

# **Creating Jobs and Stimulating New York's Economy: Now is the Time to Raise New York's Minimum Wage**



**Senator Jeffrey D. Klein**

April 2012

## **Raising the Minimum Wage is an Economic Imperative for New York**

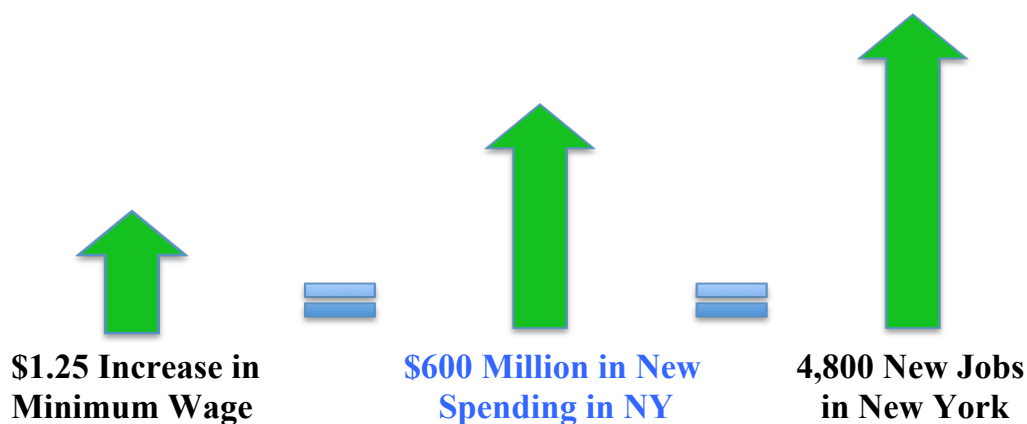
Over the past five years, New York's low-wage workers have experienced a painful dichotomy: while the cost of living has soared, our state's minimum wage has effectively declined. While many families have tightened their belts to meet rising food, gas, and utility prices, low-wage families have been pushed to the brink. Forced to survive on annual incomes below the federal poverty line, these families need immediate help to attain the basic goods and services required of every healthy family. Now is the time to bring these families back from the brink, and for the New York State Senate to pass a meaningful increase to our state's minimum wage.

Our state is ill served by an underpaid workforce that is unable to adequately provide for themselves or for their families. By increasing our state's minimum wage and indexing annual increases to inflation, lawmakers can prevent low-wage workers from falling further victim to a regressive wage floor. Why are small, indexed increases important? Because while 1.5% - 3% raises may be negligible for many families, these small annual raises help low-wage workers shoulder the increasing cost of essential items such as milk, bread, fruits and vegetables.

With low-wage industries producing the greatest number of new jobs statewide, lawmakers should ensure that this emerging workforce can meaningfully contribute to the statewide economy. By raising New York's minimum wage, we can spur demand and create jobs, all by putting more money in the hands of those New Yorkers who are most eager to spend. Thus, while the proposed wage increases may be small, the affected population is increasingly large. By supporting a minimum wage increase, lawmakers will positively affect the take-home wages—and household spending—of over 1,000,000 New Yorkers.<sup>1</sup>

As a recent analysis illustrates, raising New York's minimum wage by just \$1.25 will result in \$600 million in new statewide spending. As a result of this stimulus, New York will create 4,800 new jobs and increase the work hours of over 1,500 more.

### **An Analysis by the Economic Policy Institute, on Behalf of the Office of Senator Jeff Klein, Estimates that Raising the Minimum Wage Will Boost Spending by \$600 Million**



<sup>1</sup> Analysis by the non-partisan Economic Policy Institute, Feb. 2012, on behalf of the Office of Senator Jeffrey D. Klein.

Because low income workers are typically unable to match their spending power with their needs, increased wages can be an extremely effective means of infusing additional cash into the statewide economy. As our state takes steps towards economic recovery, it is incumbent upon us to make sure that no New Yorkers are left behind. By raising the minimum wage, lawmakers can meet this goal, while providing a responsible and meaningful stimulus along the way.

