

# Proposal 13: Designing Thoughtful Minimum Wage Policy at the State and Local Levels

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## Introduction

Rising wage inequality and stagnant real wages have contributed to inequality in family incomes during the past three decades. While the expansion of the Earned Income Tax Credit (EITC) and the Supplemental Nutrition Assistance Program (SNAP) have helped mitigate the impact on low-income families (Bitler and Hoynes 2010), federal minimum wage policy has not contributed to the solution. The federal minimum wage has failed to keep pace with both the cost of living and the median wage in the labor market. As a consequence, working full-time at the minimum wage does not allow many families to escape poverty, or to attain economic self-sufficiency.

State and local governments can set minimum wages in excess of the statutory federal minimum wage.<sup>1</sup> Indeed, state and local governments have played an important role in establishing minimum wages across the country; as a result, thirty-seven states had state minimum wages exceeding the federal level in 2007 prior to the most recent federal increase. Cities, too, have begun setting higher minimum wages, as evidenced by city-level wage minimums in Albuquerque, San Francisco, San Jose, Santa Fe, Seattle, and Washington, DC; other cities are actively exploring possibilities of raising minimum wages.

In this policy memo, I propose a framework for effective state and local minimum wage policy. First, I propose using half the local-area median wage as an important gauge for setting an appropriate level of the minimum wage. Second, I propose

that state and local governments take into account the local cost of living as a relevant consideration in setting a minimum wage, and I provide estimates of how state minimum wages would vary if they reflected cost-of-living differences. I also recommend the use of regional consumer price indexes (CPIs) to index the local minimum wage. Finally, I propose that cities and counties coordinate regional wage setting to mitigate possible negative effects of local mandates.

The implementation of the state and local framework does not override the need for reform at the federal level. Thoughtful reforms to the federal minimum wage can help reduce poverty and mitigate inequality. The federal minimum wage has been the focus of substantial debate by academics and policymakers; this proposal focuses on state and local reforms that have received substantially less attention. These state and local reforms can be an important part of the policy portfolio for reducing the incidence of poverty and for helping low-income families support themselves as they strive toward the middle class. In particular, although the federal minimum wage serves as a floor in the labor market, there is some room for additional increases in higher-wage areas.

## The Challenge

### RISING INEQUALITY AND STAGNANT WAGES

For much of the past three decades, the wages of those at the bottom of the wage distribution have failed to keep up with overall economic gains. Most of the wage increase has occurred among the top half of the wage distribution, especially since

the 1990s. Wages in the lower half rose only during the period of low unemployment in the late 1990s. As a result, the 90th percentile real wage grew by over 30 percent between 1973 and 2011, while the median and 10th percentile real wages grew by less than 5 percent over the same period.

Many factors spurred this dramatic rise in wage inequality, including technological change, de-unionization, increased trade and offshoring, and deregulation (Autor, Katz, and Kearney 2008; Firpo, Fortin, and Lemieux 2011; Philippon and Reshef 2012). However, there is also evidence that a falling real minimum wage has contributed to this growth in inequality. In particular, Autor, Manning, and Smith (2014) find that movements in the minimum wage played an important (though not predominant) role in determining the 50/10 wage gap—a measure that highlights wage inequality in the bottom half of the distribution by comparing how middle earners (50th percentile) fared relative to the lowest earners (10th percentile). The decline in the value of the minimum wage has also had a larger effect on inequality for female workers since they tend to be paid less than male workers.

### A DECLINE IN THE MINIMUM WAGE

The federal minimum wage, which has not kept up with the cost of living, reached its high-water mark in 1968. While the specific value varies with the price index used, all measures point toward the real minimum wage falling over time.<sup>2</sup> Using the CPI-U-RS—a revised inflation index that uses current methods for computing inflation—the minimum wage in 2014 dollars stood at \$9.59 per hour in 1968 and \$8.58 per hour in 1979. During the 1980s, the real minimum wage declined substantially, and over the intervening twenty years it has largely treaded water, reaching a historical low of \$6.07 per hour in 2006 prior to the last federal increase. It now stands at \$7.25 per hour.

