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Proposition B - Missouri's Minimum Wage Proposal

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Background

A ballot measure, referred to as Proposition B, to increase Missouri's minimum wage will be on the November 2006 ballot. Proposition B would increase the Missouri minimum wage from the current \$5.15 per hour to \$6.50 per hour on January 1, 2007. Additionally, the minimum wage would be indexed to inflation and adjusted annually based on cost of living increases.¹ The following brief reviews the major impacts of the proposal for Missourians.

The Real Value of Missouri's Current Minimum Wage:

Missouri's current minimum wage of \$5.15 per hour is equal to the federal minimum wage standard set in 1997. This standard has not been adjusted for nearly nine years. Due to inflation, the real value of the minimum wage has dropped to historic lows:

- According to the Center on Budget & Policy Priorities and the Economic Policy Institute, the real value of the minimum wage, when adjusted for inflation, is at its lowest since 1955²;
- While the minimum wage has remained unchanged since 1997, the cost of living has increased by 26 percent in that same period³;
- In 2005 the federal minimum wage would have needed to be \$6.26 per hour to have the same purchasing power that it had in 1997.⁴

As a result of the declining value of the federal minimum wage, 22 states and the District of Columbia have increased their state minimum wage levels. Eight states have increased their minimum wage levels in the last year alone, and six states (including Missouri) are expected to

¹ 2006 Ballot Measure, Proposition B. "Statutory Amendment to R.S.Mo. 290: Raising Minimum Wage."

² Jared Bernstein and Isaac Shapiro, "Nine Years of Neglect: Federal Minimum Wage Remains Unchanged for Ninth Straight Year, Falls to Lowest Level in More than Half a Century", August 31, 2006, Center on Budget & Policy Priorities and the Economic Policy Institute

³ IBID

⁴ MERIC – Missouri Economic Research and Information Center, *Minimum Wage in Missouri*, September 27, 2005, available at <http://ded.mo.gov/researchandplanning/community/socioecon/minimum.stm>

have measures to increase state minimum wage levels on the November 2006 ballot.⁵ If all the November ballot measures pass, twenty-eight states will have increased their current minimum wage levels beyond the federal minimum wage. Missouri will not be alone.

Many of Missouri's Midwest neighbors have already increased their minimum wage above the federal level. Illinois and Wisconsin currently have minimum wage levels of \$6.50 per hour, the same level proposed in Proposition B in Missouri. Minnesota currently has a minimum wage of \$6.15 per hour, and Michigan recently increased its minimum wage above the federal level. In addition, several states including Washington, Oregon, Florida, Vermont and the District of Columbia have indexed their minimum wage laws to keep pace with inflation.⁶ The indexing is expected to avoid the value deterioration of the state minimum wages that has occurred with the federal minimum wage over the last nine years.

Proposition B's Impact on Minimum Wage Employees in Missouri:

According to the Missouri Department of Economic Development, about 42,000 Missourians are minimum wage workers. These individuals would directly benefit from increased wages due to Proposition B. Additional estimates from national economists indicate that the number of people impacted could be much larger due to "spillover" increases for workers who earn near the minimum wage.⁷

Many individuals may assume incorrectly that the average Missourian who works at the minimum wage level are teenagers in their first years of employment. However, national data demonstrates that teenagers account for only 29% of the minimum wage workforce⁸. The following national demographics indicate who would most likely be affected by the Missouri minimum wage increase:

- Women account for 61% of minimum wage workers⁹;
- 71% of minimum wage workers are age 20 and older¹⁰;
- 44% of minimum wage workers work full time¹¹;
- Estimates indicate that more than one-fifth of workers spend at least half of their first ten years of post-school employment at or near minimum wage levels.¹²

The minimum wage currently translates into an annual income of \$10,712. This amount is far from a livable wage, and well below the poverty level of \$16,600 per year for a family of three.¹³ If passed, Proposition B would increase the annual full time minimum wage to \$13,520 per year. While still below the poverty level, the additional \$2,808 of income would greatly assist many low-income Missouri families in meeting their basic needs.

⁵ Mary Gable, "Federal Inaction forces states to raise minimum wage", July 26, 2006, Economic Policy Institute.

