



# THE MINIMUM WAGE: Impacting Washington, East & West

Washington Policy Center  
Center for Small Business



# What you need to know



**50 layoffs, price increases 10-20%**





# What you need to know



**Childcare increases – \$140-150 per month**



# What you need to know



**Job training services to 19% fewer people**



## WA's New Labor Laws: *Minimum Wage + Paid Sick Leave*

- Nov. 2016 voters approved I-1433 by 57%
  - \$13.50 minimum wage phased in over 4 years for every worker
  - Paid sick leave for every worker
- Does NOT prohibit cities/counties from adopting their own min wage and paid sick leave laws



# WA's New Labor Laws:

## *Minimum Wage + Paid Sick Leave*

- Jan. 1, 2017: WA minimum wage increased to \$11 (was \$9.47)
  - 2018 minimum wage will increase to \$11.50
  - 2019 minimum wage will increase to \$12
  - 2020 minimum will increase to \$13.50
- Annual increases thereafter pegged to inflation
  - Based on CPI-U of Seattle area, most expensive in the nation



# WA's New Labor Laws:

## *Minimum Wage + Paid Sick Leave*

- Jan. 1, 2018: Paid sick leave goes into effect
  - Every worker receives 1 hour of paid sick leave for every 40 hours worked
  - Begin using the leave after 90 days of employment
  - Workers may carry over 40 hours of unused sick leave each year
- NO limit on how much paid sick leave could be accrued
- NO limit on how many days of accrued paid sick leave can be used each year
- NO accommodation for small biz: employer with 2 workers must provide same amount of paid sick time as those with 5,000 workers



# A State Divided: Eastern WA vs Western WA

- Support/Opposition to I-1433 was nearly perfectly split between Western WA and more rural Eastern WA
  - 16 Counties Approved I-1433 (none in Eastern WA)
  - 23 Counties Rejected I-1433 (including 3 in Western WA)
- The economies of Western and Eastern WA are very different
  - Cost of living is so low in Kennewick that workers living in that city and earning the 2016 minimum wage of \$9.47 enjoyed the nation's highest "real" minimum wage
  - Spokane ranks 3<sup>rd</sup> in the nation
  - Yakima ranks 7<sup>th</sup> in the nation





# A State Divided: Eastern WA vs Western WA

- The flip side to those below average costs of living is higher than average unemployment rates.
  - Yakima's unemployment rate is a high 8.3% compared to WA overall rate of 5.3%.
  - Kennewick's unemployment rate is slightly better at 6.6%
  - Spokane's unemployment rate is 6.8%
- Illustrates the difficulty many in people in WA already have in finding work at the state's previous mandated wage rate of \$9.47 an hour



# Minimum Wage in Washington

- Currently \$11, the highest in the nation (tied with Massachusetts)
  - From 1999-2015 WA had the highest state minimum wage in the nation
  - Dropped to 7<sup>th</sup> in 2016: CA and MA highest in 2016 at \$10; AK \$9.75; CT, VT, RI \$9.60
- Began increasing annually according to inflation in 1997 (I-688)
- 1 of 7 states that does not allow a tip credit toward minimum wage
- A “sub” minimum wage allowed for 14-15 year olds
  - 85% of minimum wage



# Minimum Wage in Idaho

- ID minimum wage is \$7.25 (federal)
  - McCall is first and only city in ID to try to raise minimum wage (2015)—failed
- ID passed ban on local min wage increases in 2016 (HB 463)
- ID allows for a tip credit and does not increase every year with inflation
- 2017 proposed bill to increase min wage to \$12 by 2019



# Minimum Wage in Oregon

- OR passed first geographically-tiered minimum wage in the nation. By 2022:
  - \$14.75 within Portland urban growth boundary (July 2017 inc to \$11.25)
  - \$13.50 in midsize counties (July 2017 inc to \$10.25)
  - \$12.50 in rural counties (July 2017 inc to \$10)
- One of 18 states indexing minimum wage to inflation
- 1 of 7 states that does not allow a tip credit toward minimum wage
- OR has long had a law prohibiting local minimum wage increases



# The New Wage Movement

- New movement building for a so-called “living wage.”
  - What is a “living wage?” No definition exists.
  - Arbitrary and subjective super high minimum wage.



