



## Minimum Wage Increase Will Boost Economy and Incomes of Many Minnesotans

Minnesota's low-wage workers will soon receive a long overdue raise. One of our country's most deeply held values is that hard work should pay off and that those who work hard should be able to support their families. But Minnesota's minimum wage has failed to live up to that principle. Minimum wage workers do not earn enough to make ends meet, and the minimum wage has not kept up with the cost of basic necessities.

Starting in August, Minnesota will no longer be one of just a handful of states with a minimum wage lower than the federal minimum wage. In April 2014, the Legislature passed and Governor Dayton signed a bill increasing the state's minimum wage. The higher wage means low-wage workers will regain lost purchasing power and find it easier to make ends meet. And since Minnesota will also be joining a growing number of states that index their minimum wages to inflation, the minimum wage will better keep up with the rising costs of basic necessities, like food, rent and gas.

This increase in the minimum wage will improve economic security for hundreds of thousands of Minnesota's workers and their families, and provide a boost to our economy.

Starting August 1, Minnesota minimum wage standards will increase in three steps. The new standards are:

- Large employers: \$8.00 per hour starting on August 1, 2014; \$9.00 on August 1, 2015; and \$9.50 on August 1, 2016.
- Small employers: \$6.50 per hour starting on August 1, 2014; \$7.25 on August 1, 2015; and \$7.75 on August 1, 2016.
- Training wage (for employees ages 18 and 19 for the first 90 consecutive days of employment): \$6.50 starting on August 1, 2014; \$7.25 on August 1, 2015; and \$7.75 on August 1, 2016.

Two other wage tiers will be created:

- Youth wage (workers under 18): \$6.50 starting on August 1, 2014; \$7.25 on August 1, 2015; and \$7.75 on August 1, 2016.
- Hotel or resort workers under an Exchange Visitor non-immigrant visa for summer work who receive a lodging or food benefit: \$7.25 starting on August 1, 2014; \$7.50 on August 1, 2015; and \$7.75 on August 1, 2016.

Starting on August 1, 2014, Minnesota will match federal definitions for small and large employers for purposes of the minimum wage. Large employers will be those with gross sales over \$500,000 and small employers will have gross sales under that amount. This will replace the state definition that set \$625,000 as the dividing line between large and small employers.

Minnesota's minimum wage law covers full-time and part-time employees, whether they are hourly, salaried or commissioned. Additionally, Minnesota tipped workers are subject to the same minimum wage standards as non-tipped employees.

Minnesota's minimum wage will also increase each year starting in 2018 to keep up with the cost of living, which is known as "indexing." The increase is capped at 2.5 percent per year. The minimum wage will not be reduced in years with negative inflation. The Commissioner of the Department of Labor and Industry has the option of suspending the annual increase after consulting with Minnesota Management and Budget if

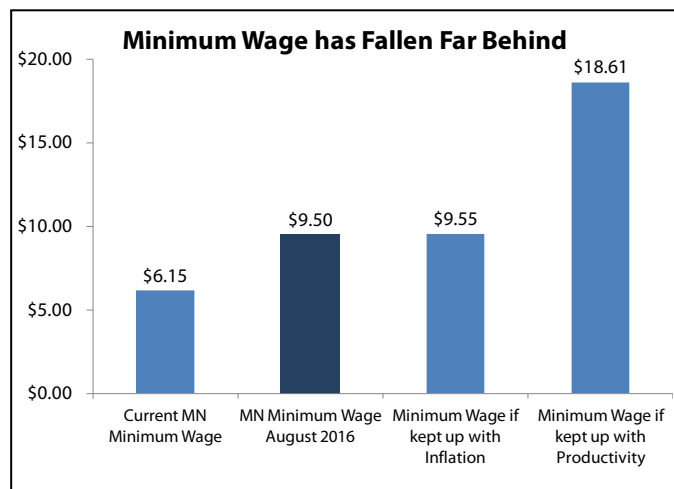
economic indicators, such as GDP, consumer confidence, and the state unemployment rate show “potential for a substantial downturn in the state’s economy.” In the years after a wage increase is prevented, the Commissioner can make supplemental increases in the minimum wage to catch up. These supplemental increases do not count toward the 2.5 percent cap.

### **An Increased and Indexed Minimum Wage Makes Work Pay**

As the 2014 Legislative Session began, it was clear that an increase in Minnesota’s minimum wage was long overdue. Minnesota’s minimum wage had lost its buying power and lagged behind federal standards. Minnesota’s minimum wage was \$6.15 an hour, more than a dollar lower than the federal minimum wage, and hadn’t been increased since 2005.

