

New York State

**Rewarding Work:
A Fair Minimum Wage**

New York State Assembly
Ways and Means Committee Staff
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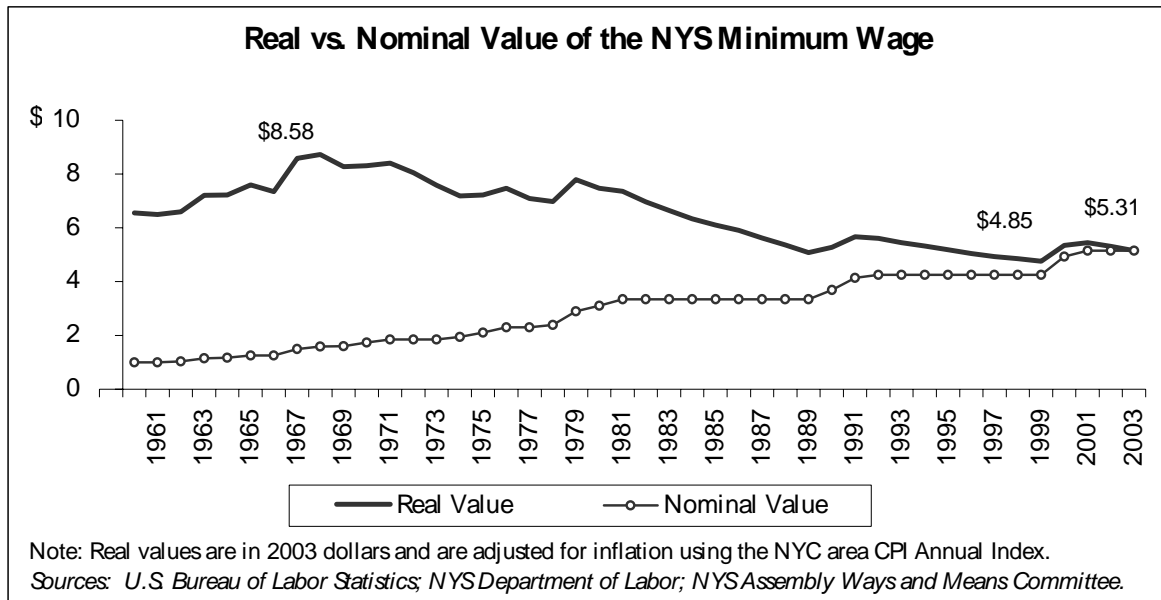
EXECUTIVE SUMMARY

- One in seven, or 14.5 percent, of all New York State families and approximately three in ten families, or 29.2 percent, with a female head of household are in poverty.
- Increasing the minimum wage of \$5.15 will reduce the number of households below the federal poverty threshold and reduce their dependence on federal, state, and local government programs.
- Over three-quarters of a million people and their families will be affected by the increase in the minimum wage to \$7.10 per hour.
- Three-quarters, 74.7 percent, of those earning less than \$7.10 per hour are adults between 20-64 years of age. Almost half, 48.4 percent, of those earning less than \$7.10 per hour work full-time.
- An increase in the minimum wage would particularly benefit NYS African American workers. While African Americans represent approximately 18 percent of the State population they account for nearly a quarter of those earning less than \$7.10 per hour.
- In New York State, a full-time, year-round minimum wage worker in 2003 earned just \$10,712, or 72.3 percent, of the annual income needed to keep a family of three¹ out of poverty in 2003.
- An increase in the minimum wage to \$6.00 would increase the annual income of a full-time minimum wage worker in 2004 to \$12,480, which would still be below the 2003 federal poverty threshold of \$14,824 for a family of three. It would take an increase in the minimum rate to \$7.13 per hour in 2004 to bring this family to the poverty threshold.
- If the 1968 New York State minimum wage of \$1.50 had been indexed to inflation, it would have climbed to \$8.72 in 2003.² This would have provided \$7,425 in additional income for a full-time worker than the current minimum wage of \$5.15, enough to be out of poverty.

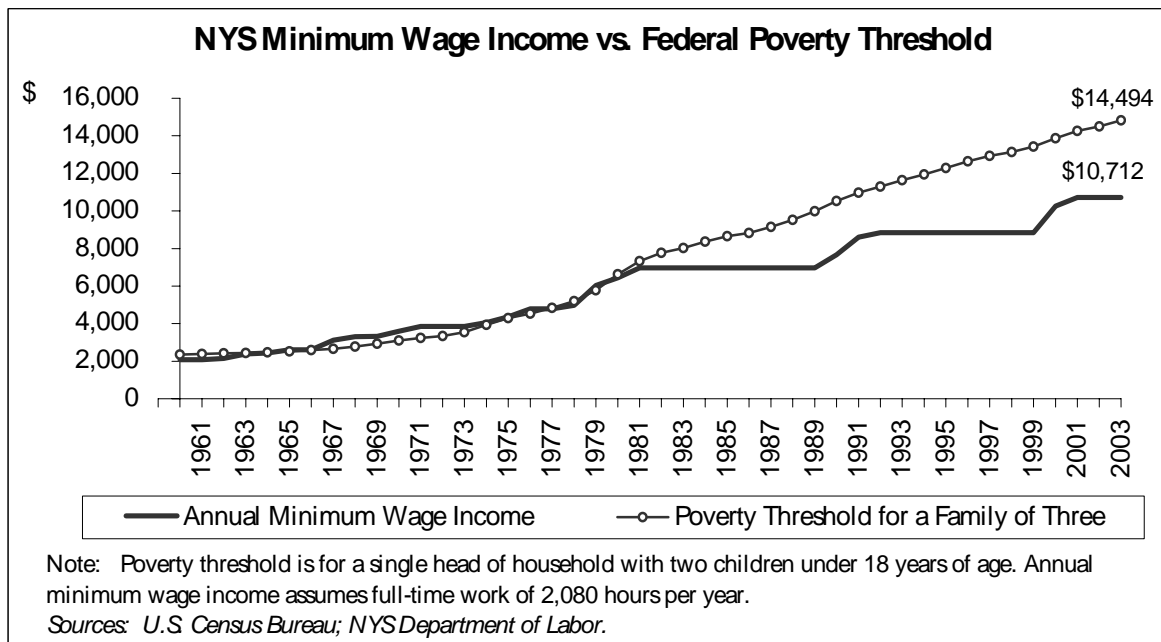
¹ A reference to a family of three throughout this report refers to a single head of household with two dependents under the age of 18 years.

² Throughout this report the inflation adjustment is based on the NYC area Consumer Price Index (CPI), which covers areas of New York State, Northern New Jersey, Connecticut, and Pennsylvania.

- The inflation-adjusted (real or constant dollar) value of the minimum wage today is just 59.1 percent of its 1968 peak value.



- Since the 1980s, increases in the minimum wage have not been sufficient to keep a three-person family earning the minimum wage out of poverty.