# What is “Fair” or “Living” Wage?

- President Obama: \$10.10 per hour
- Governor Inslee: \$10.82-\$11.82 per hour
- Hillary Clinton: \$12 per hour
- Many advocates: \$15 per hour
  - Advocates say \$15 in Seattle is a “compromise,” should be \$18 or \$21 per hour
- Nick Hanauer says it should be \$28 per hour
- What is the right answer? There is no consensus



# The Local Control Conundrum

- As more cities adopt their own labor laws (minimum wage, sick leave, scheduling, etc), a patchwork of standards are being created
  - Compliance difficult for businesses operating in multiple jurisdictions
- Many who typically support decentralized state gov in favor of local control support a law prohibiting cities/counties from adopting labor standards
  - Gov Butch Otter refused to sign new ID law banning local minimum wage increases



# WA's Patchwork of Labor Laws

- No prohibition on local labor laws means a patchwork of wages and mandates:
  - Seattle \$15 (currently \$11, \$13, \$13.50 or \$15, depending on biz size)
  - SeaTac \$15
  - Tacoma \$12 (currently \$11.25, fully phased in by 2018)
  - Seattle has paid sick leave laws
  - SeaTac has paid sick leave laws
  - Tacoma has paid sick leave laws
  - Spokane has paid sick leave laws





## Why \$15?

- \$15 advocates admit no data behind a \$15 wage—it was “a nice round number” and “easy to fit on a bumper sticker”
- Bold enough to entice workers to campaign for it, but not too high to be dismissed as a pie-in-the-sky number
- *“Support for \$15 exists not because people have done the math and said gee this is what the minimum wage should be.”*  
—political director for  
socialist Seattle Council member Kshama Sawant



# How the Minimum Wage Movement Began

- 2013: City of SeaTac passed Proposition 1, mandating a \$15/hour “living wage” for employees in hospitality and transportation industries.
  - Initially had nothing to do with minimum wage; threat of a \$15 wage ballot measure was a threat by labor to convince employers at SeaTac airport to unionize 6,000 workers
  - Unions spent \$460 for every yes vote
  - Passed by 77 votes (5,900 voters total)
  - Exempts unionized workers!
- 2014: City of Seattle: \$15 minimum wage for all workers, phased in over 3-7 years.
- 2014: San Francisco, Chicago, Tacoma and others



# It's Not About Increasing Wages, It's About Increasing Union Membership

- Head of the \$15 movement (Fast Food Forward): Goal is to increase union membership by unionizing low-wage workers.
  - Funded by labor unions [SEIU provided \$23 million in 2014 and \$17 million in 2013]
  - "Just to be clear, this is not a minimum wage campaign, these fast food workers are not trying to raise minimum wage. They want to sit down with the \$200 billion fast food industry and get the money out of their pockets and negotiate a union contract with them." *Fast Food Forward president [and SEIU Rep] Kendall Fells to the Congressional Black Caucus Legislative Conference, 10/1/2014*



# Unions as the “Low Cost” Option

- This is why unions have exempted union employers from higher minimum wage and paid sick leave laws in numerous cities
  - SeaTac
  - San Francisco
  - San Jose
  - Berkeley
  - Palo Alto
  - Emeryville
  - El Cerrito
  - Oakland
  - Santa Monica
  - Hotel workers in Los Angeles & Long Beach
  - Washington, DC (did not pass)
  - Milwaukee County
  - Chicago
  - Oregon (paid sick leave)



# Busting the Myths of Minimum Wage

- The number of minimum wage workers is small and shrinking
- Most minimum wage workers are not poor
- Most minimum wage workers are young and not supporting a family
- Minimum wage has more than kept pace with the productivity gains of minimum wage workers
- Minimum wage has more than kept pace with inflation



# Who Really Earns the Minimum Wage in WA?

- Less than 3% of workers in WA earn the minimum wage
- Just 2% of full-time workers earn the minimum wage
- Average family income of minimum wage earner in WA is \$47,540
- 59% live with family member or have a working spouse
- 33% are single or married with no kids
- Just 8% are single parents with children



# Snapshot of U.S. Minimum Wage Earners

- Just 2.5% of all US workers earn the federal minimum wage.
  - 55% are under age of 24
    - 30% are teenagers (16-19) and 25% are 20-24 years old
  - 66% are younger than 30
  - 12% are older than 55
- This means just 1.1% of all workers over age 25 earn min wage
- Of this 2.5% of federal minimum wage earners, just 4.7% match the description of a poor adult, over the age of 25, working full time and trying to raise a family.



