

## The Impact of a \$12 Minimum Wage in Maine

Economic Analysis By: Dr. David Macpherson, Trinity University and Dr. William Even, Miami University

Proponents of a higher minimum wage in Maine, led by the state AFL-CIO, have gathered enough signatures to put their proposed \$12 minimum wage to a vote this November. Executive Director Matt Schlobohm defended the proposed 60 percent increase with a moral appeal: “Working people deserve fair wages...they deserve better than poverty for full-time work.”

The accumulated evidence, including a new analysis specific to Maine, shows that a wage increase will not deliver these results.

In a 2014 study, the nonpartisan Congressional Budget Office (CBO) tossed cold water on the argument that new mandates on low-margin employers won't carry consequences. The CBO, which is cited as an expert by both Republicans and Democrats, estimated that a half-million jobs would be lost nationwide should a \$10.10 minimum wage take effect. Economists at Trinity and Miami Universities replicated the CBO's methodology and found that 770,000 jobs would be lost if legislation mandating a \$12 minimum wage were enacted nationwide.

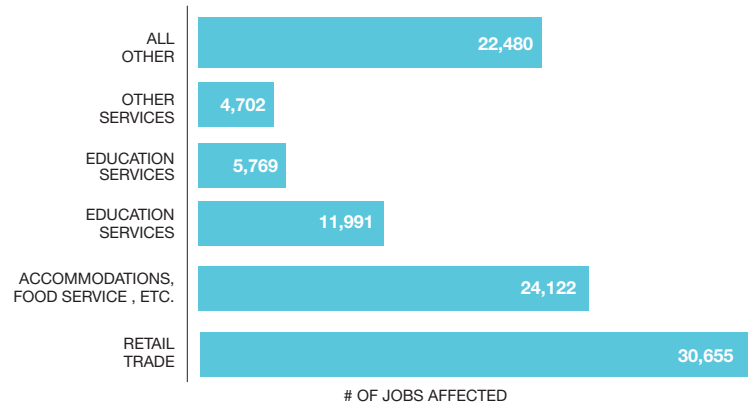
The CBO based its estimates on the results of dozens of peer-reviewed academic studies on the jobs impact of a higher minimum wage, including the latest and most up-to-date research. In December 2015, the Federal Reserve Bank of San Francisco released a report summarizing that research which concluded that recent minimum wage increases have caused a reduction in 100,000 to 200,000 jobs nationally.

In this analysis, Drs. David Macpherson of Trinity University and William Even of Miami University use Census Bureau data to replicate the CBO methodology to determine how many of those jobs would be lost should Maine raise its minimum wage to \$12 an hour. They examine the family composition and household income of affected employees, to determine if the wage increase would be well-targeted to families in poverty.

The estimates found in this analysis should be considered conservative, as they do not account for the elimination of the state's minimum wage for tipped employees—a 220 percent increase in the base wage paid to these employees.

### AFFECTED INDUSTRIES

According to the Bureau of Labor Statistics (BLS), approximately 12,000 people in the state earn at or below the federal minimum wage of \$7.25. (The state's minimum wage is currently a quarter above this, at \$7.50.) BLS data show that the median hourly wage in Maine is \$16.29, which means a \$12 minimum wage requirement would reach considerably higher in the wage distribution. Roughly 102,000 employees in the state would be affected by the policy, over half of whom are concentrated in two low-margin industries: Retail, and accommodation & food services.



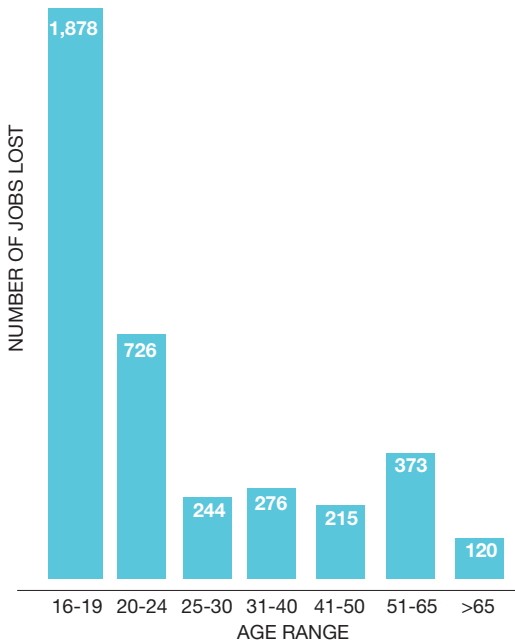
### IMPACT ON EMPLOYMENT

Low-margin industries typically operate on razor thin profit margins and are unable to offset additional labor costs in the form of higher prices. As a result, they often absorb the additional labor costs by either cutting hours or laying off employees. Following the CBO methodology, economists William Even of Miami University and David Macpherson of Trinity University estimate that 3,832 jobs would be lost in the state as a consequence of the higher labor costs. The policy would disproportionately impact women, who represent roughly 63 percent of the jobs lost, and teens, who make up just under 50 percent of the jobs lost.