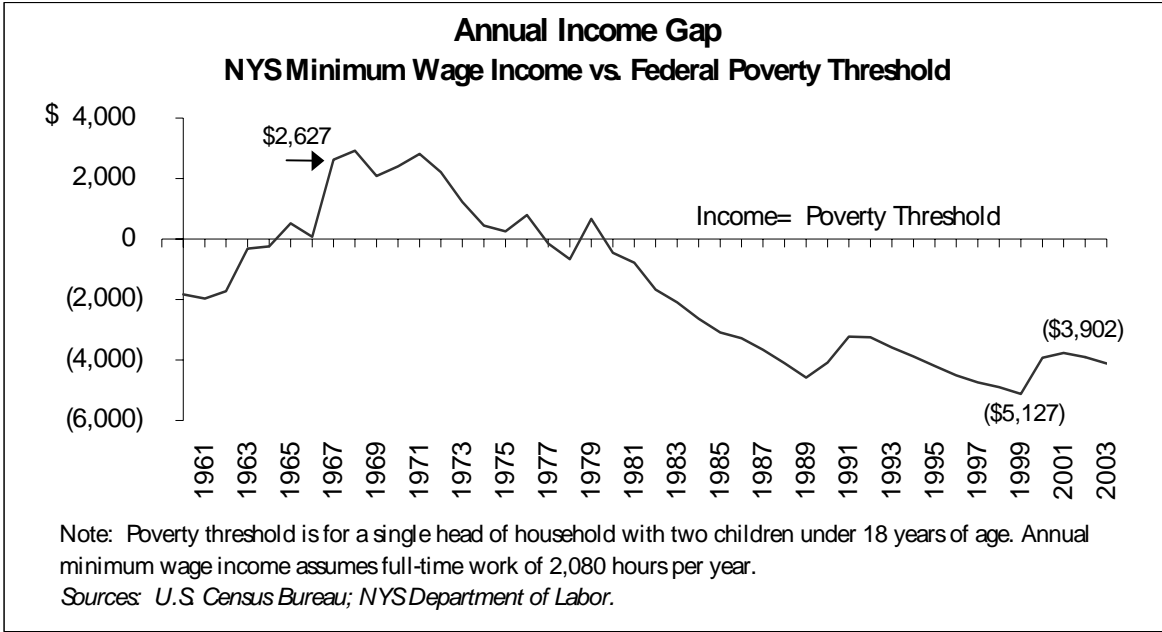


Characteristics of Minimum Wage Earners

- Women, who comprise less than half of New York State's workforce, account for 59.4 percent of those earning less than \$7.10 per hour and 49.8 percent of those earning less than \$7.10 per hour have children.
- In New York State, minimum wage workers currently earn only 23.1 percent of the average annual wages earned in 2002.

State Comparisons

- States with higher minimum wages on average have lower unemployment. In addition, several studies conclude that raising the minimum wage does not significantly affect employment levels.
- Twelve other states (plus the District of Columbia) have already increased their minimum wages above the federally mandated minimum level of \$5.15 per hour. Six of these states are in the Northeast—Connecticut at \$7.10; Massachusetts, Vermont, and Rhode Island at \$6.75; Maine at \$6.25; and Delaware at \$6.15.
- In these twelve states (plus the District of Columbia), the average unemployment rate in December 2003 was 5.7 percent, equal to the national average.
- Of the ten highest annual wage states (six of which have state minimum wage rates set above the federal level), New York ranks lowest in the ratio of its minimum annual wage income to its average annual wage income.



REWARDING WORK: A FAIR MINIMUM WAGE

A Brief History of New York State's Minimum Wage

A 1997 amendment to the Fair Labor Standards Act of 1938 increased the federal minimum wage to \$5.15 per hour. Prior to this increase, the minimum wages had been \$4.75 per hour, effective October 1, 1996, and \$4.25 per hour, effective April 1, 1991.

Although all states must comply with the provisions of the Fair Labor Standards Act, they may also elect to pass their own minimum wage laws. Such laws may differ from the federal statute with respect to the range of employees covered by the minimum wage and/or the minimum rate specified. In such cases where workers are covered by both the federal and state laws, the higher minimum wage applies.

The most recent amendment to the New York State Minimum Wage Act, effective March 31, 2000, provides that all employees in the State, including domestic workers with certain exceptions, must be paid at least \$5.15 per hour. This Act further provides that food service workers receiving tips and/or meals and lodging must be paid at least \$3.30 per hour.

New York State has generally adhered to the federal minimum wage standard. However, the two rates have varied in the past. The State minimum exceeded the federal standard from 1967 to 1968 and again from 1970 to 1974. Most recently, the State minimum fell short of the federal standard when the State failed to match federal increases in 1996 and 1997.³ As a result, the State minimum was below the federal rate until 2000. At this time, New York also linked its minimum wage to the federal minimum wage so that any future increases in the federal rate would automatically result in an increase in the State rate.

The current proposed legislation before the NYS Assembly would increase the State minimum to \$6.00 per hour on October 1, 2004, \$6.75 per hour on July 1, 2005, and \$7.10 per hour on January 1, 2006. Corresponding increases on these dates would be made in the minimum wage for food service workers receiving tips and/or meals and lodging to \$3.90, \$4.40, and \$4.65 per hour, respectively.

³ See Table 11 on page 21 in the Appendix for a complete chronology of changes to both the federal and NYS minimum wages.

The Inflation-Adjusted Value of New York State's Minimum Wage

- If the 1968 New York State minimum wage of \$1.50 had been indexed to inflation, it would have climbed to \$8.72 in 2003.⁴ This would have provided \$7,425 in additional income for a full-time worker than the current minimum wage of \$5.15, enough to be out of poverty.
- The real value of NYS minimum wage today is just 59.1 percent of its 1968 peak value.