The failure of the minimum wage to keep up with inflation means that, for workers earning the minimum wage, each hour of labor purchases fewer goods and services. And since measures of poverty are indexed to inflation, an unindexed minimum wage means that these workers must work more hours to stay above poverty. Recent evidence suggests that workers earning close to the minimum wage are increasingly those who rely on their earnings to support necessary household consumption, as opposed to those who are dependents of workers with higher earnings. For example, between 1979 and 2011, the share of low-wage workers—defined as those with hourly wages of \$10.00 or less in 2011 dollars—who are younger than twenty-five fell from 47.1 percent to 35.7 percent (Schmitt and Jones 2012).

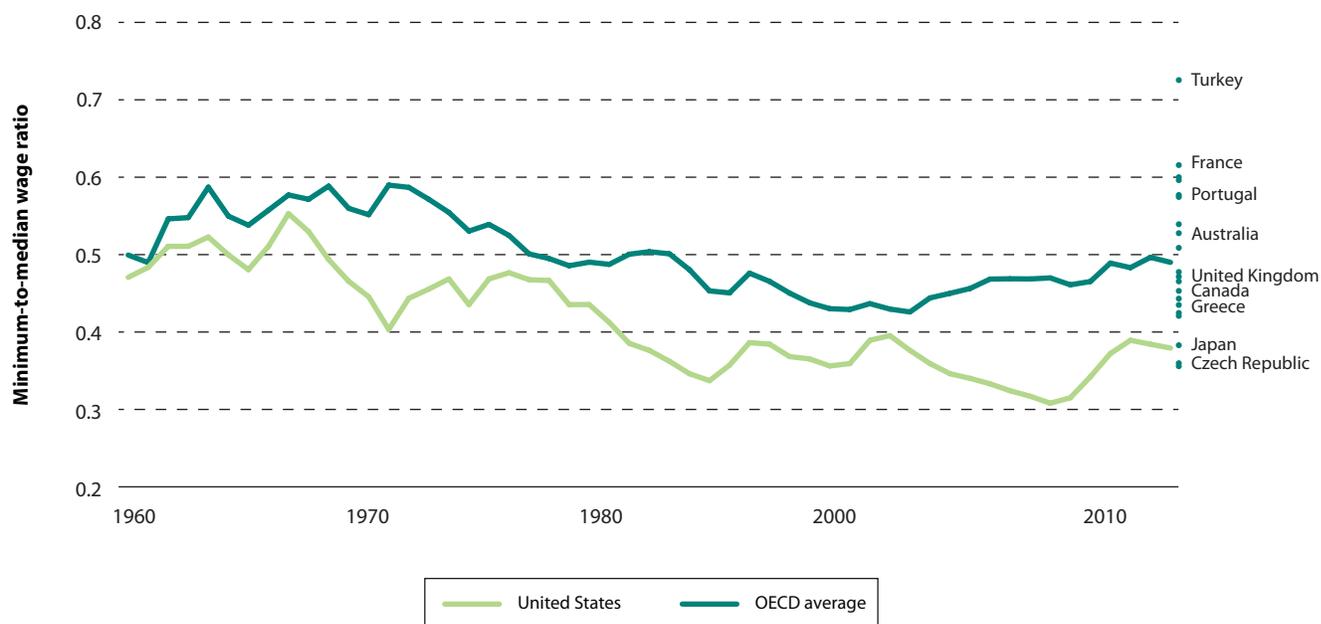
These concerns are exacerbated in states and localities with high costs of living. In these areas, workers earning the minimum wage are especially challenged to pay for food and housing, or obtain other necessary goods and services. Effectively, to escape poverty these workers must earn significantly more than their counterparts in low-cost areas. Workers in areas with high median wages, which are often those with high costs of living, are also subjected to greater levels of local income inequality. In short, the problems associated with a stagnant and inadequate minimum wage are exacerbated in high-cost, high-wage areas.

Low minimum wages are also problematic when they deviate too far from the median wage because they are a reflection of the bottom of the wage distribution falling behind the rest of the distribution. For this reason, economists often consider the ratio of the minimum to the average or median wage, also known as the Kaitz index. There are three reasons to pay attention to this measure, especially using the median as the reference wage. First, a comparison of the minimum wage to the median offers a guide for how binding a particular minimum wage increase is likely to be, and what type of wage the labor market can bear. When this ratio is low—say around 0.2—minimum wage policy is not raising the wages of many workers. In contrast, a high ratio—say around 0.8—indicates a highly interventionist policy where the minimum wage is dramatically compressing differences in wages for nearly half the workforce. Second, this comparison also provides us with a natural benchmark for judging how high or low a minimum wage is across time periods or across countries that vary in terms of their labor markets and wage distributions. Third, the median wage also provides a natural reference point for judging what is a reasonable minimum wage level: no one expects that the minimum wage should be set equal to the median wage, but fairness may become a factor when the minimum wage falls below, say, one-fourth or one-fifth of the median wage.

