the same sectors nationwide realizing much smaller gains. To be sure, retail trade – one other segment of the Massachusetts economy that relies to a relatively high degree on minimum wage workers – did witness some job losses over the last four years, but those losses largely mirrored overall employment trends in the Commonwealth during that time frame. Between January 2000 and January 2004, retail employment in Massachusetts fell 3.8 percent – or by 13,700 positions – while, as Figure 12 indicates, total non-farm employment dropped 3.4 percent.

Figure 13.

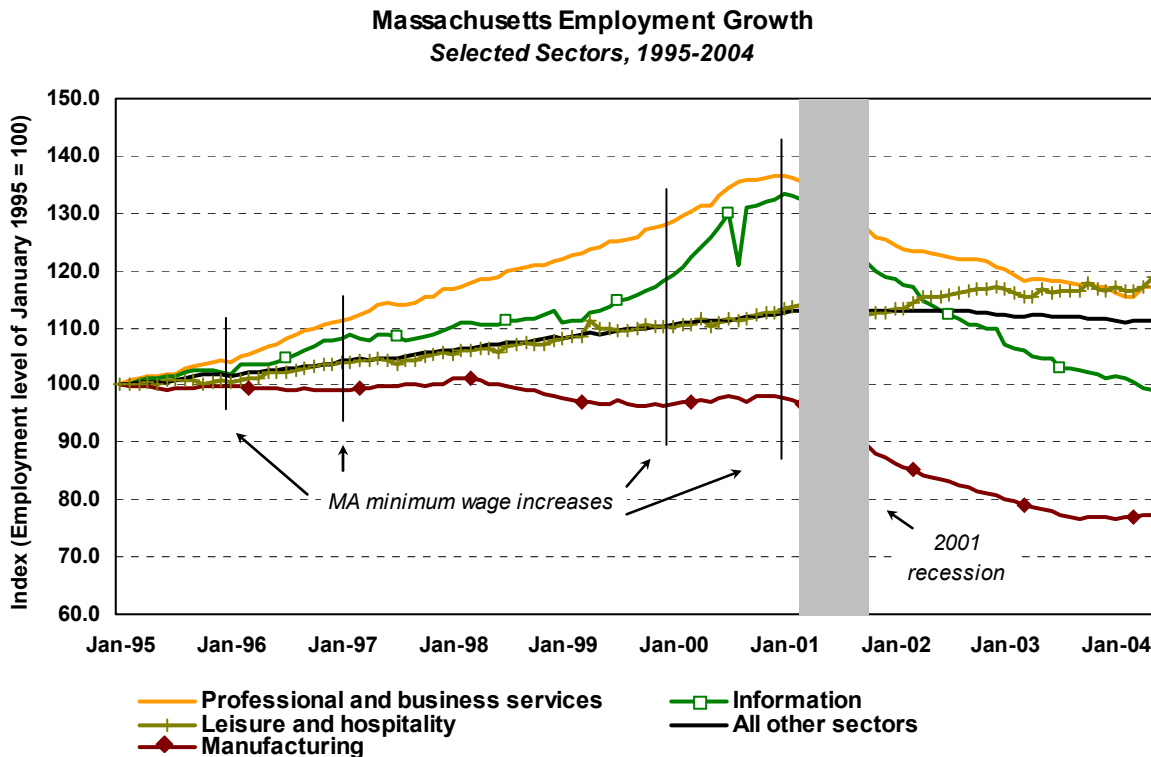


Figure 13 illustrates these general points over a slightly longer period of time. It depicts the changes in employment from January 1995 to the present – a period during which the Commonwealth saw four increases in its minimum wage – for four distinct sectors – professional and business services, information, leisure and hospitality, and manufacturing – as well as for all other industries in Massachusetts. It shows that three of the four recent increases in the minimum wage were followed by either steady or rising employment levels, while the fourth – the climb from \$6.00 to \$6.75 per hour in 2001 – almost immediately coincided with the national recession of 2001, which lasted from March through November of that year. Even in that instance, employment losses, again, were concentrated in sectors without very many minimum wage workers. Indeed, as Figure 13 suggests, once the effect of employment losses in the professional and business services, information, and manufacturing sectors is isolated, aggregate employment levels in Massachusetts have remained nearly constant since the onset of the recession. Just as importantly, as noted previously, employment in the leisure and hospitality sector has grown substantially since the start of the 2001 recession.

Conclusion

Despite several increases over the past decade, the relative value of the minimum wage – whether compared to consumer prices or to the wages of the typical Massachusetts worker – remains significantly below historic levels and, in the absence of legislative action, will only drop further in the years ahead. Moreover, though generous by the standards of many states, the minimum wage in Massachusetts continues to fall short of a far more important standard – the standard of material need. Simply put, even individuals who put in a full week’s work at the current minimum wage do not earn enough to meet their most basic material needs and those of their families.

Accordingly, this report has examined three options for increasing the Massachusetts minimum wage – and, no less importantly, for indexing it to inflation – and the degree to which they would address these shortcomings in the current minimum. While the options detailed in this report would not enable workers to achieve full economic self-sufficiency, they would still move minimum wage workers and their families further away from the brink of poverty. So too would they bring the relative value of the minimum wage closer to the levels it reached in the 1960s and the 1970s. In addition, a review of the increases in the Massachusetts minimum wage that have been adopted over the past decade suggests that further increases could yield positive results; those increases have likely helped to improve wages for workers at the lowest end of the economic spectrum in Massachusetts and may have contributed to a reduction in poverty, and, in so doing, clearly have not hindered the Commonwealth’s ability to compete economically.