# Snapshot of U.S. Minimum Wage Earners

- Just 11% of all 16-19 year old hourly paid workers earn federal minimum wage
  - One in every 9 workers in that age group
- Just 6% of all 20-24 year old hourly paid workers earn federal minimum wage
  - One in every 17 workers in that age group
- Just 2% of all workers 25 and older earn federal minimum wage
  - One in every 45 workers in that age group





# Snapshot of U.S. Minimum Wage Earners

- Average family income of federal min wage earner is \$53,000
- Just 2% of all full time workers earn minimum wage
- 65% of workers earning minimum wage work part time
- 63% of workers who earn less than \$9.50 are second and third earners in the family



# Snapshot of U.S. Minimum Wage Earners

- 2/3 of minimum wage employed in service occupations, primarily food prep/serving
  - Most earn tips in addition to minimum wage
- Translation: overwhelming majority of minimum wage earners are young and unskilled who work part time, live at home or are supplementary income earners in a two-income household
  - Very few rely on minimum wage to support a family



# Are Most Minimum Wage Earners Stuck Earning Minimum Wage?

- 2/3 of minimum wage earners receive a raise within a year
- Just 15% earn minimum wage after three years on the job
- 65% of workers earning minimum wage work part time
- Close to 70% of part time workers choose to work part time
  - second household earners looking to supplement income
  - students working part time while in school
  - retirees not ready to quit working



# Do Most Minimum Wage Earners Live in Poverty?

- Average family income of federal min wage earner is \$53,000
- 63% live in families with incomes 150% of poverty line
- 94% of families with adult who earns minimum wage, the spouse works as well
- 2/3 of adults living below poverty line do not work
  - Only 9% work full time
  - 25% work part time



# Will Raising the Minimum Wage Reduce Poverty?

- **Increasing minimum wage won't reduce poverty because majority of Americans living in poverty do not work!**
  - 2/3 of adults living below poverty line do not work
  - Other 1/3: only 9% work full time, 25% work part time
- Of the 33% that do work, the majority live in families above poverty line.
  - Average family income of min wage earner is \$53,000 per year.
- 93% of 336 labor economists surveyed believe a high minimum wage is not an efficient way to address poverty.



# Will Raising the Minimum Wage Reduce Poverty? The CBO's Answer

- Only 19% of the benefits from raising the federal minimum wage to \$10 per hour would go to households in poverty
- Households already earning more than 3x the poverty level would capture 29% of the total gains from a \$10 min wage
- 900,000 Americans would be lifted out of poverty—out of 45M (2%)
- Wage gains for “low- and moderate- income workers” will be taxed at a 32% marginal tax because gov't benefits are reduced as poor workers earn more
  - marginal tax rate for a single mother working full time at the minimum wage (i.e., earning \$15,000 to \$20,000 per year) at 65% to 95%



# Has Minimum Wage Kept Up with Prices and Productivity?

- Supporters argue min wage has not kept up with productivity growth.
  - minimum wage should be up to \$28 per hour based on productivity growth in U.S.
- The problem—using data measuring productivity off ALL workers across the entire economy, but productivity varies greatly across sectors.
- **Productivity and prices in the service-sector—2/3 of all minimum wage jobs—has been low compared to overall economy**
  - productivity in fast food industry over 25 years was 1/6 of larger economy
  - in food service, the minimum wage has risen 6x faster than gains in worker productivity
  - these workers are getting paid more for doing less