A natural target is to set the minimum wage to half of the median full-time wage. This target has important historical precedence in the United States: in the 1960s, this ratio was 51 percent, reaching a high of 55 percent in 1968. Averaged over the 1960–1979 period, the ratio stood at 48 percent. Approximately half the median full-time wage is also the norm among all OECD countries with a statutory minimum wage. For OECD countries, on average, the minimum wage in 2012 (using the latest data available) was equal to 49 percent of the median wage; averaged over the entire sample between 1960 and 2012, the minimum stood at 48 percent of the median (OECD 2013). In contrast, the U.S. minimum wage now stands at 38 percent of the median wage, the third-lowest

FIGURE 13-1.

## The Ratio of Minimum to Median Full-Time Wage: United States and OECD Countries, 1960–2012



Sources: OECD 2013; author's calculations.

Note: Data were not available for the full period between 1960 and 2012 for each country. For that reason, the OECD average for each year is derived using the individual country ratios that were available for that year.

among OECD countries after Estonia and the Czech Republic (ibid.). (See figure 13-1.)

## A New Approach

Adequate state and local minimum wages play an important role in the antipoverty agenda and can compensate for inaction at the federal level. To ensure that wages sufficiently support the lowest-paid workers, I propose that state and local governments gauge their minimum wage to half the local-area median wage. In addition, I propose that states consider the local cost of living when establishing a minimum wage, and that the statutory minimum wage be automatically indexed to inflation to protect against real declines in the wage floor. Finally, I propose that local governments engage in regional wage setting to protect against the unintended consequences of raising the minimum wage.

### STATE-LEVEL POLICIES

State initiatives are a sensible strategy in many places with particularly high wages. One way to gauge what constitutes a reasonable target level is to consider the ratio of the minimum to the median wage: a value of 50 percent is in line with the

international average and with the U.S. historical average during the 1960s and 1970s. For the purpose of national and international comparability, table 13-1 shows the value of one-half the median full-time wage in 2012 for each state, adjusted to 2014 dollars. Since wages vary substantially by state, the median-adjusted target minimum wage ranges between \$12.45 (Massachusetts) and \$7.97 (Mississippi). Fourteen states—mostly those in the Northeast and on the West Coast—would see their minimum wage rise above \$10.00 per hour with this proposal. In contrast, eighteen states would see their minimums set below \$9.00 per hour. It is important to note that the proposed minimum wage would exceed the current federal minimum of \$7.25 in all states.

State-level add-ons to the minimum wage thus seem to be a sensible strategy in these high-wage states. Indeed, many states are already doing this: as of now, eleven of the fourteen states whose target minimum wage exceeds \$10.00 per hour currently have state minimums exceeding \$7.25 per hour. When we factor in current and planned minimum wage increases by states, raising the minimum wage to half the median full-time wage in each state by 2016 would entail a 26.2 percent increase in the statutory minimum wage. (This estimate is a population-weighted average over all fifty states

TABLE 13-1.