### **Raising the Minimum Wage Will Boost Consumer Spending and Stimulate Job Creation**

In an economy largely defined by consumer spending, it makes little sense to shortchange those consumers whom are most likely to immediately spend their weekly earnings.<sup>2</sup> As studies have shown, low-wage workers are those most likely to immediately spend their income on goods and services.<sup>3</sup> Thus, by increasing the incomes of our low-wage earners, New York will infuse more dollars directly into the hands of those families most in need of—and those most likely to spend—additional wages. **An increase in our state's minimum wage to \$8.50/hour will boost the wages of affected workers by roughly \$950 million.<sup>4</sup> Of this \$950 million in additional wages, an estimate by the Economic Policy Institute predicts that New Yorkers can expect an increase in statewide spending of over \$600 million.<sup>5</sup>** Thus, by raising minimum hourly pay, New York will increase the circulation of statewide dollars and the demand for New York-based goods and services.<sup>6</sup>

**By injecting over \$600 million in demand for New York goods and services, a raise in the minimum wage promises to be a job creator.** After all, in order to keep up with the increasing demand (and resulting profits), New York companies will create additional jobs statewide. By conservative estimates, the additional \$600 million in statewide spending will create an estimated 5,200 full-time jobs and add 4,800 new workers to state payrolls.<sup>7</sup>

These statistics debunk the myth that an increase to the minimum wage will “kill jobs.” As several academic studies have shown, this is simply not the case.<sup>8</sup> Further, the job creation estimates for New York coincide with the projected gains in other states that have recently raised

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<sup>2</sup> Toosie, Mitra. **Consumer Spending: An Engine for U.S. Job Growth.** *Monthly Labor Review*, Bureau of Labor Statistics, Nov. 2002; Surowiecki, James. **The Deleveraging Myth.** *The New Yorker*, 11 Nov. 2011.

<sup>3</sup> **Gruber, Jonathan. The Consumption Smoothing Benefits of Unemployment Insurance.** *The American Economic Review*, Vol. 87, No. 1 (Mar., 1997), pp. 192-205

<sup>4</sup> Analysis by the non-partisan Economic Policy Institute, Feb. 2012, on behalf of the Office of Sen. Klein. For an additional explanation of job creation statistics and methodology please visit: Bivens, Josh. **Method Memo o Estimating the Jobs Impact of Various Policy Changes.** *Economic Policy Institute*. Nov. 2011 (<http://www.epi.org/publication/methodology-estimating-jobs-impact/>)

<sup>5</sup> *Id.* The GDP and job stimulus figures produced utilize a national model to estimate the GDP impact of workers' increased earnings. Thus the total state stimulus may be lower due to some out of state spending, we can assume that most of the increased earnings will be spent in-state, and thus the majority of jobs created will be in-state.

<sup>6</sup> *Id.*

<sup>7</sup> *Id.* The increased economic activity from these additional wages adds not just jobs but also hours for people who already have jobs (work hours for people with jobs also dropped in the downturn). Full-time employment takes that into account, by essentially taking the number of total hours added (including both hours from new jobs and more hours for people who already have jobs) and dividing by 40, to get full-time-equivalent jobs added. Simply counting new payroll jobs would miss all of the added hours for people with jobs. Jobs numbers assume full-time employment requires \$115,000 in additional GDP and payroll employment requires an additional \$127,000 in GDP.

<sup>8</sup> Dube, Arindrajit. Lester, T. William, Reich, Michael. **Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties.** *The Review of Economics and Statistics*, Nov. 2010, 92(4); 945-964; Allegretto, Sylvia et Al., **Do Minimum Wages Really Reduce Teen Employment? Accounting for Heterogeneity and Selectivity in State Panel Data** University of California, Berkeley (Working paper).

their wage floor.<sup>9</sup> Although an increase in wages will shift corporate profits from away from the entity and into the hands of low-wage earners, the resulting economic impact is beneficial to both businesses and to low-wage earners. The reason for this is fairly straightforward, and is similar to the phenomenon outlined above: low-wage earners, badly in need of disposable income, are more likely to immediately spend this additional income than their employer.<sup>10</sup>

The increased consumer spending that results is by no means a meager sum. As the Federal Reserve Bank of Chicago has discovered, every \$1 increase in the minimum wage increases the minimum wage earner's annual expenditures by \$2,800.<sup>11</sup> This surge in consumer spending buoys demand, replenishing corporate coffers and facilitating job creation.<sup>12</sup> All of the eight states that have recently raised their state's minimum wage are primed to experience this positive effect. Thus, if Florida, Ohio, Colorado, Arizona, Montana, Oregon, Vermont, and Washington are any guide, increasing the minimum wage promises to have a very positive effect on corporate, economic, and job growth here in New York (*See Figure 1*).<sup>13</sup>

