NELP-FPI Response to

Empire Center/American Action Forum Report on

Governor Cuomo's Proposed $15 Minimum Wage

November 5, 2015

James Parrott, Deputy Director and Chief Economist of the Fiscal Policy Institute: "The Empire Center/American Action Forum report uses outdated economics that ignores both the troubling gap between wage and business profit growth in New York and the reality that low-wage business practices force New York's taxpayers to subsidize low-wage employers to the tune of billions of dollars annually."

Paul Sonn, General Counsel and Program Director of the National Employment Law Project: "More careful economists like Nobel Laureate Paul Krugman have spoken in favor of a $15 minimum wage for New York. Economic modeling and evidence from other cities and states indicate that New York's wage can be phased up to $15 with tremendous benefits for the state's workforce."

Summary of Response

1. The Empire Center/American Action Forum report is based on flawed, outdated analytic approaches that have been superseded by more sophisticated economic research.
2. Economists that have looked carefully at the likely effects of a phased-in $15 minimum wage conclude it would have very positive overall effects.
3. The report ignores the reality of New York State's compensation-profit trends and the substantial costs to the taxpayers of low-wage employment practices.

Key Points

- The Empire Center/American Action Forum has announced a new report predicting that Governor Cuomo's proposal to phase New York's minimum wage up to $15 by 2021 (faster in New York City) would result in the loss of hundreds of thousands of jobs across the state.

- However, the report's estimates are based on an outdated body of research that purported to find that states like New York, when they raised their minimum wages in recent years, lost a lot of jobs. But the bulk of rigorous research on minimum wages in the U.S. over the past 20 years has reached exactly the opposite conclusion: that increases have had virtually no adverse impact on employment.

- This is best illustrated by "meta-studies" that survey and aggregate the findings of scores of studies of the impacts of higher minimum wages. The two leading meta-studies—by economists Hristos Doucouliagos and T.D. Stanley (2009) and Dale Belman and Paul Wolfson (2014)—show that the vast majority of recent studies find minimum wage increases have little to no effect on employment levels or job growth.

- In particular, the Empire Center / American Action Forum estimates are reportedly based on a 2014 Congressional Budget Office projection that relied in substantial part on the findings of the former body of less sophisticated and less accurate minimum wage research. The Empire Center / American Action Forum estimates also rely on research by Meer and West -- research that has been discredited by more careful economists.

- In a recent talk at the City University in New York, Nobel prize-winning economist Paul Krugman referred to the new body of minimum wage research as "one of the most compelling sets of empirical results I've ever seen in economics." Krugman concluded that "there's absolutely no reason to think that a fifteen dollar minimum wage will be a problem for New York." (Paul Krugman talk at CUNY Equality Forum, October 1, 2015)

- More than 200 economists have endorsed a $15 federal minimum wage by 2020, finding that raising the minimum to $15 an hour "will be an effective means of improving living standards for low-wage workers and their families and will help stabilize the economy. The costs to other groups in society will be modest and readily absorbed."

- Using a state-of-the-art model to estimate the employment and economic impacts of a $15 minimum wage in Los Angeles, economists from the University of California-Berkeley found that implementing this wage level would raise pay for approximately 41 percent of the city's workforce, deliver an average raise of $4,800 per worker per year (in 2014 dollars) and boost workers' spending by $1.36 billion by 2017 and $2.38 billion by 2019. On the employer and job-impact side, the analysis shows that, after a gradual phased-in, the $15 wage would have little impact on total employment, and business operating costs would rise by just 0.9 percent by 2019.

- In testimony before the Massachusetts legislature, one of the authors of the Los Angeles study, Michael Reich, summarized the substantial benefits of a $15 minimum wage for low-wage workers, and the manageable costs, as follows: "We conclude that a $15 minimum wage range mainly generates a substantial income increase to low-wage workers that is mainly paid for by a small increase in prices paid by consumers. The beneficiaries are primarily in lower income households, while the small costs are felt primarily by the larger number of middle- and higher-income households. Moreover, the minimum wage benefits will be concentrated in low-income neighborhoods and the costs will be felt disproportionately in more affluent neighborhoods."

- The experiences of the first jurisdictions phasing their minimum wages up to $15 are consistent with these analyses. In Seattle, the first major city to adopt a $15 wage, the region's unemployment rate hit an eight-year low of 3.6 % in August 2015, significantly lower that the state unemployment rate of 5.3 percent. And in a front- page story titled "Apocalypse Not: $15 and the Cuts that Never Came," the Puget Sound Business Journal reported on "The minimum wage meltdown that never happened," explaining that Seattle's restaurant industry has continued to expand and thrive as the $15 wage phases in. King County, where Seattle is located, is well on its way to breaking last year's record for the number of business permits issued to food service establishments. And business owners who had publicly opposed the $15 minimum wage are in the process of expanding operations.

- The Empire Center / American Action Forum report does not appear to look closely at the on-the-ground reality in New York in terms of wages and broader economic trends. U.S. Commerce Department data show that business profits per worker in New York State grew by 61% between 2001 and 2013 while labor compensation per worker rose by only 34%. Clearly, a wide gap has emerged in New York between the profitability of business and what workers are paid. And within the labor compensation sphere, highly paid executives have gotten large raises while the inflation-adjusted pay of most workers has stagnated or declined.

- There is a growing recognition on the part of businesses and institutional investors that higher wages are key to reducing turnover, improving customer service, and enhancing profitability. Several large employers including Walmart, Target, Aetna, IKEA and the Gap are starting to raise wages as a result. A recent study from Purdue University's School of Hospitality and Tourism Management that the fast-food industry could accommodate a $15 an hour minimum wage through savings related to reduced turnover and small price increases not much greater than recent experience.[1]

- The Empire Center / American Action Forum analysis also ignores the fact that a high proportion of low-wage workers are paid so little that they qualify for one or more forms of public assistance. In effect, taxpayers end up subsidizing low-wage employment practices to the tune of $13 billion in New York State.[2]

- An increase in the minimum wage would reduce companies' ability to shift costs to government programs, and would result in considerable savings at all levels of government in spending on various forms of public assistance as well as generate increased payroll and individual income taxes paid by workers. A recent Urban Institute report analyzed several policy options to reduce poverty in New York City and concluded that the net fiscal savings (less public assistance and more income and payroll tax payments) to all levels of government from an increase in the minimum wage to $15 an hour represented roughly 43 percent of the rise in aggregate earnings as a result of the minimum wage increase. [3]

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[1] Christopher Gunn and Thomas Michl, "Higher Wages Serve Up Better Economics for Workers and NY," *Oneida Dispatch*, August 18, 2015. http://www.oneidadispatch.com/opinion/20150818/guest-column-higher-wages-serve-up-better-economics-for-workers-and-ny

[2] Ken Jacobs, Ian Perry, and Jenifer MacGilvary, *The High Public Cost of Low Wages, Poverty-Level Wages Cost U.S. Taxpayers $152.8 Billion Each Year in Public Support for Working Families*, University of California Berkeley Center for labor Research and Education, April 2015. Not included in the Berkeley report but incorporated in the $26 billion cited in the text above is the $1 billion annual cost of New York State's Earned Income Tax Credit.

[3] Linda Giannarelli, Laura Wheaton and Joyce Morton, *How Much Could Policy Changes Reduce Poverty in New York City?* Urban Institute, February, 2015. Prepared for the Federation of Protestant Welfare Agencies, Catholic Charities, and UJA Federation, Appendix Tables D-5 and D-6.