**Target Minimum Wage by State, Adjusted Based on Median Wage and Regional Price Parity**

	Median Wage– Adjusted (in dollars)	Regional Price Parity–Adjusted (in dollars)		Median Wage– Adjusted (in dollars)	Regional Price Parity–Adjusted (in dollars)
Massachusetts	12.45	10.45	Indiana	9.41	8.88
Connecticut	12.01	10.67	Missouri	9.35	8.59
Maryland	11.69	10.85	Iowa	9.30	8.73
New Jersey	11.45	11.12	Arizona	9.27	9.56
New Hampshire	11.20	10.35	North Dakota	9.21	8.81
Alaska	10.96	10.44	Hawaii	9.07	11.43
Rhode Island	10.96	9.62	Florida	9.06	9.63
Virginia	10.83	10.06	Nevada	8.99	9.57
Washington	10.76	10.06	New Mexico	8.96	9.24
New York	10.46	11.25	Ohio	8.96	8.70
Minnesota	10.36	9.51	Kansas	8.85	8.77
California	10.21	11.01	Texas	8.82	9.41
Colorado	10.18	9.91	Idaho	8.77	9.13
Illinois	10.07	9.81	Montana	8.71	9.18
Delaware	9.96	9.97	Nebraska	8.71	8.78
Michigan	9.96	9.20	Oklahoma	8.71	8.77
Pennsylvania	9.96	9.62	South Carolina	8.71	8.84
Utah	9.96	9.44	Tennessee	8.71	8.84
Oregon	9.69	9.63	North Carolina	8.64	8.93
Wyoming	9.62	9.40	Alabama	8.54	8.59
Wisconsin	9.60	9.06	Kentucky	8.37	8.66
West Virginia	9.54	8.64	South Dakota	8.30	8.60
Georgia	9.46	8.97	Louisiana	8.14	8.91
Maine	9.46	9.58	Arkansas	7.97	8.54
Vermont	9.46	9.84	Mississippi	7.97	8.42

Sources: Unicon Research Corporation 2012; Bureau of Economic Analysis n.d.; author’s calculations.

Note: Median wage–adjusted values are half of the median real wages (in 2014 dollars) for each state in 2012 for full-time, non-self-employed workers using the March Supplement of the Current Population Survey. Regional price parity–adjusted wages use the Bureau of Economic Analysis regional price parity index for each state.

using the maximum of the state or federal minimum wage for each state.) Some states (e.g., California, Nevada, Oregon, and Vermont) would need only small adjustments to their baseline policy (under 10 percent). In contrast, higher-wage states (e.g.,

Maryland, Massachusetts, New Hampshire, and Virginia) would require substantial increases, exceeding 50 percent. When implementing as substantial an increase as in this latter group of states, a longer phase-in period may be desirable.

While the median wage is a good measure of how binding a minimum wage would be, an additional consideration is cost of living, which tends to be greater in urban areas. To provide an alternative adjustment, table 13-1 also reports the level of minimum wage that would prevail in a state if a \$9.75 federal minimum wage—chosen because that is half the median full-time wage nationally—were adjusted using the regional price parity index for that state. To make this an apples-to-apples comparison, both methods entail a similar overall increase in the minimum wage, letting the exact pattern vary across states based on the median wage, as opposed to just on the cost of living.

There is considerable similarity in the target minimum wage constructed using the two methods. This is to be expected since high-wage states also tend to have higher costs of living. Nine states show up in both top ten lists, for example, and for all but five states, the two methods produce a target minimum wage that differs by less than 10 percent.

The overlap is imperfect, however. For example, whereas Massachusetts has the highest median wage of all states, it ranks sixth in terms of the cost of living. Similarly, California ranks twelfth based on median wage, but third based on cost of living. More generally, while the recommended increase in the minimum wage is similar under the two approaches when averaged across all states (i.e., 26.2 percent versus 22.5 percent average increase in the statutory minimum wage), the regional price adjustment produces a narrower range: between \$8.42 and \$11.43 instead of between \$7.97 and \$12.45.

Under my proposal, state policymakers should put the greatest emphasis on how binding the minimum wage would be as proxied by half the median wage. This is an important metric for gauging the extent of an intervention in the functioning of the labor market. Often this will also reflect cost-of-living differences across areas. When the regional price parity-adjusted minimum wage differs considerably from the median wage-adjusted value, however, policymakers would do well to also consider the regional price information—perhaps splitting the difference between the two approaches.

Finally, my proposal would index the state minimum wages to the regional CPI. This practice is attractive since the annual adjustment makes the process predictable and also responsive to local conditions. Importantly, it eliminates the need for revisiting a contentious policy issue year after year. As it stands, twelve states already have indexed their minimum wages, paving the way for more to do the same. A few states, including Nevada and Oregon, have adopted practices that are very close to my recommendations: they have set the minimum wage close to half the median wage, and have also indexed their wage to the CPI.

## CITY-LEVEL POLICIES

While state-level minimum wages have been the most common means of allowing for regional variation, city-level policies have become increasingly important in policy discussions. Since major metropolitan areas tend to have both higher wages and higher costs of living, minimum wage additions may make sense for large cities.