	Amount of Increase	New Minimum Wage	Number of Workers Directly Affected <sup>1</sup>	Number of Workers Indirectly Affected <sup>2</sup>	Total Number of Affected Workers	Increased Wages for Directly & Indirectly Affected Workers	Average Individual Increase in Annual Income	GDP Impact <sup>3</sup>	Jobs Impact - Full-time employment <sup>4</sup>	Jobs Impact - Payroll Jobs
Arizona	\$ 0.30	\$ 7.65	84,000	49,000	133,000	\$ 39,869,000	\$ 298	\$ 25,237,373	219	199
Colorado	\$ 0.28	\$ 7.64	74,000	17,000	91,000	\$ 42,222,000	\$ 465	\$ 26,726,313	232	210
Florida	\$ 0.36	\$ 7.67	226,000	155,000	381,000	\$ 145,443,000	\$ 382	\$ 92,065,511	801	725
Montana	\$ 0.30	\$ 7.65	15,000	6,000	21,000	\$ 8,116,000	\$ 379	\$ 5,137,736	45	40
Ohio	\$ 0.30	\$ 7.70	291,000	56,000	347,000	\$ 120,808,000	\$ 348	\$ 76,471,730	665	602
Oregon	\$ 0.30	\$ 8.80	143,000	19,000	162,000	\$ 87,237,000	\$ 538	\$ 55,220,775	480	435
Vermont	\$ 0.31	\$ 8.46	18,000	5,000	23,000	\$ 11,375,000	\$ 497	\$ 7,200,154	63	57
Washington	\$ 0.37	\$ 9.04	194,000	87,000	281,000	\$ 123,820,000	\$ 441	\$ 78,378,197	682	617
		<b>Total:</b>	1,045,000	394,000	1,439,000	\$ 578,890,000		\$ 366,437,788	3,187	2,885

Figure 1. Source Economic Policy Institute

### **New York Families Need a Minimum Wage Increase in Order to Keep Up with the Rising Costs of Essential Goods and Services**

With all low-wage workers earning near poverty-level incomes, lawmakers must ensure that families who are dependent upon lowest wages can still afford life's essentials. However, because New York's minimum wage fails to increase with inflation, the purchasing power of low-wage workers' declines each year. As a result, essentials goods and services become less affordable for our state's neediest workers. All of this means that a minimum wage earner in 2011 can provide his or family with **fewer** essentials than in 2007.

<sup>9</sup> National Employment Law Project, **Effects as of Jan 1, 2012: State Minimum Wage Increases**, (<http://www.nelp.org/page/-/rtmw/GDP%26JobsGrowthJan2012MinWageIncreases.pdf?nocdn=1>)

<sup>10</sup> Hall, Doug and Gable, Mary. **The Benefits of Raising Illinois Minimum Wage: An Increase That Would Help Working Families and the State Economy**. Economic Policy Institute. Jan. 30, 2012.

<sup>11</sup> Aaronson, Daniel et. Al., **The Spending and Debt Responses to Minimum Wage Increases**. Federal Reserve Bank of Chicago. Updated Feb. 2011. ([http://www.chicagofed.org/digital\\_assets/publications/working\\_papers/2007/wp2007\\_23.pdf](http://www.chicagofed.org/digital_assets/publications/working_papers/2007/wp2007_23.pdf)) (The researchers note that even though expenditure increases outpace earnings, this is due to the high level of debt typically taken on by low-wage earners).

<sup>12</sup> Id.

<sup>13</sup> Study by National Employment Law Project, *Supra*.

While purchasing power is low by today's standards, statistics show us that the minimum wage is also lagging by historical standards. During almost every year from 1960-1980, New York maintained a minimum wage average of 108% of the three-person federal poverty level. This stands in stark contrast to today, where declining purchasing power has forced the statewide minimum wage to drop to below 82% of the poverty level. **By adopting the Klein-Wright minimum wage legislation, New York will return wages to their historical level by 2014.**

When examining the effects of declining purchasing power, it's important that we break out what types of purchases New York families are finding tougher to afford. Food prices, once a modest component of rising family costs, have spiked in recent years (*See Figure 2*).<sup>14</sup> As the figure below illustrates, almost all food items—from eggs to bread, and seafood to poultry—have experienced double-digit price increases since 2004. Rising food prices have had a severe impact on low-wage workers across the New York region, where food prices are already 8% above the national average.<sup>15</sup>

