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A MASSACHUSETTS MINIMUM-WAGE INCREASE WOULD HELP WORKING FAMILIES AND GENERATE JOBS

BY MARY GABLE

The Massachusetts minimum wage is currently $8.00 per hour, and a proposal to increase it to $10.00 is before the state legislature.[1] Amid persistently high unemployment and the resulting downward pressure on wages, increasing the state's minimum wage would provide a welcome lift to the Massachusetts economy. An increase would also help working families in Massachusetts make ends meet in the aftermath of the worst recession in generations.

This issue brief explains why raising Massachusetts's minimum wage would be a tool for economic growth and examines the magnitude of these positive economic effects. Key findings include:

- If enacted on January 1, 2013, a minimum-wage increase in Massachusetts to $10.00 per hour would give more than 581,000 of the state's lowest-paid workers a raise.
- Raising the state's minimum wage would increase wages by almost $824 million for directly and indirectly affected workers.
- The increase would create roughly 4,500 net new jobs within the first year.

Raising the minimum wage as a tool for economic growth

The immediate benefits of a minimum-wage increase are in the boosted earnings of the lowest-paid workers, but its positive effects would far exceed this extra income. Recent research reveals that, despite skeptics' claims, raising the minimum wage does not cause job loss.[2] In fact, in Massachusetts and other states, minimum-wage increases would *create* jobs. Like unemployment insurance benefits or tax breaks for low- and middle-income workers, raising the minimum wage puts more money in the pockets of working families when they need it most, thereby augmenting their spending power. Economists generally recognize that low-wage workers are more likely than any other income group to spend any extra earnings immediately on previously unaffordable basic needs or services.

Increasing Massachusetts's minimum wage to $10.00 on January 1, 2013, would give a raise to more than 581,000 of the state's lowest-paid workers.[3] It would provide nearly $824 million in additional wages[4] to directly and indirectly affected families, who would, in turn, spend those extra earnings. Indirectly affected workers—those earning close to, but still above, the proposed new minimum wage—would likely receive a boost in earnings due to the "spillover" effect (Shierholz 2009), giving them more to spend on necessities.

This projected rise in consumer spending is critical to any recovery, especially when weak consumer demand is one of the most significant factors holding back new hiring (Izzo 2011).[5] Though the stimulus from a minimum-wage increase is smaller than the boost created by, for example, unemployment insurance benefits, it is still substantial—and has the crucial advantage of not imposing significant costs on state governments. Thus, a minimum-wage increase is one of the few budget-neutral ways for state governments, already struggling with budget shortfalls, to give a shot in the arm to the economy.[6]

Assessing the job creation effects of a minimum-wage increase

In addition to providing a wage increase to hundreds of thousands of Massachusetts workers, raising the state's minimum wage would create jobs. Showing that raising the minimum wage would be a tool for modest job creation requires an examination of the stimulative effects of minimum-wage increases. Because minimum-wage increases come from employers, we must construct a "minimum-wage increase multiplier" that takes into account the increase in compensation to low-wage workers and the decrease in corporate profits that both occur as a result of minimum-wage increases. Raising the minimum wage means shifting profits from an entity (the employer) that is much less likely to spend immediately to one (the low-wage worker) that is more likely to spend immediately. Thus, increasing the minimum wage stimulates demand for goods and services, leading employers in the broader economy to bring on new staff to keep up with this increased demand.

When economists analyze the net economic stimulus effect of policy proposals (e.g., tax rate changes that boost income for some and reduce it for others), they use widely accepted fiscal multipliers to calculate the total increase in economic activity due to a particular increase in spending. In applying these multipliers, economists generally recognize a direct relationship between increased economic activity and job creation. This analysis assumes that a $115,000 increase in economic activity results in the creation of one new full-time-equivalent job in the current economy.[7]

Using these same standard fiscal multipliers to analyze the jobs impact of an increase in compensation of low-wage workers and decrease in corporate profits that result from a minimum-wage increase, we find that increasing the Massachusetts minimum wage from $8.00 to $10.00 per hour would result in a net increase in economic activity of approximately $522 million and would generate roughly 4,500 net new jobs (see Appendix for methodo-

logical details).[8] Though this would not return the state's unemployment rate to pre-recession levels, it would be a substantial boost to the Massachusetts economy.

The benefits of a minimum-wage increase in an economic downturn

Examining the positive effects of a minimum-wage increase in Massachusetts leads to an overarching discussion of the economic case for increasing the earnings of the lowest-paid workers during an economic downturn. In the current economic climate, nearly everything is pushing against wage growth. With 3.4 unemployed workers for each job opening (Gould 2012), employers do not have to offer substantial wages to hire the workers they need, nor do they have to pay substantial wage increases to retain workers.