Table 13-2 considers the twenty largest metropolitan areas in the country. Similarly to the state-level policies, I construct both a median wage-adjusted and a regional price parity-adjusted level of the minimum wage for each of these areas.

As table 13-2 reports, DC, San Francisco, Boston, New York, and Seattle are high-wage metropolitan areas where half of the 2012 full-time median wage was at least as large as \$11.85 per hour in 2012 (in 2014 dollars). In another eight metropolitan areas, half the full-time median wage exceeded \$10.00 per hour. These metropolitan areas represent a second tier of possible laboratories for experimenting with local supplements. Some of these cities are in areas where local wage standards are preempted, but others are free to pursue policies.

Washington, DC and San Francisco already have local minimum wages, and Seattle recently enacted a city-wide minimum wage policy. New York is actively exploring possibilities. The San Francisco experience has been studied and documented extensively (Dube, Naidu, and Reich 2007, 2014). That city currently requires a minimum wage of \$10.55 per hour for all workers within city limits and this new minimum wage has raised pay in the bottom of the distribution. Yet employment growth does not appear to have been adversely affected in that city relative to its surrounding areas, even in a high-impact sector like restaurants. Furthermore, Reich, Jacobs, and Dietz (2014) review the literature on four city minimum wage standards, and find that they were implemented without evidence of adverse effects.

A final consideration for local wage setting is regional coordination. Although existing evidence does not indicate substantial movements of businesses across policy borders to avoid a higher minimum wage, such movements may be more likely at higher levels of the minimum wage. Regional coordination in wage setting across economically connected areas can reduce these risks.

One possibility is a regional collaboration in wage setting, as exemplified in the Washington, DC metropolitan area. DC, Prince George's County (Maryland), and Montgomery County (Maryland) coordinated on a simultaneous minimum wage increase, though the extent of the increase varied by overall wage levels. Similarly, in the San Francisco Bay area, the cities of San Francisco and San Jose have both instituted citywide

TABLE 13-2.

Target Minimum Wage by Metropolitan Area, Adjusted Based on Median Wage and Regional Price Parity

Metropolitan Area	Median Wage–Adjusted (in dollars)	Regional Price Parity–Adjusted (in dollars)	Population (in millions)
Washington, DC–Arlington–Alexandria, DC–VA–MD–WV	13.51	11.73	5.64
San Francisco–Oakland–Hayward, CA	13.37	11.81	4.34
Boston–Cambridge–Newton, MA–NH	12.85	10.87	4.55
New York–Newark–Jersey City, NY–NJ–PA	12.25	11.90	19.57
Seattle–Tacoma–Bellevue, WA	11.85	10.42	3.44
Baltimore–Columbia–Towson, MD	11.66	10.66	2.71
Philadelphia–Camden–Wilmington, PA–NJ–DE–MD	11.59	10.62	5.97
Minneapolis–St. Paul–Bloomington, MN–WI	11.23	10.03	3.35
Chicago–Naperville–Elgin, IL–IN–WI	10.79	10.38	9.46
Detroit–Warren–Dearborn, MI	10.42	9.53	4.30
San Diego–Carlsbad, CA	10.36	11.59	3.10
Los Angeles–Long Beach–Anaheim, CA	10.24	11.51	12.83
St. Louis, MO–IL	10.11	8.66	2.79
Atlanta–Sandy Springs–Roswell, GA	9.85	9.31	5.29
Riverside–San Bernardino–Ontario, CA	9.62	10.35	4.22
Dallas–Fort Worth–Arlington, TX	9.59	9.84	6.43
Houston–The Woodlands–Sugar Land, TX	9.50	9.81	5.92
Phoenix–Mesa–Scottsdale, AZ	9.39	9.71	4.19
Tampa–St. Petersburg–Clearwater, FL	9.07	9.68	2.78
Miami–Fort Lauderdale–West Palm Beach, FL	8.55	10.23	5.56

Sources: Ruggles et al. 2010; Bureau of Economic Analysis n.d.; author’s calculations.

Note: Median wage–adjusted values are half of the median real wages (in 2014 dollars) for each metropolitan area in 2010–2012 for full-time, non-self-employed workers using American Community Survey data. Regional price parity–adjusted wages use the Bureau of Economic Analysis regional price parity index for each metropolitan area.

wages; Oakland, Berkeley, and Richmond are currently considering following suit. This type of policy coordination makes both economic and political sense because it reduces cross-jurisdictional competition and the possibility of business relocations.