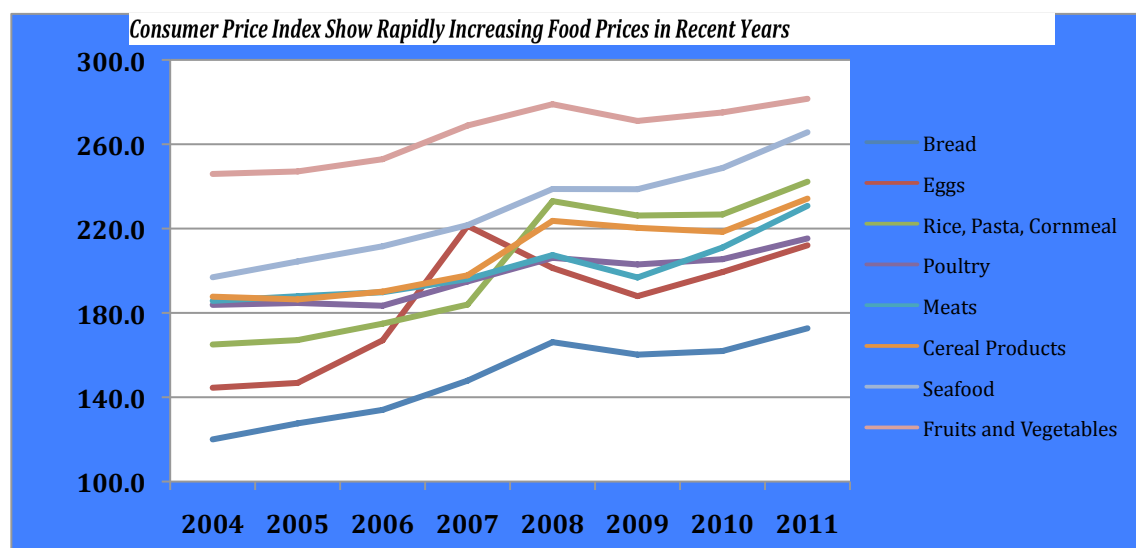


Figure 2. Source: Analysis of Data from the Bureau of Labor Statistics by Office of Sen. Klein

Rising food prices are only one component of shrinking family budgets. Home rental prices, already the largest expense for most low-wage earners, have increased 10% across the New York city metro area since 2007.<sup>16</sup> Rising rents are particularly troublesome for low-wage earners. New York families who depend on the lowest wages have historically dedicated around 30% of their household income to paying the rent: anything above this level, and housing is considered unaffordable. With the number of affordable housing units in decline, and the cost of market rate apartments trending upward, low-wage workers are now dedicating an even larger share of their income to each month's rent.<sup>17</sup> Recently, more than ever before, median rent prices are moving

<sup>14</sup> Analysis by the United States Department of Agriculture, <http://www.ers.usda.gov/Publications/eib48/spreads/19/index.htm>

<sup>15</sup> Id.

<sup>16</sup> Comparison of price data for two bedroom apartment, provided by Department of Housing and Urban Development, 2007 – 2012, **Schedule B: Final Fair Market Rents for Existing Housing** (available online).

<sup>17</sup> Office of the Comptroller. Affordable Housing in New York City. June 2011. Report 5-2012.

in an the opposite direction of median income (*See Figure 3*). In fact, a vast majority of low-wage earners are now spending **at least half of their income** on monthly rent payments.<sup>18</sup> When we include the cost of monthly utility bills, low-wage earners are dedicating an even greater portion of their paycheck for basic shelter needs. These levels of income dedication are unsustainable—and are further proof of how wages have failed to keep up with New York’s cost of living.