⁶ Liana Fox, "Indexing the Minimum Wage for Inflation", December 21, 2005, Economic Policy Institute

⁷ See the Economic Policy Institute: <http://www.epinet.org/issueguides/minwage/table3.pdf>

⁸ EPI Analysis of Current Population Survey Data

⁹ IBID

¹⁰ IBID

¹¹ IBID

¹² California Budget Project "California's Minimum Wage", March 2006

¹³ *Federal Register Volume 71, Number 15, Page 3848-3849*, 2006 Federal Poverty Level Guidelines, published January 24, 2006

Proposition B's Impact on Jobs and Job Growth in Missouri:

Assumptions have been made that the Missouri minimum wage increase would be offset by job loss. However a growing body of economic analysis indicates that the minimum wage increase would not harm Missouri's economy or jobs:

- A statement released by the Economic Policy Institute and signed by 500 Economists including three Nobel Prize winners established that “increases in state minimum wages in the range of \$1 - \$2 can significantly improve the lives of low-income workers and their families without the adverse effects that critics have claimed”¹⁴;
- A study prepared by the New Jersey Fiscal Policy Institute analyzed state job growth patterns in 10 states that had minimum wages exceeding the federal minimum wage level. The study found that between 1998 and 2004 job growth in states with higher minimum wage states surpassed that of states with lower minimum wages.¹⁵
- According to economic studies by David Card and Alan Krueger that analyze the impact of minimum wage increases in California and New Jersey, the state minimum wage increases lead to increases of pay, but no job loss.¹⁶;

Economic trends and recent studies of the indexed minimum wage increase in Florida and others continue to show employment growth in post minimum wage increase periods.¹⁷ Missouri specific data show similar trends following past minimum wage increases. For example, during the four year period following passage of the last minimum wage increase in 1997, Missouri experienced employment growth averaging 1.6% per year, at or slightly above average levels of just over 1.1% per year.¹⁸ It appears unlikely that an increased minimum wage would result in businesses moving to other states. Eighty-three percent of Missouri minimum wage jobs are found in hospitality, service and retail industries. These industries are unlikely to move from Missouri to a state with a lower minimum wage because they locate in areas in which their customer base is located.

Table 1: Minimum Wage Jobs by Sector 2004

Minimum Wage Jobs By Sector in 2004	% of Total Minimum Wage Jobs
Leisure and Hospitality	62%
Retail Trade	8.2%
Education and Health Services	6.9%
Public Sector	5.6%
Manufacturing	3%

Source: U.S. Department of Labor

¹⁴ Keystone Research Center, “State of Working Pennsylvania”, 2005

¹⁵ Fiscal Policy Institute, “State Minimum Wages and Employment in Small Businesses”, April 20, 2004.

¹⁶ David Card and Alan B Krueger, “Myth and Measurement: The New Economics of the Minimum Wage”, Princeton University Press, 2005

¹⁷ David Lieb, “Researchers differ on effect of minimum wage increase”, Associated Press August 23, 2006

¹⁸ Missouri Budget Project Analysis of Bureau of Labor Statistics Data for years 1979 through 2006.

Proposition B's Impact on Corporate Profits

Additionally, increasing the minimum wage is unlikely to have a significant negative impact on corporate profits in Missouri. Analysis of 2005 Missouri corporate profit data shows that the proposed Missouri minimum wage increase is equal to just .5% of the total Missouri corporate profits.¹⁹ In other words, the Proposition B minimum wage increase would require an additional investment of just \$2,808 per full-time employee per year, making just a small dent in most corporate profits.

Proposition B's Impact on the Economy in Missouri:

A Missouri Office of Administration- Division of Budget and Planning (BAP) analysis of Proposition B found that the increased minimum wage will not only increase wages, but increase economic spending in the state and provide additional tax revenue. The BAP analysis indicates that:

- The minimum wage increase will generate overall \$85.5 million in additional income for Missourians;
- Assuming that one half of the increased wages are taxable, the BAP estimates the increased earnings will generate \$2.6 million in additional income tax revenues;
- Assuming that the one quarter of the increased earnings are spent on taxable items (clothing, purchases, etc.) the state estimates that the increased earnings will generate an additional \$.9 million in sales tax revenue²⁰.

This is good news for Missouri's economy. The overall income growth of \$85.5 would not only benefit workers, but would have a ripple effect on the economy. The estimated \$21.4 million of the earnings that will be spent on Missouri goods will give an additional boost to Missouri's economy.

Summary:

- The federal minimum wage and Missouri minimum wage have not been adjusted for nine years, leading to a historic decrease in its purchasing power;
- Missouri will not be alone in increasing the minimum wage. Nearly thirty states have or will soon act to increase their minimum wage above the federal levels;
- Increasing the minimum wage in Missouri will *not* cause a significant loss of jobs, but will enhance state revenues and is likely to positively impact the State's overall economic performance

The most important benefit of increasing the minimum wage will be afforded to Missouri's low income working families. Their increased wages will make a significant difference in their ability to meet their basic needs. But increasing the minimum wage will, in the end, benefit all of us.

¹⁹ Missouri Budget Project analysis Internal Revenue Service Data

²⁰ Missouri Office of Administration, Division of Budget & Planning, Fiscal Estimate of Proposition B