**COSTS AND BENEFITS**

The framework for reforming state and local minimum wages would have various positive economic benefits, including

higher wages and lower poverty. The costs, such as negative employment effects, are expected to be minimal.

*Impact on Wages*

Under my proposal, the average minimum wage in 2016 across fifty states would rise from \$7.71 per hour to \$9.73 per hour in 2014 dollars—a 26.2 percent increase (see table 13-3). An increase in the binding minimum wage would benefit a substantial number of workers: those whose wages would be

TABLE 13-3.

## Impact on Poverty by 2016 of Raising State Minimum Wages to Half of the State Median Wage

	Estimate		
	Low	Preferred	High
Baseline statutory minimum wage (in dollars)	7.71	7.71	7.71
Statutory minimum wage under proposal (in dollars)	9.73	9.73	9.73
Change in statutory minimum wage (in percent)	26.2	26.2	26.2
Baseline nonelderly poverty rate (in percent)	15.8	15.8	15.8
Nonelderly poverty rate under proposal (in percent)	15.4	15.0	14.6
Change in poverty rate (in percentage points)	-0.4	-0.8	-1.2
Change in population living in poverty (in thousands)	-1,061	-2,238	-3,366

Source: Dube 2014.

Note: All dollar figures are in 2014 dollars. The statutory minimum wage in this table refers to the population-weighted average minimum wage over all fifty states using the maximum of the state or federal minimum wage for each state. The details of the calculations are available at [www.arindube.com/THP\\_projections.pdf](http://www.arindube.com/THP_projections.pdf).

directly raised by a higher wage floor, and those whose wages would rise through a ripple effect extending beyond the new wage floor by around 50 percent of the wage increase. For example, if a state raised its minimum wage by \$2.00 from \$7.25 per hour to \$9.25 per hour, workers earning up to \$10.25 per hour—\$1.00 above the new minimum, or 50 percent of the wage increase—would see their wages rise.

Rises in the minimum wage would affect many workers who are not dependents of older, higher-paid workers. Estimates of a raise in the federal minimum wage to \$10.10 per hour indicate that the average age of the impacted worker would be thirty-five, and that the majority (51 percent) of those impacted by a wage increase would be aged thirty or older, while only 13 percent would be aged twenty or younger (Cooper 2013). More than half (55 percent) of those affected by a federal increase would be women, and about the same number (54 percent) would be full-time workers. While only 19 percent of all workers have family incomes less than twice the official poverty line, 50 percent of workers affected by a minimum wage increase would be in such families (CBO 2013). These trends at the federal level would likely persist at the state and local levels as well. In sum, the evidence strongly contradicts the suggestion that the typical affected worker is a teenager working for pocket money. While the minimum wage does not explicitly target individuals from families with very low incomes, most of the gains from the policy will accrue to those with low and moderate incomes.

### Impact on Employment

A concern with raising the minimum wage is that businesses will respond by cutting back on hiring, thereby reducing jobs. My review of the academic evidence suggests that this impact will likely be small.

In the 1990s, groundbreaking work by Card and Krueger (1994, 2000) built a case-study approach to studying minimum wages. These authors relied on comparing adjacent states like New Jersey and Pennsylvania when one state increased the minimum wage. In the past decade, the Card and Krueger approach has been generalized and refined. Dube, Lester, and Reich (2010) considered all adjacent counties straddling state borders for which data were available continuously for the full period between 1990 and 2006, and found no evidence of job losses for high-impact sectors such as restaurants and retail. In follow-up work, Dube, Lester, and Reich (2013) used the same cross-border methodology to study the effect on teens and found no discernible impact on their employment; Dube and Zipperer (2014) confirm these findings using a “synthetic control group approach,” which is a recent innovation in empirical labor economics. Other researchers have obtained similar results. Addison, Blackburn, and Cotti (2009, 2012) found that once they accounted for trends in sectoral employment, there was no evidence of job loss in the retail or restaurant sectors; recent work by Hoffman (2014) finds no evidence of teen job losses using state-level case studies during the 2000s.