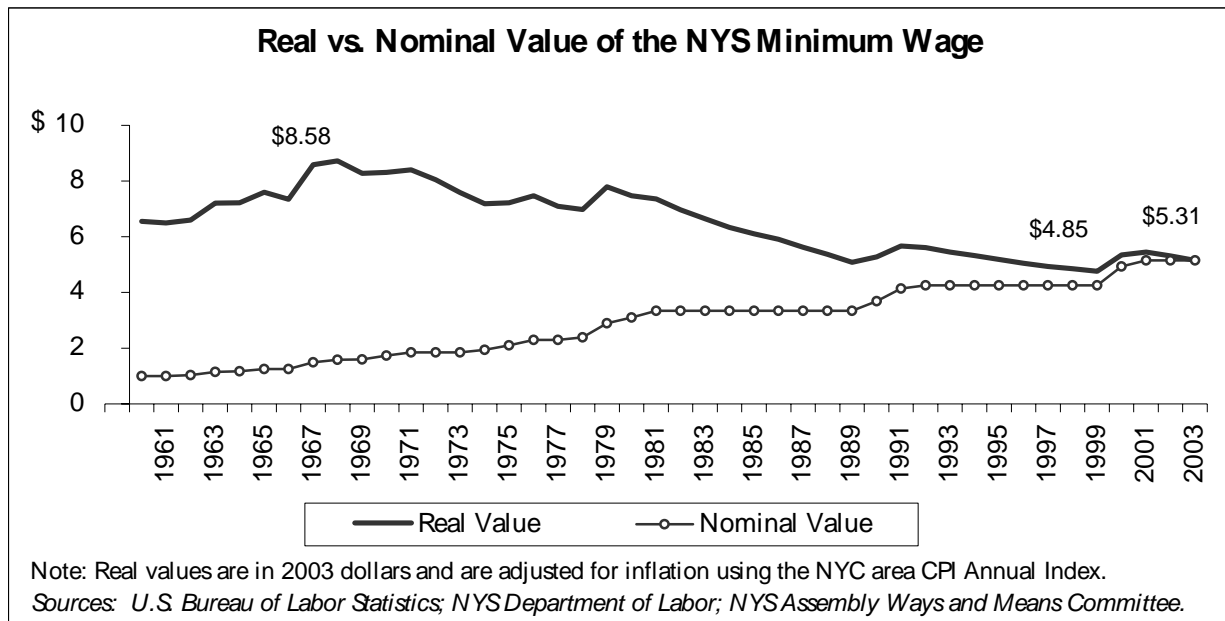


Figure 1

- The real value of NYS minimum wage (using 2003 dollars), at its current \$5.15 rate, will continue to decline to \$5.05 in 2004, \$4.93 in 2005, and \$4.82 in 2006.
- The real value of a NYS minimum wage of \$6.75 in 2005 would be \$6.46. A wage of \$9.10 in 2005 would be needed to restore the minimum wage to its peak 1968 value.

The real value of the New York State minimum wage would today range from a low of \$5.28 to a high of \$8.72 if it had been indexed to inflation in any of the years the State previously enacted a minimum wage increase. These years are highlighted in Table 1.

⁴ Throughout this report the inflation adjustment is based on the NYC area Consumer Price Index (CPI), which covers areas of New York State, Northern New Jersey, Connecticut, and Pennsylvania.

Table 1

NYS Minimum Wage and Inflation		
Year	Nominal Value	Real Value (2003 Dollars)
1960	\$1.00	6.56
1961	1.00	6.49
1962	1.03	6.60
1963	1.15	7.21
1964	1.17	7.22
1965	1.25	7.59
1966	1.25	7.34
1967	1.50	8.58
1968	1.59	8.72
1969	1.60	8.27
1970	1.73	8.31
1971	1.85	8.40
1972	1.85	8.05
1973	1.85	7.58
1974	1.95	7.18
1975	2.10	7.22
1976	2.30	7.47
1977	2.30	7.09
1978	2.39	6.98
1979	2.90	7.79
1980	3.10	7.48
1981	3.35	7.36
1982	3.35	6.96
1983	3.35	6.65
1984	3.35	6.33
1985	3.35	6.10
1986	3.35	5.91
1987	3.35	5.62
1988	3.35	5.36
1989	3.35	5.08
1990	3.69	5.28
1991	4.14	5.66
1992	4.25	5.61
1993	4.25	5.45
1994	4.25	5.32
1995	4.25	5.19
1996	4.25	5.04
1997	4.25	4.93
1998	4.25	4.85
1999	4.25	4.75
2000	4.93	5.35
2001	5.15	5.45
2002	5.15	5.31
2003	5.15	5.15

Note: Real values are adjusted nominal values for inflation using the NYC area CPI annual index. For years in which the minimum wage was increased mid-year, the minimum wage listed represents the weighted average of the minimum wage in that year. Bolded figures represent years in which a NYS minimum wage increase was enacted.

Sources: NYS Department of Labor; U.S. Bureau of Labor Statistics.

The New York State Minimum Wage and Poverty

- In New York State, a full-time, year-round minimum wage worker in 2003 earned just \$10,712 or 72.3 percent of the \$14,824 in annual income needed to keep a family of three out of poverty (see Figure 2).⁵

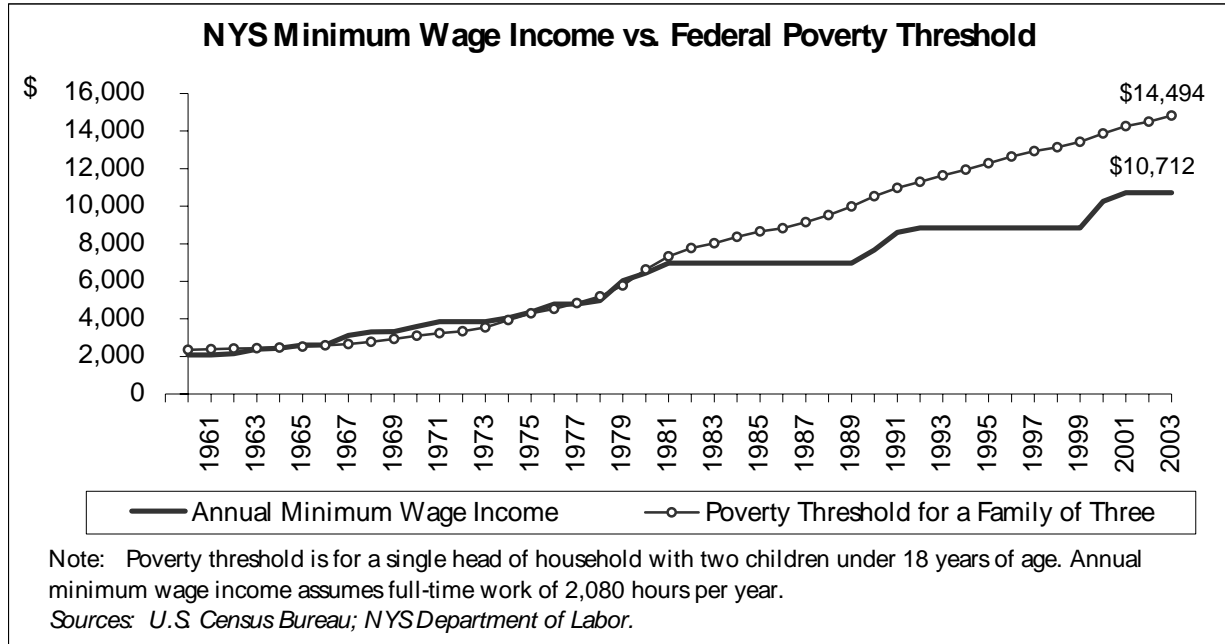


Figure 2

- The annual income for a NYS full-time minimum wage worker has not exceeded the federal poverty threshold since 1979. In fact, it has only been above the federal poverty threshold between the years of 1965-1976, and then again for the single year of 1979.
- The annual income gap between full-time minimum wage income and the federal poverty threshold has steadily risen. In today's dollars, NYS minimum wage annual income in 1980 was \$451 lower than the federal poverty threshold. Today, the difference stands at \$4,112, an increase of 811.8 percent since 1980 (see Figure 3).

⁵ This analysis does not include an evaluation of the effect of the Earned Income Credit on the annual income of low-wage workers.