The minimum wage has not kept up with the cost of living. If the federal minimum wage had kept up with inflation and had the same buying power as in 1968, it would be \$9.55 an hour.<sup>1</sup> Furthermore, if the minimum wage had increased at the same rate as worker productivity during this time, it would now be much higher, at \$18.61.<sup>2</sup>

The increase in the state minimum wage is an important step in helping hard-working Minnesotans reach economic security. A single parent with one child who works full time at \$6.15 an hour does not earn enough reach the federal poverty line. Increasing the minimum wage and indexing it to keep up with the cost of basic necessities will make it easier for low-wage workers to make ends meet.



### **Increasing the Minimum Wage is a Win for Minnesota**

As a result of the minimum wage increase, 325,000 Minnesota workers will have higher wages.<sup>3</sup> A study that looked at a similar minimum wage proposal showed that increasing the state’s minimum wage to \$9.50 would boost the earning power of Minnesota workers by about \$472 million.<sup>4</sup> More than three-quarters of those who would benefit are working adults, and about 37 percent work full time. The study found that an increase in the minimum wage is also good for families. About 137,000 Minnesota children would benefit from their parents’ increased wages.

The study also showed that the benefits of a minimum wage increase are well targeted to those who are most often left behind in our economy, including women and people of color. Fifty-seven percent of those who would benefit from the minimum wage increase are women. Additionally, almost one in three Hispanic workers in the state and about one in five black workers would see higher wages.

### **Increasing the Minimum Wage Will Not Create Substantial Job Loss**

Despite the clear benefit in earnings for low-wage workers, some raise concerns that a higher minimum wage could greatly reduce employment opportunities for low-wage workers. But the evidence is that there is unlikely to be a significant impact on low-wage employment, and what little may occur is well outweighed by the increased earnings for the majority of low-wage workers.

A review of more than 60 studies on the connection between the minimum wage and job loss finds “little or no employment response to modest increases in the minimum wage.”<sup>5</sup> For example, a study of all neighboring states with different minimum wages found “no detectable employment losses from the kind of minimum wage increases we have seen in the United States.”<sup>6</sup> Another study evaluated restaurants in New Jersey and eastern Pennsylvania before and after New Jersey increased its minimum wage to \$5.05 while Pennsylvania’s minimum wage remained at \$4.25.<sup>7</sup> It found “no indication that the rise in the minimum wage reduced employment” in New Jersey.

Some critics of a minimum wage increase assert that job loss would be concentrated among the most vulnerable. However, research on the effect of federal minimum wage increases on white, black and Hispanic teenagers found no significant employment effects on teenagers as a whole, or any specific racial or ethnic group.<sup>8</sup>

An increase in the minimum wage may actually stabilize employment and reduce turnover, reducing training costs for employers. For example, one study found that turnover for teens and restaurant workers was markedly reduced after minimum wage increases.<sup>9</sup>

Where studies find job loss and reduced hours for workers in response to a higher minimum wage, the impact is small, and the overall result for the majority of low-wage workers is an increase in income.

### **Minimum Wage Increase is an Important Step for Broadening Economic Security**

Raising the minimum wage increases earnings and improves the lives of hundreds of thousands of Minnesotans, after years of stagnant wages. Minnesota made an important step this session toward all Minnesotans benefiting from the strong economy they help build.

*By Caitlin Biegler and Nan Madden*

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<sup>1</sup> Minnesota Budget Project analysis using the U.S. Bureau of Labor Statistics Consumer Price Index – Research Series.

<sup>2</sup> Economic Policy Institute, [Raising the Federal Minimum Wage to \\$10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost](#), December 2013.

<sup>3</sup> Minnesota Office of the Governor, [Fact Sheet: Raising the Minimum Wage to \\$9.50](#), April 2014.

<sup>4</sup> JOBS NOW Coalition, [A Raise for Minnesota](#), October 2013. This study analyzed a proposal to increase the minimum wage to \$9.50 per hour for large employers and \$8.50 an hour for small employers, and indexing the wage in future years for inflation. The study assumes that workers earning between \$9.50 and \$10.00 an hour would see a raise to \$10.00 as employers adjust to higher wage standards.

<sup>5</sup> Center on Budget and Policy Priorities, [Proposal to Strengthen Minimum Wage Would Help Low-Wage Workers, With Little Impact on Employment](#), January 2014.

<sup>6</sup> Arindrajit Dube, T. William Lester, and Michael Reich, [Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties](#), *The Review of Economics and Statistics*, November 2010.

<sup>7</sup> David Card and Alan B. Krueger, [Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania](#), *The American Economic Review*, September 1994.

<sup>8</sup> Center for Economic and Policy Research, [Why Does the Minimum Wage Have No Discernible Effect on Employment?](#), February 2013.

<sup>9</sup> Institute for Research on Labor and Employment, [Minimum Wage Shocks, Employment Flows and Labor Market Frictions](#), April 2012.