# Has Minimum Wage Kept Up with Inflation?

- Supporters argue min wage has not kept pace with cost of living
  - based on CPI-U, which BLS agrees overstates inflation
- Most accurate measure of inflation is the PCE deflator or CPI-U-RS
  - Unlike CPI, PCE takes into consideration consumers' changing consumption due to changing prices; CPI-U-RS retroactively adjusts current methodology to all years
  - Favored by the CBO, BLS and Federal Reserve Board as more accurate
- When PCE cost of living is calculated, federal minimum wage needs to be \$8.32 to match 1968 level; CPI-U-RS it is \$9.25





# Has Minimum Wage Kept Up with Inflation?

- Federal minimum wage set at 25 cents/hour in 1938.
  - Today minimum wage would be \$4.24 if it tracked cost of living since 1938.
  - Use 1948 instead of 1938, minimum wage's inflation adjusted value would be \$3.81.
  - Using 1988, adjusted minimum wage would be \$6.77.
  - Using 1968 is CHERRY PICKING!!
- Advocates of increasing the minimum wage selected 1968 because that's when the buying power of the federal minimum wage was at its high point!!



# Are Minimum Wage Workers Worse Off Today?

- Some minimum wage workers are earning slightly less than they used to, but there are fewer of them
  - 1979: 8% of all workers earned federal minimum wage
  - 2013: 3% of all workers earned federal minimum wage
- Minimum wage worker in 1968 or 1979 paid higher taxes than today
  - Reflects expansion of Earned Income Tax Credit, largest antipoverty program for nonelderly Americans



# Are Minimum Wage Workers Worse Off Today?

- What matters is whether low-skill workers in general are seeing wage growth
- Between 1998-2004, during which there was no federal minimum wage increase, minimum wage earners experienced a median wage growth of 10.4%, compared to 1.7% for employees earning above minimum wage
- Adjusted for inflation, the annual median wage growth for minimum wage employees is nearly 7%
  - Six times higher than for employees earning above minimum wage
- Reflects the fact 2/3 of minimum wage earners receive a raise within a year



# Will Raising Minimum Wage Stimulate the Economy?

- Each 10% increase in minimum wage = 1/6 fewer jobs created
- So few workers earn minimum wage so the amount of any “stimulus” money would be very small
- That money is not free or new—it’s a transfer from business owners to workers, so business owners will reduce spending in other areas
- Would increase the cost of living
  - Most minimum wage workers in service industry and cannot be outsourced
  - Only option for employers is to raise prices
  - Wage increases but so will prices = no increase in purchasing power/standard of living



# Some Workers Could Be Worse Off

- Earned Income Tax Credit raises effective minimum wage rate for mom with two kids from \$7.25 to \$10.44 per hour
  - EITC goes down as wages go up
  - Wages may increase but EITC may be reduced = same or reduced household income
- Research shows potential beneficiaries of an increased minimum wage face marginal tax rate up to 90% on these new wages.
- In states that raise minimum wage, mothers remain on public assistance an average of 44% longer than in states where minimum wage remains unchanged
- Throughout minimum wage history, increases are followed by spikes in inflation for 2 years after



# The Unintended Victims of Minimum Wage

- Numerous studies show a high minimum wage has the greatest impact on least skilled workers, such as teens just entering the workforce
  - The fewer skills and experience a worker has, the less their output is worth to employers; when output is worth less than minimum wage, employers hire more skilled workers
- 2011 study by Federal Reserve economist: reviewing more than 100 studies on impact of minimum wage, “overwhelming” evidence that least skilled and the young suffer employment loss when minimum wage increases
- Higher the wage relative to what market dictates, the greater the loss



# The Unintended Victims of Minimum Wage

- Teen unemployment has increased steadily as minimum wage increased
- Consensus of decades of studies: 10% increase in minimum wage reduces teen employment by 1-3%
- 10% increase in minimum wage causes four times employment loss for employees without high school diploma and black young adults than for educated and non-black employees
- Study shows loss of 550,000 part time jobs after 2007-2009 minimum wage increase of 40%



# The Unspoken Trade Off

- 2012 study by economist with Federal Reserve Board: “...the evidence still shows that minimum wages pose a tradeoff of higher wages against some job losses for others, and that policymakers need to bear this in mind when making decisions about increasing the minimum wage.”
- SeaTac experience: Employers report a “surge” in applicants who want to earn the newly mandated \$15 wage
  - The consequence—applicants with few skills or experience that typically fill those jobs now have fierce competition from more skilled applicants
- Unskilled and young workers pay the price