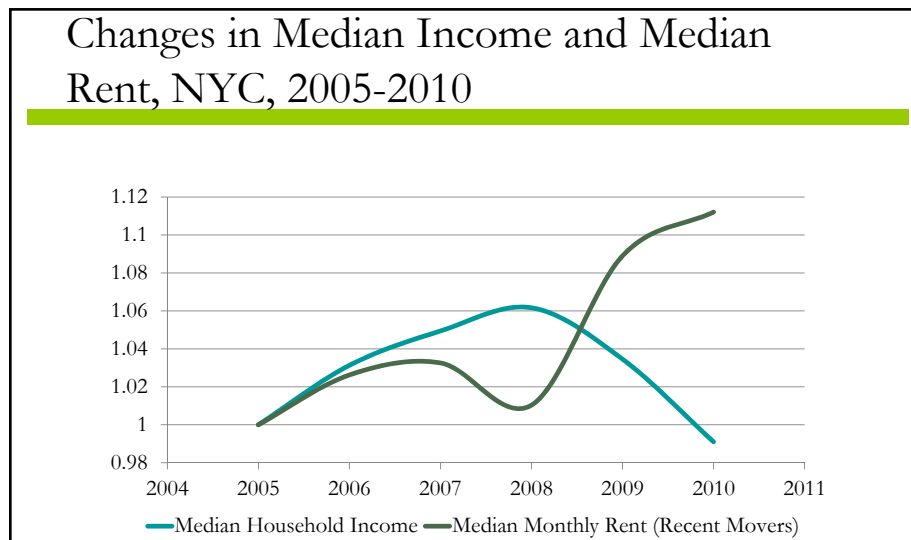


Figure 3. Source: NYU’s Furman Center for Real Estate and Urban Policy

In addition to the rising costs of food and rent, high energy prices continue to make New York one the most expensive states in the nation to call home.<sup>19</sup> Whether it is at the gas pump or at home, high energy costs effect New York workers twenty-four hours a day. And with energy costs that consistently outpace national averages, New York families are disproportionately affected by surging prices of gas, heating oil, and electricity.

New Yorkers currently face the second highest gas prices in the continental United States.<sup>20</sup> While many families feel the pinch of high gas prices, low-income families are disproportionately affected by these price increases, as each additional dollar claims a proportionally greater percentage of their income.<sup>21</sup> In fact, over time, low-income families in states such as New York can dedicate up to four times more of their annual income to gas than the average New York family.<sup>22</sup>

**Today, New York commuters pay 43% more for gas than in January of 2007, the last time state lawmakers meaningfully increased the minimum wage.**<sup>23</sup> This type of price escalation

<sup>18</sup> Id.

<sup>19</sup> CNBC. Special Report: The Most Expensive States to Live in:

[http://www.cnbc.com/id/43484111/The\\_Most\\_Expensive\\_States\\_To\\_Live\\_In\\_2011?slide=6](http://www.cnbc.com/id/43484111/The_Most_Expensive_States_To_Live_In_2011?slide=6)

<sup>20</sup> [http://gasbuddy.com/GB\\_Price\\_List.aspx?entry=USA](http://gasbuddy.com/GB_Price_List.aspx?entry=USA)

<sup>21</sup> National Center for Public Policy Research. Testimony of Daneen Borelli before the House Committee on Natural Resources, 25 May 2011 <http://naturalresources.house.gov/News/DocumentSingle.aspx?DocumentID=242965>

<sup>22</sup> Urban Institute. **Impact of Rising Gas Prices on Below-Poverty Commuters.**

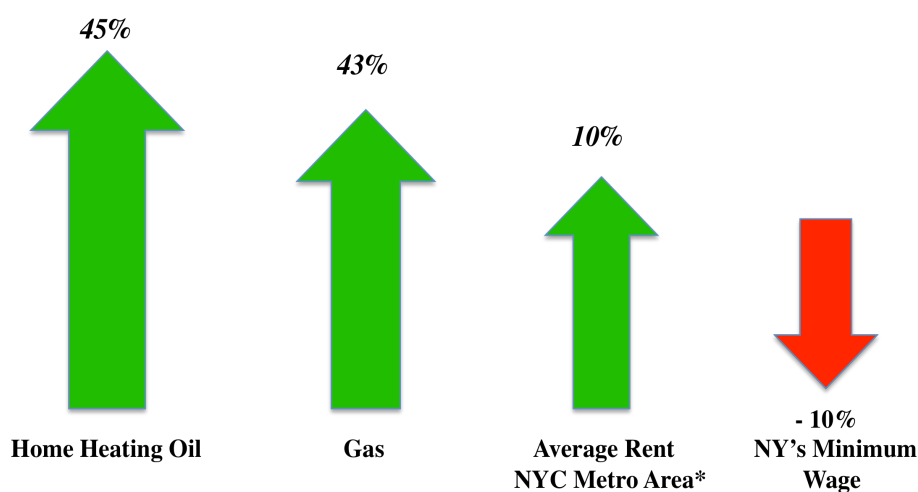
<sup>23</sup> U.S. Energy Information Administration. **Petroleum and Other Liquids. New York, 2007-2012.** 43% figure accounts for inflation: Price per gallon on January 1, 2007 was \$2.58, which equals \$2.83 in inflation-adjusted dollars. Price per gallon on



is devastating for low-wage families. It's time for lawmakers to help low-income workers offset the increasing financial burden posed by rising gas prices. Failing to do so will only push low-wage workers closer to the brink, forcing their families to make increasingly desperate decisions between food, heat, and rent.