It is important to note that despite the weak overall condition of the U.S. economy, corporations can afford to increase the wages of the lowest-paid workers. Since 1973, corporate profits have continued to soar as American workers have become more productive. Corporate America even has recovered the losses of the 2008 crash, with profits once again growing much more quickly than productivity and wages. Yet in Massachusetts and nationwide, most workers—especially the lowest-paid workers—have not shared in this prosperity. **Figure A** reveals this disconnect. It shows that real corporate profits peaked in 2006 at more than 200 percent growth since 1973, while the real value of the Massachusetts minimum wage in 2011 was just 1 percent higher than in 1973. Meanwhile, workers' productivity increased almost 100 percent during the same period. Increasing the minimum wage in Massachusetts would help raise the lowest-paid workers' earnings to reflect their increased productivity.

Even conservative economists suggest higher wages might help speed the recovery. American Enterprise Institute scholar Desmond Lachman, a former managing director at Salomon Smith Barney, told *The New York Times*, "Corporations are taking huge advantage of the slack in the labor market—they are in a very strong position and workers are in a very weak position. They are using that bargaining power to cut benefits and wages, and to shorten hours." According to Lachman, that strategy "very much jeopardizes our chances of experiencing a real recovery" (Powell 2011).

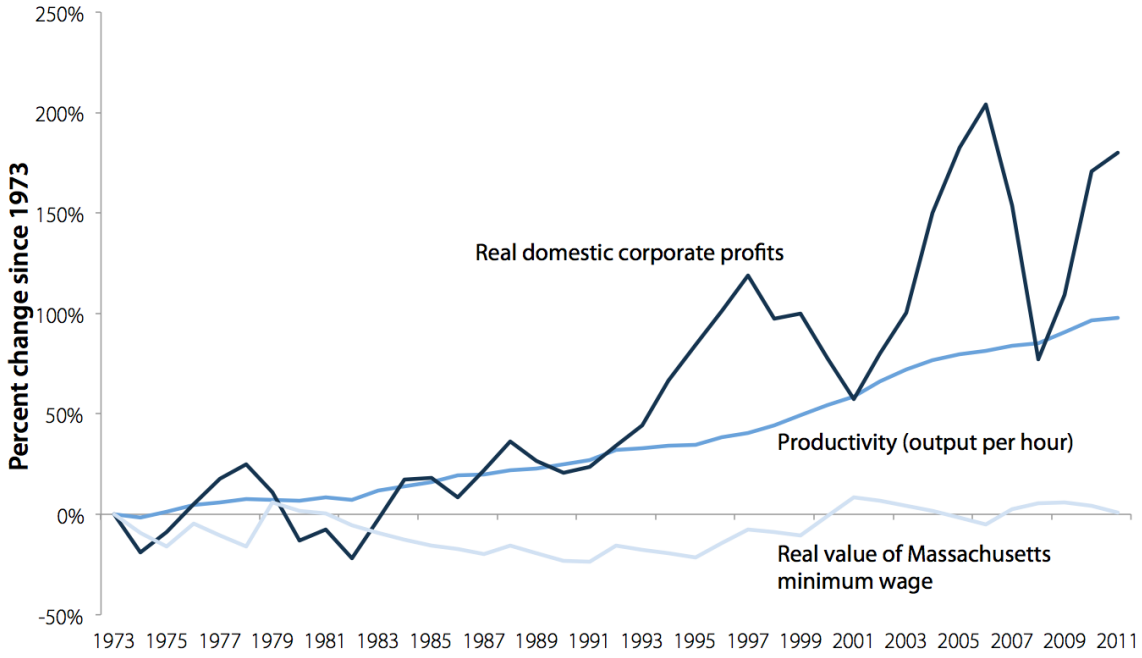
Furthermore, the national unemployment rate is currently 8.3 percent and is not expected to return to pre-recession levels for several years. In Massachusetts, the unemployment rate is 6.1 percent and, as **Figure B** shows, the state's "jobs shortfall," or the difference between the number of jobs Massachusetts has and the number necessary to return to the pre-recession unemployment rate, is 148,100. That number includes the 43,500 jobs Massachusetts has lost since December 2007 plus the 104,600 jobs it would have needed to add to keep up with the 3.2 percent population growth the state has experienced in the 55 months since the recession began.[9] To close this gap within three years, Massachusetts would have to create 5,500 new jobs every month. In the past year, Massachusetts has added 42,800 jobs, enough to cover less than eight months' worth of necessary growth. At that rate, it would take Massachusetts more than three years to return to the pre-recession unemployment rate. Considering the past year's sluggish job growth rate, a minimum-wage increase that creates about 4,500 net new jobs would help strengthen the recovery.

