

POLICY BRIEF
An electronic publication of
The Allegheny Institute for Public Policy

May 8, 2006

Volume 6, Number 23

A Minimum Wage Reality Check

As the national economy continues its upswing, cries for increasing the minimum wage are becoming louder and more shrill. This is being played out in Harrisburg as the Governor and some legislators make a case to increase the state's minimum wage above the national minimum. The Pennsylvania House voted in early April to raise the rate from its current \$5.15 per hour to \$6.25 and \$7.15 by July 2007. The Senate has not yet acted. And if Pennsylvania is lucky, they won't pass the bill.

Some proponents of higher minimum wages have pointed to a study by the Fiscal Policy Institute of New York that claims job growth at small businesses is faster in states with a minimum wage greater than the federal minimum. Armed with this information and other similar claims, supporters press ahead with demands to raise the state's minimum wage.

But, as is often the case, the evidence cited by advocates of a higher minimum wage does not tell the full story. Let's look at their data. Prior to 2000, ten states and the District of Columbia had minimum wages above the federal requirement of \$5.15 set in 1997. The states are concentrated in two areas of the country—the Northeast (Connecticut, Delaware, Massachusetts, Rhode Island, and Vermont) and the Pacific west (Alaska, Hawaii, Washington, Oregon, and California). These states tend to have relative high incomes with a commensurate high cost of living.

Meanwhile, the hourly wages for low skill jobs in these states are typically well above the state's minimum wage. For example, according to the most recent Bureau of Labor Statistics data, the 2004 average hourly wage for a dishwasher (a low-skilled, entry level job) in the ten states and D.C. was \$8.60 while the average minimum wage was \$6.73. It is not likely that very many legal resident workers with only entry level skills in those states were paid as little as \$6.73 per hour.

In sharp contrast, by 2005 none of the nation's Right to Work states had set their minimum wage above the federal level. Right to Work states (RTW) tend to be concentrated in the Southeast, Midwest, and Southwest and tend to have a lower cost of living and lower wages than the states in the Northeast and the Pacific far west. For example, the average wage for a dishwasher in the RTW states was \$7.69. By way of comparison, a dishwasher working in Boston, earning the Massachusetts average hourly wage of \$8.85 would need to earn only \$6.82 per hour in Atlanta to have the same cost- of-living adjusted income.

By the same token, an Atlanta dishwasher earning the state's average hourly dishwasher wage of \$7.36 is better off—by \$0.54 per hour in real purchasing power—than his or her Boston counterpart. Thus, the Massachusetts minimum wage of \$6.75 has no impact on the actual earnings of the Boston dishwasher who is paid \$8.85 per hour. Moreover, the Boston dishwasher's pay has less purchasing power than the earnings of an Atlanta dishwasher who

works in a state with a minimum wage at the federal level of \$5.15 per hour. So why does Massachusetts believe it is accomplishing anything by having a \$6.75 per hour minimum wage?

The Fiscal Policy Institute study argues that job growth at small businesses from 1998 to 2003 was greater in states with above federal minimum wages than the rest of the states who enforce only the federal minimum. However, it is important to bear in mind that not all small businesses are low paying firms. By the same token, many large businesses, such as retail and restaurant chains along with many large service-providing organizations have large numbers of low paying jobs. Thus, it is more appropriate to look at total job growth and not just the small business sector.

To arrive at a more accurate picture, we look at the total number of non-farm jobs created over the past decade (1995-2005). During this time RTW states increased the number of non-farm jobs by more than 19 percent, while states that set their minimum wage above the federal level experienced a non-farm job gain of only 15.7 percent.

Further, to partially correct for special factors over the period, the jobs figures for the highest and lowest performing states were removed from each group (California and Connecticut from the high minimum wage states and Nevada and Mississippi from the RTW states). The newly calculated state averages shows an even greater disparity in job growth—18.8 percent for RTW states against only 12.9 percent for the states having an above federal minimum wage. With a 50 percent faster job growth and wages for unskilled labor well above the federal minimum, the RTW states are telling us that arguments for raising the minimum wage are political red herrings.

Right to Work states also have fewer problems resulting from union power. And with that in mind, it is ironic that the labor unions that push hardest for boosting the minimum wage are also calling for amnesty and citizenship rights for illegal aliens. Illegals drive down wages, particularly for entry level, low skill jobs—often to wage rates well below the federal minimum—by working “under the table”. Undoubtedly, illegals are taking jobs from low-skilled Americans who are earning at or just above the minimum wage.

The argument that by granting them amnesty, illegals will become eligible to join unions and receive better pay is nonsense. By giving amnesty to the currently estimated 11 million illegals, we will be issuing an invitation for the next round of poor illegals to enter the country. The new arrivals will work for less than the minimum wage and take jobs from the earlier illegals who have been given amnesty, perpetuating and enlarging the nation’s under class of poorly educated and low income population. Today’s flimsy arguments were used in 1986 when amnesty was granted to 3 million illegals. Now we have 11 million. It is nothing short of amazing to watch labor unions desperate for members change their historical opposition to illegal immigration.

Pennsylvania does not need a higher mandated wage. Kowtowing to unions has been a proven way to lose jobs. Instead, enacting a Right to Work law would be a great first step to improving job opportunities for Pennsylvanians, attract law abiding migrants, and improve the overall well being of the Commonwealth.

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