To be sure, some studies in the literature do suggest more-sizeable job losses. These include estimates using the state-panel approach pioneered by Neumark and Wascher (1992), as recently discussed in Neumark, Salas, and Wascher (2013). My own view is that this approach is less empirically compelling than the cross-border methodology and other more-sophisticated ways of constructing comparison groups that I have used in my own work, as described above and discussed in Allegretto and colleagues (2013). Overall, I believe the best evidence concludes that the net impact of the proposed increase in the real statutory minimum wage would be likely small, and likely too small to be meaningfully different from zero. In addition, there is growing evidence that increased minimum wages reduce job turnover (see Brochu and Green 2013 and Dube, Lester, and Reich 2013). This finding is largely driven by a reduction in vacancies that result from fewer workers leaving jobs and the easier recruitment of workers into higher-paying jobs.

### *Impact on Poverty*

Minimum wage policies tend to increase incomes of low- and moderate-income families. However, the antipoverty aspect of the minimum wage is limited because many families under the poverty line do not have substantial attachment to the labor force. A review of past research finds that, on average, a 10 percent increase in the statutory minimum wage leads to a 1.5 percent reduction in the number of individuals in poverty (Dube 2014).

My own analysis uses more and more-recent data, along with a wider range of statistical techniques than the existing studies, and finds that a 10 percent increase in the minimum wage would reduce the poverty rate among the nonelderly population by between 1.2 and 3.7 percent, with the best estimate suggesting a reduction of 2.4 percent (Dube 2014). In particular, robust evidence shows that an increase in the minimum wage raises family incomes for the bottom 20 percent of the family income distribution. Strong evidence also finds that not just the incidence of poverty but also the depth of poverty would be reduced, as measured by the poverty gap.

Overall, the evidence suggests that the poverty reduction effects are somewhat larger in magnitude for African-American or Hispanic individuals, and for children under age eighteen. The effects are somewhat smaller for single mothers and for younger adults. However, the impacts are larger in magnitude for young adults with no more than a high school diploma.

As mentioned above, the statutory minimum wage averaged over all fifty states would rise 26.2 percent by 2016 under my proposal. Dube (2014) provides a range of estimates for

how the poverty rate responds to a higher minimum wage. These estimates, along with state-by-state projected increases in the minimum wage, suggest that the poverty rate among the nonelderly would fall by anywhere between 0.4 and 1.2 percentage points, representing between 1.1 and 3.4 million fewer individuals in poverty. The best estimate suggests that the national nonelderly poverty rate would decline from 15.8 percent to 15.0 percent, and 2.2 million fewer people would live in poverty.

## Questions and Concerns

### *What about the federal minimum wage?*

The federal minimum wage plays an important role in setting a nationwide standard. However, a one-size-fits-all approach creates avoidable trade-offs: states as dissimilar as Massachusetts and Mississippi have different capacities to absorb a minimum wage of, say, \$11.00 per hour, and a single minimum wage has to balance the needs of states at both ends of the spectrum. By allowing some variation across states, we can raise, say, the Massachusetts minimum wage to a reasonably high level while not putting, say, Mississippi at risk. Leaving minimum wage setting altogether to states, however, will mean that patterns will reflect the vagaries of politics across fifty states. For example, in spite of the popularity among voters of raising the minimum wage, state legislatures do not do so in a regular fashion, and many states have implemented such policies only via costly ballot initiatives. Therefore, the lack of a federal standard can subject low-wage workers in many states to a substantial amount of risk. A moderate level of federal minimum wage, coupled with state-level add-ons, offers a judicious balance.

### *Are there more-efficient or generally better ways to alleviate poverty?*

Increases in the minimum wage have been shown to substantially aid low-income families; most of the gains from the policy accrue to low- and moderate-income families. At the same time, it is also true that the policy specifically targets low-wage workers and not individuals in poverty. Were we to assess public policies based only on their efficacy in reducing poverty, we should prefer more-targeted policies like cash transfers, SNAP, and programs that raise the employment rate for highly disadvantaged groups. The EITC, in particular, is well-targeted at those with very low incomes. It is important to point out, however, that as currently structured, the EITC provides only minimal assistance to adults without children, and may hurt some childless adults through a negative incidence on wages. Because the EITC increases the labor supply, 27 cents of every dollar of EITC

spending accrue to employers as lower wages (Rothstein 2010; Lee and Saez 2012). Moreover, raising funds for the EITC by taxing higher-income individuals also entails efficiency costs, which suggests an additional rationale for raising pretax earnings for low-wage workers (Hendren 2014). For these reasons, it makes sense to combine programs like the EITC with a minimum wage increase.