# The Tradeoff: The National Experience

- Federal minimum wage increased to \$7.25 in July 2009
- September 2009 teen unemployment rate hit 25.9%
  - up from 23.8% in July
  - highest since WW2
- 330,000 teen jobs vanished in two months
- Hardest hit were black male teens, unemployment rate shot up to 50.4%
  - was 39.2% in July 2009
- Congress began raising minimum wage from \$5.15 per hour in July 2007, by 2013 691,000 fewer teens working



# The Tradeoff: The WA Experience

- WA state has nation's 7<sup>th</sup> highest teen unemployment rate
- Can't blame the Great Recession: Since 2002, WA has ranked among top 10 states for highest teen unemployment rate
  - Exception was 2007, when WA ranked 12<sup>th</sup>
- WA's high minimum wage encourages older workers who have retired, want to supplement a primary earner's income, or want to work part time, to return to work force in entry level jobs typically held by teens
- Sharp decline in WA teen employment coincides with WA enactment of high minimum wage in 1999



# The Wage Scar

- Long term effects of youth unemployment are profound, creates a long lasting “wage scar”
- Impacts a worker’s employment prospects and earning trajectory
- Longer a teen is unemployed, the bigger the scarring effect
- Numerous studies show teens who do not work have lower long-term wages and employability, even after 20 years
- Studies show a teen training wage helps prevent “wage scarring”



# Minimum Wage: A Job Killer or Job Creator?

- CBO: \$10.10 minimum wage (39% increase) could result in loss of 500,000 jobs
- 500 economists, including 3 Nobel laureates, told Congress a \$10.10 minimum wage hike is a job killer



# The Move Towards Automation

- Biz already choosing automation to reduce labor costs
- Service industry CEOs warn a higher minimum wage is “encouraging automation”
- Automation (tablet ordering, self-check out, etc) can reduce number of necessary employees by 20-25%
- Microsoft co-founder Bill Gates: A higher minimum wage would “encourage labor substitution” and incentive employers to “buy machines and automate things” and ultimately “cause job destruction”



# Employee of the Month Has a Battery

- Applebee's restaurant has installed 100,000 tabletop tablets for ordering and payments (Chili's also has made this move, Panera, Wendys, McDonalds)
- Amazon working on having a fleet of robot drones deliver products to doorsteps
- Burger robot can make 360 custom-cooked burgers an hour
- BLS reports biz using cost savings of automation have increased 23% over past 10 years, while employment at these biz decreased by 6%
- A growing trend: Starbucks released an app allowing customers to pay and order from smartphones
- Translation: More efficiency = fewer workers



# The Long Beach, CA Experience

- In 2012, Long Beach, CA voters approved Measure N, increasing minimum wage for non-unionized hotel workers with more than 100 rooms to \$13 per hour.
  - Unionized hotels were exempt.
- “Measure N was good because it raised our wages. But in reality, what the hotel did was cut our hours...”
- Some hotels reduced hours for workers, with no corresponding decrease in job duties.
- Two of the hotels are now unionizing, making them eligible for the exemption.
- Two hotels closed rooms to bring them below 100-room threshold.
- Other hotels ceased offering discounts to customers.



# The SeaTac Experience

- In 2013, voters in SeaTac passed Prop. 1, mandating \$15 minimum wage for some hospitality and transportation workers.
- “It sounds good, but it’s not good.”
- Employers report “surge” in job applicants = fierce competition for jobs
- Workers report losing benefits such as 401k, paid holidays, paid vacation, free meals, free parking and overtime hours.
- Workers report lower tips since high wage went into effect.
- Many companies charging consumers “living wage surcharge.”