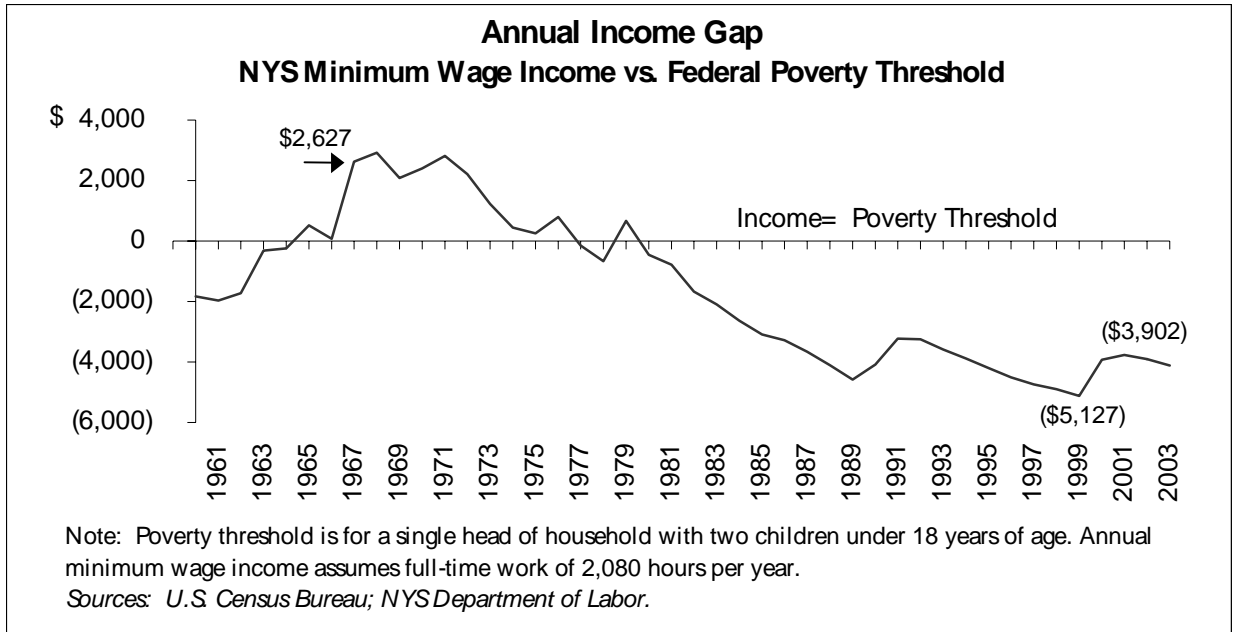


Figure 3

- An increase in the minimum wage to \$6.00 per hour would increase the annual income of a full-time minimum wage worker in 2004 to \$12,480, which would still fall below the 2003 federal poverty threshold for a family of three.
- In 2004, a minimum wage of \$7.13 per hour would be needed to bring this family over the 2003 federal poverty threshold.

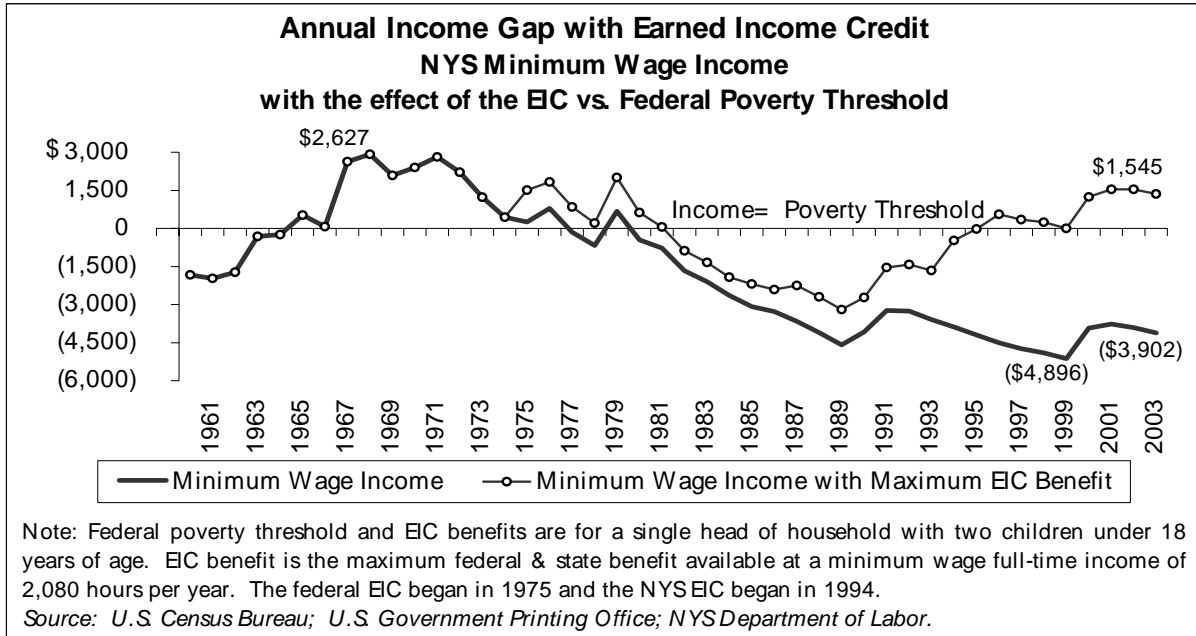


Figure 4

- In 2003, a minimum wage income plus the Earned Income Credit (EIC) is \$1,353 above the federal poverty threshold (the EIC is also commonly referred to as the Earned Income Tax Credit, or EITC). However, if the full-time minimum wage worker works 35 hours per week, the family income with the maximum federal and State EIC benefit is reduced back to the poverty level.⁶

Minimum Wage State Comparison

- Twelve states (plus the District of Columbia) currently have a state minimum wage set above the federally mandated level of \$5.15 per hour (see Table 2). Six of the twelve states (Connecticut, Massachusetts, Rhode Island, Vermont, Maine, and Delaware) are from the Northeast region.

⁶ This also assumes that the minimum wage worker files and receives the full EIC benefit.

Table 2

States with a Minimum Wage Above the Federal Mandate					
State	Minimum Wage	Unemployment Rate	State	Minimum Wage	Unemployment Rate
Washington	\$7.16	6.8 %	Vermont	\$6.75	4.0 %
Alaska	\$7.15	7.7	Maine	\$6.25	5.0
Connecticut	\$7.10	5.0	Hawaii	\$6.25	4.1
Oregon	\$7.05	7.2	Delaware	\$6.15	4.1
California	\$6.75	6.4	District of Columbia	\$6.15	6.6
Massachusetts	\$6.75	5.7	Illinois	\$5.50	6.4
Rhode Island	\$6.75	5.0			

Note: As of January 1, 2004, the minimum wages of Oregon and Washington are adjusted annually for inflation. The Vermont minimum wage will increase to \$7.00 and the Illinois minimum wage will increase to \$6.50 on January 1, 2005. Unemployment rates are for December 2003.

Sources: U.S. Department of Labor; U.S. Bureau of Labor Statistics Local Area Unemployment Statistics (LAUS).