Soaring energy prices don't stop at the gas pump—they follow low-income families into their homes, particularly during the cold winter season. Since January 2007, home heating oil prices have skyrocketed across the state.<sup>24</sup> **In fact, New York families now pay 45% more to heat their home than just five years ago.**<sup>25</sup> When combined with rising gas prices, low-wage families are being forced to devote an unsustainable amount of their weekly budgets to energy costs.

According to an Analysis of Available Data by the Office of Sen. Klein, Since 2007, Living Costs have Soared, while the Value of New York's Minimum Wage has Declined



All numbers have been properly adjusted for inflation.

Although some low-wage earners can dodge the effects of high gas and heating oil prices, almost no New York family can avoid our state's sky-high electricity prices. **Electricity prices in New York, already 40% higher than the national average, continue to rise, placing enormous strain on our state's lowest earning families** (See Figure 4). By increasing the wages of over one million of New York's lowest wage earners, lawmakers can prevent those most in need from falling victim to costs that are entirely beyond their control.

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March 19<sup>th</sup>, 2012 was \$4.05. Price increase = \$1.22 or 43.1%

[http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=EMM\\_EPM0\\_PTE\\_SNY\\_DPG&f=W](http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=EMM_EPM0_PTE_SNY_DPG&f=W)

<sup>24</sup> NY State Energy Research and Development Authority. **Monthly Average Home Heating Oil Prices**. Last updated 2/8/2012. <http://www.nyserda.ny.gov/en/Page-Sections/Energy-Prices-Supplies-and-Weather-Data/Home-Heating-Oil/Monthly-Average-Home-Heating-Oil-Prices.aspx>

<sup>25</sup> Id.

\*NYC Metro Area includes: Bronx, New York, Kings, Putnam, Queens, Richmond, and Rockland counties.

Average Rent is based upon Fair Market Value for a two bedroom apartment, as reported by the Department of Housing and Urban Development.

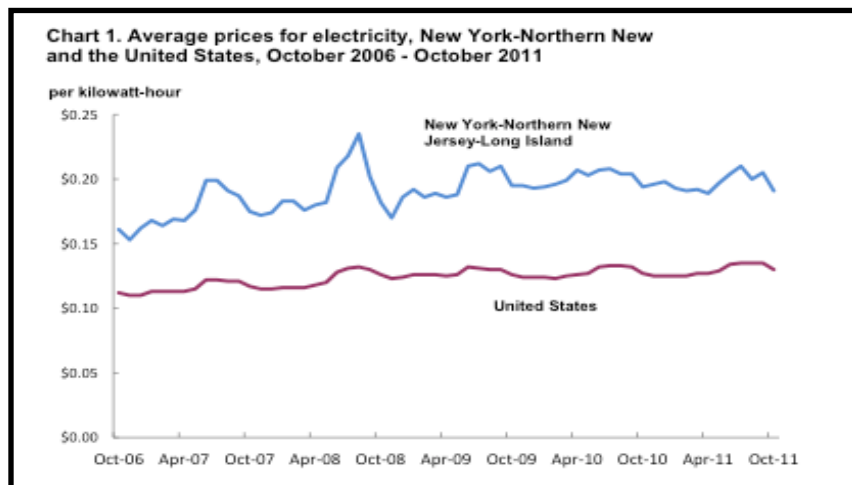


Figure 4. Source: Bureau of Labor Statistics, U.S. Department of Labor

Rising prices for essential goods and services multiply the impact of low-wage worker's declining purchasing power. In the end, when we combine rising asset prices with inflationary pressures, low-wage workers find their bottom lines deeply eroded. Without enhanced purchasing power, the only option for low-wage workers is to borrow against their credit, resulting in debt loads far above those of the average worker.<sup>26</sup> These debt loads, characterized by very high interest rates, cripple future income prospects, perpetuating a cycle of low-income earnings.<sup>27</sup>

It is time for New York policymakers to do their part in stemming this very real—and very sad—phenomenon. By raising the minimum wage to a more livable standard of \$8.50/hour, and then indexing future increases to the rate of inflation, New York lawmakers can ensure that low-wage earners are not driven towards impractical, and economically dangerous, measures to cope with the rising cost of household necessities.