Conclusion

The multiple positive effects that would result from a higher minimum wage in Massachusetts are clear: It would boost the earnings of working families hardest hit by the Great Recession, spur economic growth, and create about 4,500 net new jobs. In an economic climate in which wage increases for the most vulnerable workers are scarce, raising the minimum wage to $10.00 is an opportunity that working families in Massachusetts cannot afford to lose.

FIGURE A

Change in productivity, corporate profits, and the Massachusetts minimum wage, 1973–2011



Source: Author's analysis of data from the U.S. Department of Labor, the Bureau of Labor Statistics, and the Bureau of Economic Analysis

Appendix: Methodology

An analysis of the stimulative impact of raising the minimum wage in Massachusetts draws on the macroeconomic multipliers calculated by Moody's Analytics Chief Economist Mark Zandi (2011), which estimate the one-year dollar change in gross domestic product (GDP) for a given dollar reduction in federal tax revenue or increase in spending. Averaging the stimulus multipliers of the Earned Income Tax Credit (within the parameters of the American Recovery and Reinvestment Act, or ARRA) and Making Work Pay (ARRA's refundable tax credit for working individuals and families) gives a reasonable fiscal stimulus multiplier for the spending increase due to the increase in compensation of low-wage workers. This value is 1.2, which means that a $1 increase in compensation to low-wage workers leads to a $1.20 increase in economic activity.

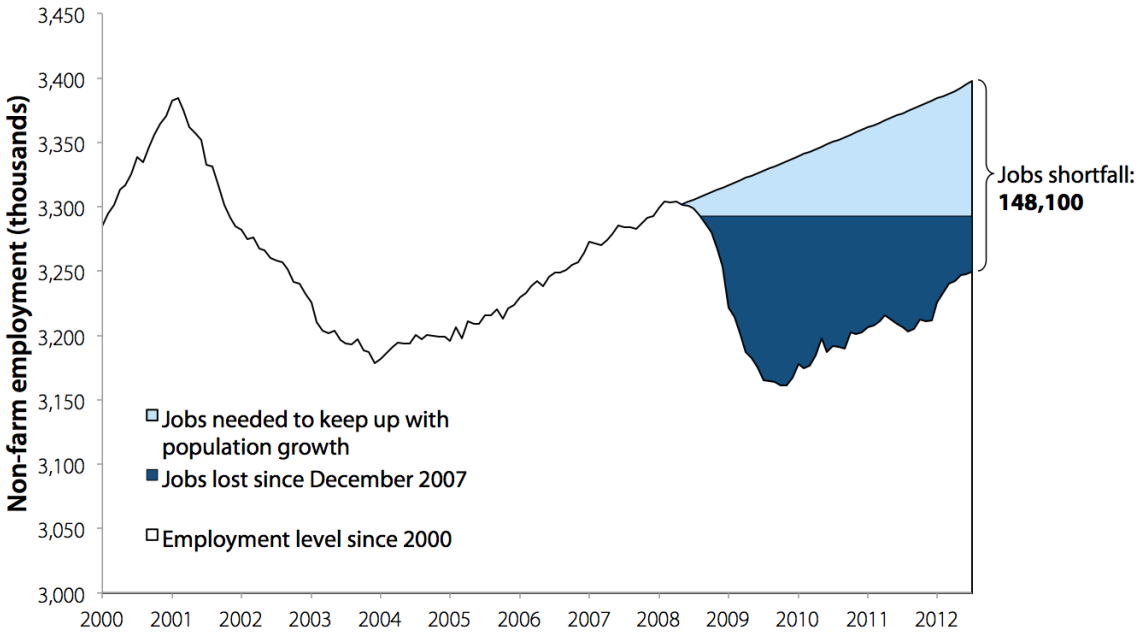
The calculation of the stimulative impact of the minimum wage, however, must also account for the offsetting shift from employers. We assume employers pass on some of the minimum-wage increase to consumers through increased prices (somewhere between 20 percent and 50 percent). Thus, we calculate the offsetting multiplier effects as a weighted average of Zandi's multiplier for an across-the-board tax cut (1.04, as a proxy for increased prices) and a cut in the corporate tax rate (0.32).[10]

The minimum-wage multiplier is between:

1.2 MW consumer spending increase multiplier – [0.32 corporate tax rate cut*(1-0.5 price pass-

FIGURE B

Massachusetts jobs shortfall, January 2000–July 2012



Source: Author's analysis of Bureau of Labor Statistics Current Population Survey, Current Employment Statistics, and Local Area Unemployment Statistics data

through) + (1.04 across-the-board tax cut*0.5 price pass-through)] = 0.53

(representing the case where 50 percent of the minimum-wage increase is passed through to prices)

and

1.2 MW consumer spending increase multiplier – [0.32 corporate tax rate cut*(1-0.2 price pass-through) + (1.04 across-the-board tax cut*0.2 price pass-through] = 0.74

(representing the case where 20 percent of the minimum-wage increase is passed through to prices).