- Of the twelve states (and the District of Columbia) with a minimum wage above the federal standard, the average unemployment rate for December 2003 was 5.7 percent, equal to the national average. New York State's unemployment rate was 6.2 percent.⁷

High-Wage State Comparison

- New York State ranked second in the nation in 2002 in average annual wages. However, of the ten highest average annual wage states (six of which have increased their minimum wage above the federal minimum), New York ranked last in the ratio of 2004 minimum annual wages to 2002 state average annual wages (see Table 3).⁸

⁷ The Center for Urban Economic Development at the University of Illinois at Chicago released a March 2003 report studying the possible adverse employment effects of a minimum wage increase. Their research of all 50 states and the District of Columbia over a period of 19 years showed no statistically significant relationship between the value of the minimum wage and employment growth in industries reliant on low-wage workers.

⁸ The most recent U.S. Bureau of Labor Statistics ES202 annual wage data available is from 2002. The ES202 data includes all workers covered by New York State unemployment insurance and federal workers covered by the Unemployment Compensation for Federal Employees program.

Table 3

Ten Highest Average Wage States			
State	2004 Minimum Annual Wages	2002 Average Annual Wages	Ratio
Connecticut	\$14,768	\$46,852	31.5 %
New York	10,712	46,328	23.1
New Jersey	10,712	45,182	23.7
Massachusetts	14,040	44,954	31.2
California	10,712	41,419	25.9
Illinois	11,440	39,688	28.8
Delaware	12,792	39,684	32.2
Maryland	10,712	39,382	27.2
Washington	14,893	38,242	38.9
Michigan	10,712	38,135	28.1
United States	10,712	36,764	29.1
Note: Minimum annual wages are based on full-time work of 2,080 hours per year.			
Source: U.S. Bureau of Labor Statistics, ES202; NYS Department of Labor.			

- In 2004, minimum wage workers in New York State will earn only 23.1 percent of the average annual wages that were earned in 2002. This ratio is far lower than other high-wage states, and also lower than the national average of 29.1 percent.
- An increase to \$6.00 in the minimum wage would bring the minimum wage worker to 26.9 percent of the average annual wages earned in 2002. This would still leave New York at the bottom of the rankings for high-wage states.

Characteristics of New York State Workers

The characteristics of New York State workers discussed in this section rely on data from the 2001-03 Current Population Survey (CPS) March Supplement. As Table 4 shows, 4.4 million, or 49.1 percent, of workers in New York State were hourly wage earners (on average per year) between 2000 and 2002. Approximately 2.4 percent of all NYS hourly workers earned at or below the current minimum wage of \$5.15 per hour and 17.3 percent earned less than \$7.10 per hour. An increase in the minimum wage would benefit the majority of these low-wage workers with additional spillover benefits expected to accrue to those workers at a wage rate slightly above a new minimum standard.

Table 4

New York State Employment			
Employment Category	Number of Workers	Proportion of Hourly Wage Earners	Proportion of Total Employed
Total Employment	9,033,347	N/A	100.0%
Salary	4,599,213	N/A	50.9%
Hourly Wage	4,434,134	100.0%	49.1%
Less than \$5.15	81,824	1.8	0.9
\$5.15	25,982	0.6	0.3
\$5.16 - 5.99	103,321	2.3	1.1
\$6.00 - 6.74	362,929	8.2	4.0
\$6.75 - 7.09	193,992	4.4	2.1
At or Above \$7.10	3,666,086	82.7	40.6

Note: Food service workers, the self-employed, and any earners under age 16 are excluded.
Source: Current Population Survey, March Supplement, 2001-03 average.

Food Service Workers

Due to the structure of the New York State Labor Law, food service tip workers would be covered under a separate subdivision of a minimum wage increase. For this reason, the majority of this report will exclude the food service industry from the employment and wage statistics (including Table 4 as previously shown).

A breakdown of the wage distribution for workers in the food service industry who earn less than \$7.10 per hour is given in Table 5 below.

Table 5

NYS Hourly Wage Earners Food Service Industry				
W age Rate	O ccupation	Number of Workers		Percent of Workers within W age Category
		Food Service	All O ther Industries	Food Service
Less than \$5.15	Waiters and Waitresses	52,236		
	Bartenders	8,473		
	Hosts and Hostesses	8,036		
	Food Prep Workers	3,659		
	Food Concession & Counter Attendants	3,321		
	Serving & Food Prep, inc. fast-food	2,803		
	Total	78,528	81,824	49.0%
At \$5.15	Food Concession & Counter Attendants	4,653		
	Bartenders	3,916		
	Food Prep Workers	3,735		
	Total	12,304	26,982	32.1%
\$5.16 - 5.99	Waiters and Waitresses	11,152		
	Cooks	10,382		
	Food Concession & Counter Attendants	6,615		
	Hosts and Hostesses	3,056		
	Total	31,205	103,321	23.2%
\$6.00 - 6.74	Cooks	13,817		
	Supervisors, Managers of Food Prep	6,576		
	Food Prep Workers	6,587		
	Bartenders	4,249		
	Food Concession & Counter Attendants	2,818		
	Waiters and Waitresses	2,731		
	Food Servers, non-restaurant	3,483		
	Dishwashers	3,024		
	Hosts and Hostesses	6,219		
	Serving & Food Prep, inc. fast-food	5,399		
	Total	54,903	362,929	13.1%
\$6.75 - 7.09	Food Prep Workers	8,283		
	Cooks	8,134		
	Waiters and Waitresses	3,177		
	Hosts and Hostesses	2,789		
	Total	22,383	193,992	10.3%
\$7.10 and up	Total	193,723	3,666,086	5.0%
All	Hourly Food Service Workers	393,046	4,434,134	8.9%

Source: Current Population Survey, March Supplement, 2001-03 average.

Almost half of hourly wage workers who earn less than the minimum wage are in the food service industry and are most likely tip workers. The CPS does not distinguish tip workers; therefore, it can not be certain that all workers eliminated from this sample were indeed tip workers. However, the NYS labor law also excludes additional service workers, such as those in the hotel and building service industry, and it is probable that some of these workers may still be in the sample.

Agriculture Workers

U.S. Department of Agriculture: Agricultural Resource Management Survey

A detailed analysis of farm wages using the CPS is difficult due to both the sampling size and the structure of the survey itself.⁹ For this reason we relied on an additional source, the USDA Agricultural Resource Management Survey (ARMS), for information on the wages of NYS farm workers. The ARMS survey does not provide a wage distribution but does provide an average wage rate for all NYS hired farm workers.¹⁰ The average wage rate for NYS hired farm workers in 2003 was \$9.55, up from \$8.68 in 2002 (see Table 6).

Table 6

NYS Hired Farm Workers			
Year	Average Wage Rate	Total Number of Hired Workers	Average Hours Worked per Week
1996	\$6.73	20,500	41.1
1997	7.21	20,000	41.4
1998	7.10	21,000	39.7
1999	7.80	22,000	38.7
2000	8.31	22,000	40.2
2001	8.22	23,000	41.7
2002	8.68	N/A	N/A
2003	9.55	N/A	N/A

Note: Wage rates are calculated based on total wages and hours worked during the survey week.
Source: United States Department of Agriculture, Agricultural Resource Management Survey.