### **Over Time, An Increasing Number of New Yorkers Will Benefit from a Responsible Hike in the Minimum Wage**

While the US has experienced positive better job growth since the recession, much of that growth has occurred in low-wage job sectors.<sup>28</sup> Here in New York, low-wage job growth is especially predominant. As recent statistics illustrate, **the number of workers currently earning the minimum wage in the state of New York has steadily increased since 2008.**<sup>29</sup> **In fact, while only 6,000 workers earned the minimum wage in 2008, over 90,000 workers worked jobs at the minimum wage by 2011.**<sup>30</sup> With more workers willing to accept jobs that are not only low paying, but also part-time, it is crucial that New York lawmakers take steps to bring these wages above the federal poverty level.

<sup>26</sup> Aronson, Daniel. *Supra*

<sup>27</sup> Grow, Brian and Epstein, Keith. *The Poverty Business*. Bloomberg Businessweek. 21 May 2007

<sup>28</sup> National Employment Law Project (<http://www.nelp.org/page/-/Final%20occupations%20report%207-25-11.pdf?nocdn=1>)

<sup>29</sup> De Avila, Joseph. *Minimum Wage Rolls Drive Albany Debate*. *The Wall Street Journal*. 13 Feb. 2012.

<http://online.wsj.com/article/SB10001424052970204883304577219253236472614.html>

<sup>30</sup> Id.



The number of workers currently filling the ranks of low-wage jobs is especially striking in New York City, where 82% of all new jobs have been in low-wage fields (*See Figure 5*). This rise is largely attributable to New York's robust and growing service industry. Since this industry, along with retail, is widely predicted to be the greatest citywide job creator for years to come, it is especially crucial that we protect not only the workers of today, but also the thousands of workers that will move into these jobs in the future. While many of these jobs will pay wages above wage floor, many workers, not just those earning the bare minimum, will benefit from increasing New York's minimum wage.<sup>31</sup>