### *Is there enough empirical evidence to support increasing the minimum wage to half the full-time median wage?*

The proposed increase of the minimum wage to half the full-time median wage does go somewhat above the range from which we can draw the best empirical evidence. This obstacle is difficult to avoid given the rather low levels of minimum wages since 1980. A number of additional factors make it reasonable to apply the existing estimates when evaluating this proposal, however. First, an increase in the minimum wage from 41 percent to 50 percent of the median full-time wage, while substantial, is still cautious. It maintains the ratio within both historical and international bounds. Second, existing U.S. evidence that suggests small employment effects is based on a number of states (e.g., Nevada, Oregon, Vermont) that have all raised their state minimum wages to levels that surpass 46 percent of their median full-time wage. Finally, evidence from the United Kingdom suggests that raising the minimum wage close to the median full-time wage is not associated with sizable effects on employment (Manning 2012).

### *Would raising the minimum wage affect prices?*

A higher minimum wage could lead to higher prices, especially for industries that employ high levels of low-wage labor. To date, the clearest evidence on the effects on prices comes from Aaronson, French, and MacDonald (2008), who find that a 10 percent minimum wage increase would raise fast-food prices by around 0.7 percent. On average, my proposal would raise fast-food prices by under 2 percent. While restaurant prices will see likely increases from minimum wage increases, the overall price level (e.g., the CPI) is unlikely to be noticeably affected by minimum wage hikes.

## Conclusion

Minimum wage policies are not an antipoverty panacea. They do, however, tend to raise wages for America's lowest-paid workers—making an adequate minimum wage an important pillar of a national antipoverty agenda. Under my proposal, the poverty rate would likely decline by a little under 1 percentage point, meaning that 2.2 million fewer individuals would live in poverty.

Setting the state and local minimum wages close to half the median full-time wage is a well-balanced policy option. Such a target is close to both U.S. experiences during the 1960s and 1970s and to current practice in advanced industrialized countries. While it pushes the minimum wage beyond the experience over the recent period in this country, it does so in a measured fashion. In addition, states and localities should consider the local cost of living when setting minimum wage policy and should index wage levels for inflation. Incorporating all of these criteria into minimum wage laws would lead to substantially higher wage floors in a subset of states: based on a half-median wage standard, fourteen states would have a minimum exceeding \$10.00 per hour, while based on cost-of-living considerations, ten states would do so.

Possible negative impacts of a higher minimum wage can be mitigated with regional wage coordination—localities can cooperate to set adequate minimum wage policies. This strategy, combined with minimum wage laws that set the wage floor based on local economic conditions, can lead to lower poverty, reduced inequality, and more-adequate wages, all while mitigating the potential negative impacts on employment.

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Arindrajit Dube is an associate professor of economics at the University of Massachusetts Amherst. His work focuses on labor economics, health economics, public finance, and political economy. His core areas of research include minimum wage policies, fiscal policy, income inequality, health reform, and the economics of conflict. Dube received his B.A. in Economics and M.A. in Development Policy from Stanford University, and his Ph.D. in Economics from the University of Chicago. Prior to joining the University of Massachusetts Amherst, he held a research economist position at the Institute for Research on Labor and Employment at University of California, Berkeley. He is also currently a research fellow at IZA. During the spring semester of 2014, Dube visited the economics department at the Massachusetts Institute of Technology.

## Endnotes

1. A statutory minimum wage is a binding, broad-based minimal pay standard set by legal statute, as opposed to by collective bargaining or other voluntary agreements. Some countries (e.g., Sweden and Switzerland) do not have a statutory minimum wage, but do have sectoral pay standards set by collective bargaining.
2. Had the minimum wage been indexed to inflation in the same manner as the IRS tax code or Social Security payments (i.e., using the CPI-U), it would have been \$10.93 per hour in 2014. The CPI-U-RS is a more reliable gauge of past cost of living, however. Conversely, if we were to use the Personal Consumption Expenditure deflator, the 1968 value of the minimum wage would be \$8.56 per hour. In all cases, however, the real minimum wage has fallen since the 1960s and 1970s.

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