# The Real World Impacts of Seattle's \$15 Minimum Wage

- Some businesses have closed
- Most businesses have made other changes:
  - Increased prices and/or reduced services
  - No longer hire young/inexperienced workers
  - No longer allow tips, instead levy a service charge that is divvied up by employer
  - Some workers receive fewer hours
  - Reduced staff
  - Reduced benefits



# The Real World Impacts of Seattle's \$15 Minimum Wage

- Icon Grill reduced paid time off from three weeks to one week
- Retrofit Home & Husky Deli will no longer hire young, unskilled workers
  - “You will only be able to work here coming in with a complete skill set.”
- Z Pizza and Louisa's Café & Bakery closed
  - Laid off over 30 low-skill workers
- Cascade Designs moved 100 of its “less specialized” jobs to Nevada
  - Manufacture camping equipment and cannot compete globally with \$15 wage



# The Real World Impacts of Seattle's \$15 Minimum Wage

- Tamarind Tree Restaurant reduced staff and will not expand in Seattle
- Seattle workers are asking for fewer hours in order to keep subsidies/benefits
- Ivar's restaurant increased prices + service charge = 21%
- Created a funding crisis for social service programs
  - Requesting more money from state to account for higher labor costs



# The Impacts of Seattle's \$15 Wage Law: The UW Study

- Young workers in Seattle looking for their first job are going to be in a “tough position”
  - *“What we are hearing from many employers is that these days, if they are going to be paying as much as they have to pay they are not taking a chance on a teenager, they are looking for a more experienced worker to fill that job.”*
  - *If “they are going to be paying \$13 or \$15 an hour, they need someone who is worth that amount of money.”*
  - *“With the minimum wage, you are going to have winners and losers. The good workers who are really skilled, experienced and productive will be more valuable than ever, they’ll keep their jobs, work more hours. Employers need to have the more productive workers if they’re going to be paying that much. The less productive workers, because they’re inexperienced or they just don’t have the good work ethic or habits that employers are looking for, they’re going to be on the short end of things.”*



# The Impacts of Seattle's \$15 Wage Law: The UW Study

- Restaurant and fast food prices have increased significantly
  - Average 9% increase in food prices
- Grocery and rent prices increased by a couple of percentage points
- Many employers can't raise prices because their market is too competitive; so they've adapted by cutting hours and reducing benefits.
  - *"Just because you [a business] didn't raise prices doesn't necessarily mean you are handling the minimum wage with no problem."*



# The Impacts of Seattle's \$15 Wage Law: The UW Study

- *“The major conclusion one should draw from this analysis is that the Seattle Minimum Wage Ordinance worked as intended by raising the hourly wage rate of low-wage workers, yet the unintended, negative side effects on hours and employment muted the impact on labor earnings.”*
- Seattle's low-wage workers are no better off, and UW study reveals they are actually “lagging behind” low-wage workers from other cities with less robust economies.
- UW study so far only examined the first phase of the city's wage law, which bumped the minimum wage to \$11. The real impact won't be known until all employers are paying the full \$15 wage



# The Bottom Line: Let's Have an Honest Discussion

- An artificially high minimum wage is not a win-win! It creates winners and losers
- A higher minimum wage may improve the living standard of some workers...But there is NO denying some workers will be the losers
- Advocates refuse to admit what they really believe is the cost is worth the benefits.



# Beyond Minimum Wage: The Next Battleground for Labor Laws

- Scheduling: Secure or Restrictive?
  - 2-3 weeks advance notice of worker schedules
    - Penalty pay for schedules/changes with less notice
  - 11 hours rest between shifts
  - Minimum 4 hours pay for any shift, including on-call if not called in
- Limiting Part-Time Employment
  - Employers must offer any additional hours to existing part-time workers before hiring new part-time workers





# Beyond Minimum Wage: The Next Battleground for Labor Laws

- Paid Family & Medical Leave
- Dueling proposals in WA Senate:
  - Democrat
    - 26 weeks paid leave for birth/adoption of child or to care for sick family member + 12 weeks paid leave for workers' own serious illness
    - \$1000 weekly maximum benefit
    - Funded by payroll tax, split between employer and employee
  - Republican
    - 12 weeks paid leave for birth/adoption, to care for family member or for workers' own illness
    - Phased in over three years
    - Funded by payroll tax paid solely by employee
    - Max weekly benefit 50-60% of state average weekly wage



# THE MINIMUM WAGE: Impacting Washington, East & West

Washington Policy Center  
Center for Small Business