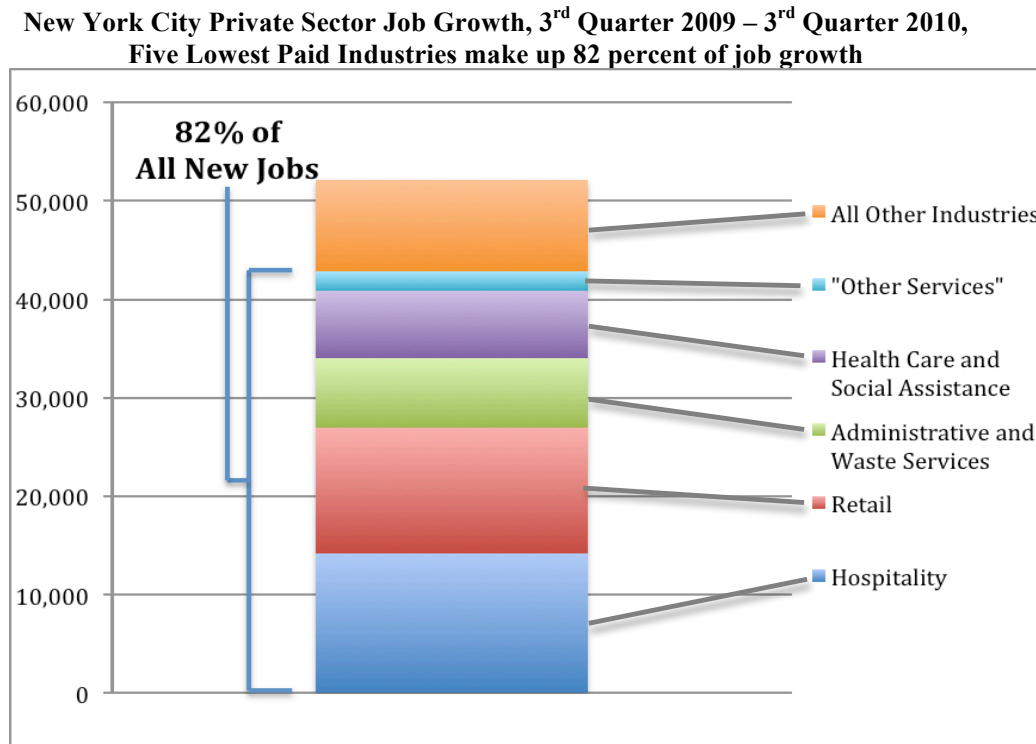


Figure 5. Source: Drum Major Institute

Contrary to some reports, the overwhelming majority of workers who stand to benefit are adults, not teenagers.<sup>32</sup> Nevertheless, increasing the wages of teenage workers has stimulative effects all its own. Across income levels, households with at least one employed teenager consistently spend more than their peers.<sup>33</sup> By increasing wages to any member of these families, we can ensure that overall spending in these households will continue to rise, buoying demand and increasing employment.

Increasing low wage worker pay also provides lesser known, but equally important, benefits to employers. As applied to retailers, higher paid sales staffs produce greater overall sales. As recently illustrated by researchers at the Wharton School of Business, for every \$1 increase in

<sup>31</sup> Rampell, Catherine. **Who is Affected by a Higher Minimum Wage?** *The New York Times*. 24 July 2009

<sup>32</sup> Bureau of Labor Statistics. **Characteristics of Minimum Wage Workers: 2011**. Table 1. Data illustrate that 76% of minimum wage earners nationwide are age twenty or above. BLS does not maintain state-by-state data of this type.

<sup>33</sup> Johnson, David and Lino, Mark. **Teenagers: Employment and Contributions to Family Spending**. *Monthly Labor Review*. September 2000

payroll, a store will typically experience anywhere from \$4 - \$28 in additional sales.<sup>34</sup> This same research demonstrates that large retailers are those stores most likely to experience the greatest gains. Not only can New York stores benefit from more productive sales associates, but they will also benefit from less employee turnover. As a study commissioned by the Coca-Cola Retailing Research Institute has found, the cost of turning over one minimum wage employee typically costs a single grocery store at least \$3,637.<sup>35</sup> What drives employee turnover? According to the same study, the culprit is often sub-par compensation.<sup>36</sup> Thus, as studies now show, the cost savings associated with a better-compensated, more stable workforce more than offsets the increased payroll cost. These savings are particularly profound for small retailers, whom, according to research from Harvard Business School, are most deeply and negatively impacted by employee turnover.<sup>37</sup>

By increasing our minimum wage, New York legislators will be keeping up with regional competitors. Three bordering states—Connecticut, Massachusetts, and Vermont—have established minimum wage levels at or above \$8 per hour. New Jersey, with a supportive legislature and governor, seems poised to be the fourth. Government leaders in these states clearly recognize the value of increasing minimum worker pay. It's time that all New York legislators do the same.

### **Conclusion**

By increasing the minimum wage this year, lawmakers can ensure that New York's low-income families are better prepared to meet the financial challenges of the years ahead. With the cost of essential items rising, and the need for economic stimulus still present, the best action we can take is providing for a fair minimum wage over the long-term. While Senator Klein believes that indexing the minimum wage to inflation is the best means to do so, we remain open to alternative measures to help us attain the same result. In particular, we would consider pre-determined step-by-step increases, so long as such steps follow a significant and immediate hike. Finally, Tom Allon has proposed a solution that merits further study.

By increasing the incomes of low-wage worker, we will allow those most in need to better provide for their families. In doing so, we will provide eager consumers with more dollars to inject directly into our state's manufacturing, wholesale, retail, and service industries. Simply put, raising the minimum wage promises to be the economic stimulus and job creator that can propel New York's economy for years to come.

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<sup>34</sup> Fisher, Marshall L et al., **Retail Store Execution: An Empirical Study**. The Wharton School, University of Pennsylvania. December 2006

<sup>35</sup> Frank, Blake. **New Ideas for Retaining Store-Level Employees**. A Study Conducted for the Coca-Cola Retailing Research Council. 2000

<sup>36</sup> Id.

<sup>37</sup> Ton, Zeynep. Huckman, Robert. **Managing the Impact of Employee Turnover on Performance: The Role of Process Conformance**. Harvard Business School. Organization Science, Vol. 19, No. 1, Jan 2008, pp. 56-68