### JOB LOSS BY GENDER

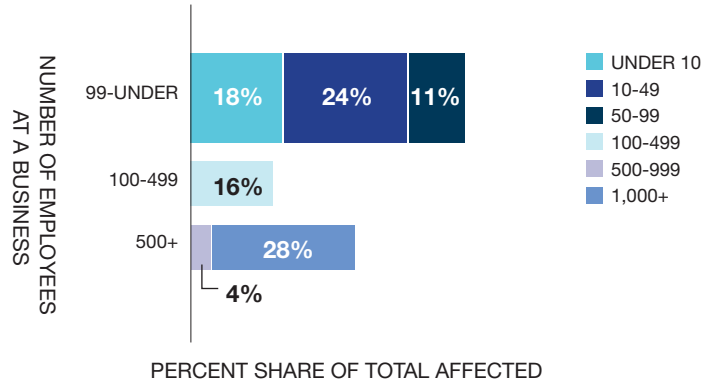
|        |            |
|--------|------------|
| Male   | 1,427 jobs |
| Female | 2,405 jobs |

### JOB LOSS BY AGE RANGE



### IMPACT BY BUSINESS SIZE

A \$12 per hour minimum wage would not affect all Maine businesses equally. Census Bureau data show that over half of the affected employees work at small businesses with fewer than 100 employees. Roughly 42 percent of the affected employees work in businesses with less than 50 employees, and roughly 18 percent of those affected work in small businesses with less than 10 employees. These data run contrary to rhetoric by proponents that suggests “big business” will shoulder most of the burden of the higher minimum wage.



### IMPACT ON NONPROFITS

Roughly 10 percent of the employees affected by the proposed \$12 minimum wage work at nonprofit businesses. The increased labor costs present a unique hardship for these organizations, which are often dependent on public funding or grant funding. To adapt to higher labor costs, they have to reduce services, or reduce staffing levels.

Last fall, the CEO of the Maine Medical Center explained the dynamic in an op-ed in the *Portland Press Herald*: “Among the many unintended consequences of this [minimum wage] proposal would be the disruption of that careful balance we maintain at Maine Medical Center among treating our employees fairly, keeping our care affordable and providing the best possible care to all who come through our doors.”

This analysis finds that approximately 330 jobs would be lost in the nonprofit sector should Maine voters decide to raise its minimum wage to \$12 an hour.

### IMPACT ON POVERTY RATES

A primary focus for minimum wage proponents is reducing hardship for families in poverty. However, a study of the 28 states that raised their minimum wages between 2003 and 2007—including Maine—found little associated reduction in poverty. The authors suggested that this was largely because the increases are not well-targeted to families in poverty.

The data suggests that a similar problem exists with a \$12 minimum wage in Maine. Just six percent of affected employees are single parents.

By contrast, 56 percent either live with family, or are secondary earners where both spouses work. Because so many minimum wage earners live in households where they're either a second- or third-earner, the average family income of a beneficiary in Maine is \$57,316 per year.

### PERCENTAGE AFFECTED BY FAMILY STATUS

|                                |     |
|--------------------------------|-----|
| Single Adult                   | 30% |
| Single Parent                  | 6%  |
| Married Sole Earner            | 8%  |
| Married Dual Earner            | 18% |
| Living with Family or Relative | 38% |

### BETTER ALTERNATIVES

While the empirical research suggests that a higher minimum wage is an ineffective means to reduce poverty, the verdict on state supplements to the federal Earned Income Tax Credit (EITC) is much different. One recent study from economists at San Diego State University and the University of Georgia found a one percent reduction in a state's poverty rate for each one percent increase in its supplement to the EITC. While Maine does currently offer a state supplement to the federal Earned Income Tax Credit (EITC), it is only five percent of the federal EITC. Expanding a credit like this is a better place for the state to start if it's truly interested in reducing poverty.

### REFERENCES

"The Effects of a Minimum-Wage Increase on Employment and Family Income." Congressional Budget Office. February 2014.

Sabia, Joseph J. and Richard V. Burkhauser. 2010. Minimum Wages and Poverty: Will a \$9.50 Federal Minimum Wage Really Help the Working Poor? *Southern Economic Journal* 76(3): 592-623.

Sabia, Joseph J. and Robert Nielsen. "Can Raising the Minimum Wage Reduce Poverty and Hardship?" Employment Policies Institute. April 2012.

### A NOTE ON THE METHODOLOGY

This analysis relies on Census Bureau Current Population Survey data from January 2013 to December 2015. It follows the methodology that the CBO detailed in an appendix to its 2014 report, including an assumed annual inflation rate of 2.2 percent. The analysis assumes that workers in 2013-2015 would realize wage growth of 2.9 percent until implementation of the \$12 minimum wage.

Hourly wage is the reported hourly wage for hourly workers, but it's measured as weekly earnings divided by weekly hours for non-hourly and workers who report receiving tips, overtime, or commissions. The analysis accounts for employees affected by the separate increase in Portland's minimum wage. Business size analysis uses March CPS data from 2012-2015.