Taking into account the fiscal stimulus multiplier range of the minimum-wage increase (0.53 to 0.74) and the increased wages ("wage bill increase") of directly affected workers, we can calculate the GDP impact of the proposal to increase Massachusetts's minimum wage to $10.00.

The GDP impact is between:

$823,911,180 wage bill increase*0.53 minimum-wage multiplier (low) = $432,553,370 GDP impact (low)

and

$823,911,180 wage bill increase*0.74 minimum-wage multiplier (high) = $610,518,184 GDP impact (high).

We use the general rule that it takes a GDP increase of $115,000 to create one full-time-equivalent (FTE) job and a GDP increase of $127,000 to create a payroll job. Then, calculating the impact of an increase in the Mas-

sachusetts minimum wage to $10.00 on January 1, 2013, the number of FTE jobs created is between:

$432,553,370 GDP impact (low)/$115,000 GDP increase per FTE job = 3,761 FTE jobs

and

$610,518,184 GDP impact (high)/$115,000 GDP increase per FTE job = 5,309 FTE jobs.

The number of payroll jobs created is between:

$432,553,370 GDP impact (low)/$127,000 GDP increase per payroll job = 3,406 payroll jobs

and

$610,518,184 GDP impact (high)/$127,000 GDP increase per payroll job = 4,807 payroll jobs.

Full-time-equivalent job measurements take into account both the increase in the number of payroll jobs and the increase in work hours for those who already had jobs by calculating the equivalent number of 40-hour-per-week jobs that would be created by the GDP boost. Measuring the number of payroll jobs strictly shows the number of jobs (not measured by hours). Thus, an increase in the minimum wage in Massachusetts to $10.00 on January 1, 2013, would create, over one year, a conservative estimate of roughly 4,500 jobs (whether measuring FTE or payroll).

Endnotes

1. A proposal (S. 951) to increase the Massachusetts minimum wage to $10.00 per hour over two years passed the state's Joint Committee on Labor and Workforce Development in March 2012 and is currently before the legislature. This analysis instead assumes an increase in the minimum wage to $10.00 goes into effect on January 1, 2013.

2. See the recent EPI paper *The benefits of raising Illinois' minimum wage: An increase would help working families and the state economy* (Hall and Gable 2012) for a description of the definitive studies on minimum-wage increases and the absence of disemployment effects.

3. According to the author's analysis of 2011 Current Population Survey Outgoing Rotation Group microdata. This total includes directly affected workers (those who would see their wages rise because the new minimum wage would exceed their current hourly pay) and indirectly affected workers (those who would receive a raise as employer pay scales are adjusted upward to reflect the higher minimum wage).

4. According to the author's analysis of 2011 Current Population Survey Outgoing Rotation Group microdata. This analysis assumes 0.4 percent population growth (the Massachusetts projected annual average growth rate from 2000 to 2020, according to the U.S. Census Bureau). The model assumes no wage growth from 2011 survey values prior to the proposed minimum-wage increase on January 1, 2013. The increased wages are the annual amount of increased wages for directly and indirectly affected workers, assuming they work 52 weeks per year.

5. In a recent poll of 53 economists by *The Wall Street Journal*, the majority (65 percent) cited a lack of demand as the main reason for a lack of new hiring by employers (Izzo 2011).

6. A recent analysis by the Center on Budget and Policy Priorities projects a $1.3 billion budget shortfall in Massachusetts in fiscal year 2013. At 3.8 percent of the general fund budget, this shortfall is much smaller than those of the states with the most severe budget gaps. However, it could cause the state to cut government services and public-sector jobs at a time when doing so would be particularly harmful to the economy (McNichol et al. 2012).

7. In a paper on the methodology used to estimate the jobs impact of various policy changes, the Economic Policy Institute's Josh Bivens found that $115,000 in additional economic activity results in the creation of one new full-time-equivalent job, and $127,000 in additional economic activity results in the creation of one new payroll job (Bivens 2011).

8. According to the author's analysis of Current Population Survey Outgoing Rotation Group microdata and Zandi (2011).

9. This calculation uses Current Employment Statistics and Local Area Unemployment Statistics data from the Bureau of Labor Statistics. It provides an estimate in line with EPI's national-level estimate of the jobs shortfall, which combines Current Employment Statistics and Current Population Survey data. This estimate is based on the dates of the national recession, not those of the Massachusetts recession.

10. While this paper presents multipliers rounded to two decimal places, the calculations use the exact multiplier.

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