National statistics from the USDA Economic Research Service provide regional information on the wage distribution of hired farm workers. In a 2000 report titled *Profile of Hired Farm Workers*, data from the 1997 U.S. Census of Agriculture is used to match the earnings of farm workers with social and demographic characteristics gathered from the CPS.

⁹ The CPS March Supplement asks workers to report on the job they worked at most in the past week. Due to the seasonal nature of farm work, March is a month in which many hired farm workers are forced to supplement their farm work with a second job. It is highly likely that the farm job will be the secondary employment in March and therefore not reported in the survey.

¹⁰ A hired farm worker is defined as anyone (besides contract labor) who was paid for at least one hour of agricultural work on a farm or ranch. The types of hired farm workers include field or livestock workers.

In 1998, approximately 26.5 percent of all hired farm workers in the Northeast region are reported as having wages at or below the federal minimum wage of \$5.15 per hour.¹¹ We apply this information to New York State to estimate an approximate number of hired farm workers in the State earning at or below the minimum wage. Two basic assumptions are made in this estimation, first the wage distribution for Northeast hired farm workers is similar to that of NYS hired farm workers, and second this distribution has not changed significantly since 1998. The ARMS survey reports that in 2001, New York State had 23,000 hired farm workers, which would indicate approximately 6,095 hired farm workers earning at or below the minimum wage in that year.

2000-02 CPS Farm Workers Estimation

According to the CPS March Supplement, between the years of 2000-02, New York State had on average approximately 4,458 hired farm workers earning equal to or less than the minimum wage. This is relatively close to the number of minimum wage farm workers estimated above. In total, 25,748 farm workers earn less than \$7.10 per hour, representing 52.6 percent of all hourly farm workers as reported in the 2000-2002 CPS March Supplement.

As noted previously, the ARMS survey reported 23,000 hired farm workers in 2001. A majority of this discrepancy can be attributed to the varying definitions of "farm workers". The CPS includes all farm workers, including contract workers (such as veterinarians), managers, and owners, whereas the ARMS survey restricts their definition to hired farm workers who are field or livestock workers. It is likely that the majority of those reporting farm wages above \$7.10 per hour in the Current Population Survey would therefore not be reported in the ARMS survey.

Adverse Effect Wage

One argument against an increase in the minimum wage is that foreign agricultural workers will be substituted for American labor. However, NYS farmers must pay the higher of three wages, the federal minimum wage, the State minimum wage, or an adverse effect wage.¹² The 2003 adverse effect wage

¹¹ The Northeast region includes the states of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont.

¹² Adverse effect wage rates are the minimum wage rates the U.S. Department of Labor has determined must be offered and paid to U.S. and foreign workers by employers of foreign agricultural workers (H2-A visa holders). The stated goal of this law is to prohibit the employment of temporary foreign workers from causing "adverse effects" on the wages and employment conditions of U.S. hired farm workers. Besides paying a higher rate than the NYS minimum wage, NYS farmers must also provide extensive documentation that they are unable to find a sufficient

rate for New York State is \$8.53, or 65.6 percent higher than the State minimum wage.

Private vs. Public Sector Workers

While the private sector accounts for approximately 84.8 percent of all NYS hourly wage earners, it accounts for 91.1 percent of all workers earning between \$5.16 and \$7.09 per hour (see Table 7).

Table 7

New York State Employment by Sector					
Wage Distribution	Number of Hourly Workers	Private Sector	Federal	State	Local
At or Below \$5.15	107,806	86.8 %	2.8 %	3.2 %	7.2 %
\$5.16 - \$7.09	660,242	91.1	1.2	1.1	6.5
At or Above \$7.10	3,666,086	83.7	2.4	3.1	10.7
Total Hourly Workers	4,434,134	84.8	2.2	2.8	10.2

Source: Current Population Survey, March Supplement, 2001-03; NYS Assembly Ways and Means Committee staff.

Demographics of NYS Low-Wage Workers

Low-wage workers, earning less than \$7.10 per hour, represent 17.3 percent of all NYS hourly wage earners and 48.4 percent of these workers work full-time. Adults between 20-64 years of age comprise 74.7 percent of those earning less than \$7.10 per hour.

Women, who comprise less than half of New York State’s workforce, account for 59.4 percent of those earning less than \$7.10 per hour and 49.8 percent of those earning less than \$7.10 per hour have children

number of American farm workers before legally hiring temporary foreign workers. Under the law, employers are also required to provide adequate means for both housing and transportation (U.S. Labor Law 20 CFR 655.107).

Table 8

Characteristics of NYS Low-Wage Workers				
	Earning at or below \$5.15	Earning less than \$7.10	Earning above \$7.10	All Hourly Workers
Hourly Workforce	2.4 %	17.3 %	82.7 %	100.0 %
Gender				
Male	29.0	40.6	48.7	47.3
Female	71.0	59.4	51.3	52.7
Age				
16-19	9.4	21.2	1.7	5.1
20 and older	90.6	78.8	98.3	94.9
Work hours				
Part-time	44.6	51.6	18.7	24.4
Full-time (35 +)	55.4	48.4	81.3	75.6
Education				
Less than High School	30.5	32.6	11.4	15.1
High School Grad	25.0	36.3	38.3	38.0
Associates Degree	3.1	22.7	32.1	30.4
Bachelors Degree	5.7	6.8	14.3	13.0
Children				
None	70.0	50.2	51.7	51.4
One	13.3	25.4	23.0	23.4
Two or more	16.7	24.4	25.4	25.2
Race				
Caucasian	54.3	69.6	71.5	71.2
African American	37.3	24.0	22.9	23.1
Married				
	32.1	34.9	57.2	53.4
<i>Sources: Current Population Survey, March Supplement, 2001-03; NYS Assembly Ways and Means Committee staff.</i>				

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APPENDIX

Current Population Survey

The Current Population Survey (CPS) is a national survey of approximately 50,000 households with an additional 21,000 households included in the March Supplement. Approximately one in 2,000 households in New York State are included in the sample. The CPS is conducted by the U.S. Census Bureau and collects information on the social, economic, and demographic characteristics of the nation's population. The March Supplement is the primary source of detailed information on income and work experience in the United States.

The sample used in this report includes all New York State hourly wage earners age 16 years or older. Self-employed earners are excluded from the sample. As previously discussed, the food service industry is also excluded. A significant number of workers still report wages below the State minimum of \$5.15 per hour. This does not necessarily indicate violations of the law. These workers may be tip workers outside of the restaurant industry but covered under additional provisions of the Labor Law (NYS Wage Order Acts).

The Bureau of Labor Statistics reports that a significant amount of under-reporting of wages is believed to occur at the minimum wage level. Workers who earn \$5.15 per hour may round down their wage to \$5.00 per hour. In fact, in the sample used in this report, approximately 36 percent of those earning less than the minimum wage report a wage of \$5.00 per hour. This percentage is consistent with the national data in which 500,000 of the 1.6 million workers reporting wages below \$5.15 listed \$5.00 as their hourly wage in 2002.¹³

A Survey of the Literature

Standard economic theory applied to a competitive labor market has a straightforward implication for the impact of a rise in the minimum wage on employment. With a rise in the price of labor (i.e., the wage rate) the quantity of labor demanded decreases, resulting in job losses for some workers who would otherwise have been earning less than the minimum.

However, this application of conventional economic theory has received significant criticism for its failure to address important factors present in labor markets. In alternatives to the classic argument, if factors such as worker

¹³ For further information, see Steven Haugen and Earl Mellor, "Estimating the Number of Minimum Wage Workers," *Monthly Labor Review*, January 1990.

motivation, training, and turnover rates are considered, they suggest a minimum “efficiency wage” should be paid in order to minimize these problems.¹⁴ This model recognizes that employers can then absorb some of the costs of a wage increase through lower training costs, less employee turnover, higher productivity, and increased worker motivation (less absenteeism).

Another well-known labor market model, where an increase in the minimum wage does not lead to a decrease in employment, but may increase employment is when firms have significant degree of market power.¹⁵ In this case, if the minimum wage level lies between the existing wage rate and the marginal factor cost, then an increase in the minimum wage could actually raise employment. In addition, increases in income due to higher minimum wages may also generate additional employment.

Critics of minimum wage increases point to studies that show such increases may result in adverse employment effects, or that other programs such as the Earned Income Credit are better targeted to help the working poor.¹⁶ Arguments against these findings have gained solid ground due to the work of economists David Card and Alan Krueger of Princeton University. Their initial study of employment in fast-food restaurants in New Jersey after the state raised its minimum hourly rate to \$5.05 in 1992 found that the industry actually responded by increasing employment.¹⁷ Card and Krueger also found no strong evidence that fast-food restaurants reduced employee fringe benefits to offset the increased cost of the minimum wage.

Since that time, Card and Krueger have continued their research on the minimum wage, and their studies have resulted in similar conclusions.¹⁸ In addition, other empirical studies have also failed to conclude that a higher

¹⁴ In NBER working paper 7184, Acemoglu and Pischke find that increases in the minimum wage led employers to invest in their workers through increases in worker training but did not lead to any substantial decrease in employment rates (June 1999).

¹⁵ A familiar textbook example is that of a monopsonist, i.e., when there is only one firm buying labor services in the labor market.

¹⁶ Studies showing adverse employment effects have been done by David Neumark and William Wascher. See the National Bureau of Economic Research (NBER) working paper series for a listing of much of this research <www.nber.org>.

¹⁷ David Card and Alan B. Krueger, *Myth and Measurement: The New Economics of the Minimum Wage*, Princeton, N.J., (Princeton University Press 1995). In addition, Card and Krueger re-examine their earlier analysis by using the ES 202 data set. Both a longitudinal sample and a repeated cross section drawn from these data indicate similar or slightly faster employment growth in New Jersey after the rise in the minimum wage.

¹⁸ Card, David and Alan B. Krueger, 1998. A Reanalysis of the Effect of the New Jersey Minimum Wage Increase on the Fast-Food Industry with Representative Payroll Data, National Bureau of Economic Research, Working Paper No. W6386, January 1998.

minimum wage will necessarily lead to increased unemployment. A study done by the Economic Policy Institute failed to find any significant job loss associated with the 1996-97 federal minimum wage increase.¹⁹

Several studies of state increases in the minimum wage have also found no adverse employment effects of minimum wage increases.²⁰ An evaluation of Washington's minimum wage policy, conducted by the non-partisan Economic Opportunity Institute found no significant link between the minimum wage and either employment levels or inflation.²¹ Also, a study done in response to Illinois' proposal to increase its state minimum wage to \$6.50 found no adverse results on employment or low-wage workers. Instead, it found that such an increase would improve the earnings of a significant share of low-income workers and households while imposing minimal costs to businesses and resulting in negligible impact on overall employment.²²

The Effects of the Earned Income Credit on Minimum Wage Workers

The effects of the EIC on full-time minimum wage workers who are married are shown in Table 9, while full-time, single individuals are shown in Table 10.

¹⁹ Jared Bernstein and John Schmitt, *Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase*, Economic Policy Institute (Washington, D.C. 1998).

²⁰ Jeff Thompson, *Oregon's Increasing Minimum Wage Brings Raises to Former Welfare Recipients and Other Low-Wage Workers without Job Losses*, Oregon Center for Public Policy (1999).

²¹ Jason Smith, *Working Well in Washington: An evaluation of the 1998 Minimum Wage Initiative*, Economic Opportunity Institute (2003) 13 <<http://www.econop.org>>.

²² Ron Baiman, *Raising and Maintaining the Value of the State Minimum Wage: An Economic Impact Study of Illinois*, Center for Urban Economic Development, University of Illinois at Chicago (2003) <<http://www.uic.edu/cuppa/uicued/>>.

Table 9

Minimum Wage Worker Effect of the Earned Income Credit on Full-Time, Married Individuals									
Number of Children	Minimum Wage	Minimum Wage Income	Poverty Income Gap	Earned Income Credit Benefit			Minimum Wage with EC Income	2003 EC Poverty Income Gap	EC Benefit Phase Out Amount
				Federal	NYS	Total			
2	\$5.15	\$10,712	(\$7,948)	\$4,204	\$1,261	\$5,465	\$16,177	(\$2,483)	\$0
	6.00	12,480	(6,180)	4,204	1,261	5,465	17,945	(715)	0
	6.75	14,040	(4,620)	4,204	1,261	5,465	19,505	845	0
	7.10	14,768	(3,892)	4,195	1,259	5,454	20,222	1,562	11
1	\$5.15	\$10,712	(\$4,112)	\$2,547	\$764	\$3,311	\$14,023	(\$801)	\$0
	6.00	12,480	(2,344)	2,547	764	3,311	15,791	967	0
	6.75	14,040	(784)	2,547	764	3,311	17,351	2,527	0
	7.10	14,768	(56)	2,539	762	3,301	18,069	3,245	10
0	\$5.15	\$10,712	(\$1,609)	\$115	\$35	\$150	\$10,862	(\$1,459)	\$0
	6.00	12,480	159	0	0	0	12,480	159	150
	6.75	14,040	1,719	0	0	0	14,040	1,719	0
	7.10	14,768	2,447	0	0	0	14,768	2,447	0

Note: Assumes full time work of 2,080 hours per year. The NYSEC is currently 30 percent of the federal benefit.
Sources: U.S.Census; IRS Publication 596 EIC Table.

Table 10

Minimum Wage Worker Effect of the Earned Income Credit on Full-Time, Single Individuals									
Number of Children	Minimum Wage	Minimum Wage Income	Poverty Income Gap	Earned Income Credit Benefit			Minimum Wage with EC Income	2003 EC Poverty Income Gap	EC Benefit Phase Out Amount
				Federal	NYS	Total			
2	\$5.15	\$10,712	(\$4,112)	\$4,204	\$1,261	\$5,465	\$16,177	\$1,353	\$0
	6.00	12,480	(2,344)	4,204	1,261	5,465	17,945	3,121	0
	6.75	14,040	(784)	4,142	1,243	5,385	19,425	4,601	80
	7.10	14,768	(56)	3,984	1,195	5,179	19,947	5,123	206
1	\$5.15	\$10,712	(\$1,970)	\$2,547	\$764	\$3,311	\$14,023	\$1,341	\$0
	6.00	12,480	(202)	2,547	764	3,311	15,791	3,109	0
	6.75	14,040	1,358	2,499	750	3,249	17,289	4,607	62
	7.10	14,768	2,086	2,380	714	3,094	17,862	5,180	155
0	\$5.15	\$10,712	\$1,139	\$39	\$12	\$51	\$10,763	\$1,190	\$0
	6.00	12,480	2,907	0	0	0	12,480	2,907	51
	6.75	14,040	4,467	0	0	0	14,040	4,467	0
	7.10	14,768	5,195	0	0	0	14,768	5,195	0

Note: Assumes full time work of 2,080 hours per year. The NYSEC is currently 30 percent of the federal benefit.
Sources: U.S.Census; IRS Publication 596 EIC Table.

Table 11

Chronology of the Federal vs. New York State Minimum Wage Changes (1960 to 2003)				
Date of Federal Increase	Action Taken	Date of State Increase	Action Taken	NYS Action: Length of Time Behind or Ahead of Federal Changes
		October 1, 1960	\$1.00	
September 3, 1961	\$1.00 to \$1.15			
		October 15, 1962	\$1.00 to \$1.15	1 year, 1.5 months behind
September 3, 1963	\$1.15 to \$1.25			
		October 15, 1964	\$1.15 to \$1.25	1 year, 1.5 months behind
February 1, 1967	\$1.25 to \$1.40	January 1, 1967	\$1.25 to \$1.50	1 year, 1 month ahead
February 1, 1968	\$1.40 to \$1.60	February 1, 1968	\$1.50 to \$1.60	
		July 1, 1970	\$1.60 to \$1.85	3 years, 10 months ahead
May 1, 1974	\$1.60 to \$2.00	May 1, 1974	\$1.85 to \$2.00	None
January 1, 1975	\$2.00 to \$2.10	January 1, 1975	\$2.00 to \$2.10	None
January 1, 1976	\$2.10 to \$2.30	January 1, 1976	\$2.10 to \$2.30	None
January 1, 1978	\$2.30 to \$2.65			
		October 6, 1978	\$2.30 to \$2.65	9 months behind
January 1, 1979	\$2.65 to \$2.90	January 1, 1979	\$2.65 to \$2.90	None
January 1, 1980	\$2.90 to \$3.10	January 1, 1980	\$2.90 to \$3.10	None
January 1, 1981	\$3.10 to \$3.35	January 1, 1981	\$3.10 to \$3.35	None
April 1, 1990	\$3.35 to \$3.80	April 1, 1990	\$3.35 to \$3.80	None
April 1, 1991	\$3.80 to \$4.25	April 1, 1991	\$3.80 to \$4.25	None
October 1, 1996	\$4.25 to \$4.75			
September 1, 1997	\$4.75 to \$5.15			
		March 31, 2000	\$4.25 to \$5.15	3 years, 6 months behind

Note: Prior to October 1, 1960, NYS minimum wage rates varied from industry to industry.
Sources: U.S. Department of Labor; NYS Department of Labor, Fiscal Policy Institute.

Table 12

Wage Distribution of New York State Workers			
Wage Rate (per hr.)	Number of Workers	Proportion of Hourly Wage Earners	Proportion of Total Employed
Total Hourly	4,434,134	100.0%	49.1
Total Salary	4,599,213	N/A	50.9
Total Employed	9,033,347	N/A	100.0
Less than \$5.15	81,824	1.8	0.9
At 5.15	25,982	0.6	0.3
\$5.16-5.99	103,324	2.3	1.1
At \$6.00	216,300	4.9	2.4
\$6.01- 6.74	146,629	3.3	1.6
At \$6.75	11,347	0.3	0.1
\$6.76 - 7.09	182,645	4.1	2.0
At \$7.10	6,672	0.2	0.1
\$7.11 - 7.99	144,359	3.3	1.6
\$8.00 - 8.99	413,265	9.3	4.6
Above \$9.00	3,101,790	70.0	34.3

Note: Food service workers, the self-employed, and any earners under age 16 are excluded.
 Source: Current Population Survey, March Supplement, 2001-03 average.

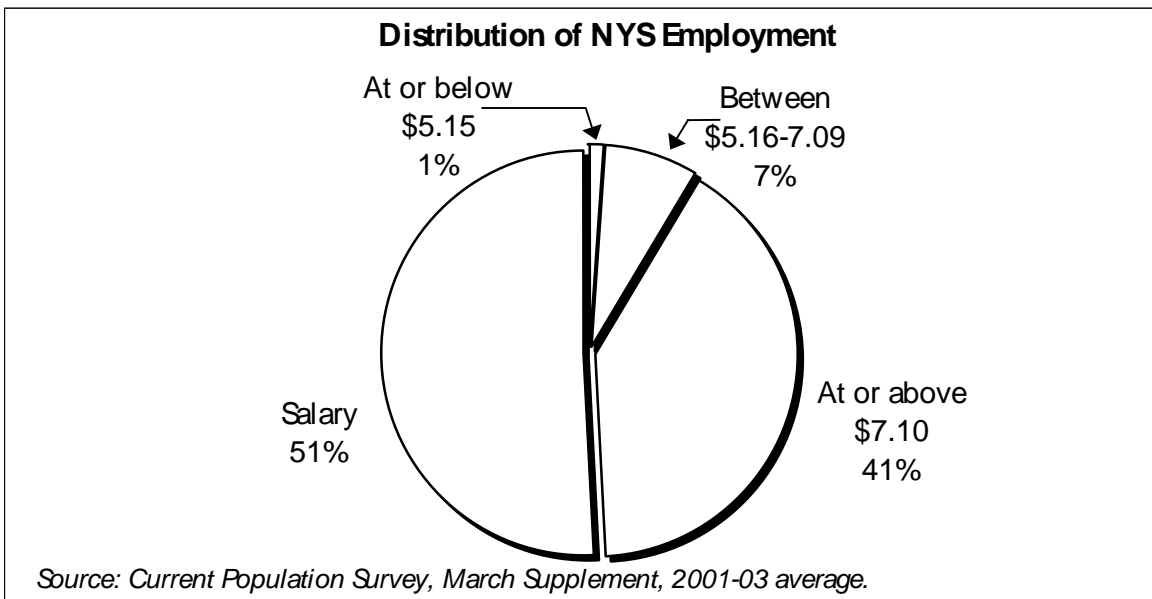


Figure 5

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