



A Report by JOBS NOW Coalition

# A Raise for Minnesota

**Statewide Demographic and Economic Effects  
of Raising the Minimum Wage to \$9.50 an Hour**



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Who would get a raise if Minnesota's minimum wage rose to \$9.50 an hour? And what effect might the higher wage have on Minnesota's consumer economy? The answers may be surprising. And the answers are important: for the state's low wage workers, for the state's consumer economy, and for the state's citizens and decision-makers.<sup>1</sup>

A Raise for Minnesota estimates the effect of a \$9.50 an hour minimum wage on Minnesota workers and breaks down the effect by educational attainment, age, gender, marital and parental status, race, and hours worked. The effect also is broken down by economic sector, industry, and occupation. Increased aggregate wages are examined as a window onto enhanced consumer spending power and community wealth which could be expected to result from the higher wage. A count of non-employer Minnesota small businesses and a look at historical US consumer demand are included for context. None of these demographic or economic topics is explored in depth. Rather the present study is intended to provide key information to help guide researchers, journalists, policymakers, community advocates, and citizens as they consider the issue of raising Minnesota's minimum wage.

The core of the study results will be graphed below, accompanied by brief but detailed descriptions of the data represented in each graph. But first, it is worth taking a look at some key findings, the situation which inspired this study, how the \$9.50 an hour wage could help, and the model the study uses to estimate the effects of a higher minimum wage.

## Key Findings

Raising the Minnesota minimum wage to \$9.50 an hour would include the following effects:

- Improve the income of 357,000 working Minnesotans across the demographic spectrum.
- Improve the income of 274,000 working adults, age 20 and up.
- Improve the income of 202,000 working women.
- Improve economic security for 137,000 children whose parents are low-wage earners.
- Increase annual consumer spending power in Minnesota by \$472 million.
- Boost the aggregate income of working women by \$256,987,000.
- Boost the aggregate income of working people of color by \$124,416,000.

## Situation

The Minnesota House considered a bill in the 2013 legislative session to raise the state minimum wage to \$10.55 an hour by 2015 and index it to inflation. The session closed with a version of the bill, HF 92, which would raise the wage to \$9.50 an hour by 2015. This bill will open the debate in the 2014 legislative session.<sup>2</sup>

The minimum wage is intended to serve as a social norm for fair wages, according to economist Ann Markusen of the University of Minnesota.<sup>3</sup> But the federal wage has lost value over the years.

If the federal minimum wage had maintained its purchasing power since 1968, it would today be \$10.75 an hour, or \$22,360 a year for a full-time worker, according to the US Bureau of Labor Statistics.<sup>4</sup> If minimum wage had kept pace with average productivity gains, as it did in the decades leading up to the 1960s, it would today be about \$22.00 an hour, according to a 2012 analysis of BLS data by John Schmitt of the Center for Economic and Policy Research.<sup>5</sup>

Minnesota's minimum wage currently stands at \$6.15 an hour for large employers, well below the federal \$7.25. And \$7.25 is the minimum wage the vast majority of Minnesota businesses must pay. That's because for any business with annual gross revenue of \$500,000 or more that takes credit cards or uses out-of-state suppliers, the higher minimum wage—federal or state—prevails.<sup>6</sup> When the state minimum is lower than the federal, as it is in Minnesota today, it's essentially like not having any state law at all.

Even the federal \$7.25 is far below living costs in Minnesota. Cost of Living research by JOBS NOW Coalition shows that in a Minnesota family of four with two full-time working parents and two children, each parent would need to earn more than \$14.00 an hour to meet basic needs. An individual would need to earn close to \$12.00 an hour.<sup>7</sup> This means that Minnesota's low-wage workers are not making a living, even when working full-time. When wages drop below living costs, families can't buy what they need, and local businesses may experience trouble finding enough customers.<sup>8</sup>

At the same time that workers are struggling to make ends meet, businesses are seeing historically low growth in consumer demand. Nationally the growth rate in personal consumption expenditures has been declining for almost fifty years, according to the US Bureau of Economic Analysis. From a high of 6.3 percent annual growth in personal consumption in 1965, the growth rate has fallen to 2.2 percent in 2012. The rate stood at 1.9 percent as of the second quarter of 2013.<sup>9</sup>

## **Solution**

Raising the Minnesota minimum wage to \$9.50 an hour would improve the income of 357,000 working Minnesotans across the demographic spectrum and would increase annual consumer spending power in Minnesota by \$472 million, giving a much-needed boost to sales at local businesses. Indexing the new \$9.50 wage to inflation would help ensure that the wage would maintain its value over time, rather than again falling further behind the cost of living. The new \$9.50 an hour wage would not fully restore the value lost to inflation since 1968, and it would not bring the minimum wage in line with the cost of living for families or for individuals in Minnesota. But it would bring Minnesota's minimum wage a step closer to a living wage.

## **About the Study**

The study assumes that all Minnesota workers covered by minimum wage laws are currently paid \$7.25 an hour and that after implementation of a minimum wage increase, workers currently paid below \$9.50 an hour would be paid \$9.50 and workers currently paid between \$9.50 and \$10.00 would rise to \$10.00 an hour due to what economists call the spillover effect, as employers adjust pay scales upward in competitive response to higher wage standards.

Some studies, such as the annual minimum wage report by the Minnesota Department of Labor and Industry, look at the number of persons paid \$7.25 an hour or less.<sup>10</sup> Why does the present study model a \$9.50 an hour wage? If Minnesotans want to know what minimum wage looks like today, then it makes sense to study the demographics of persons earning the current effective \$7.25 minimum wage or less. But if Minnesotans are considering raising the minimum wage to \$9.50 an hour, then it makes sense to study the demographics of persons who would get a raise as a result of the new higher minimum wage.

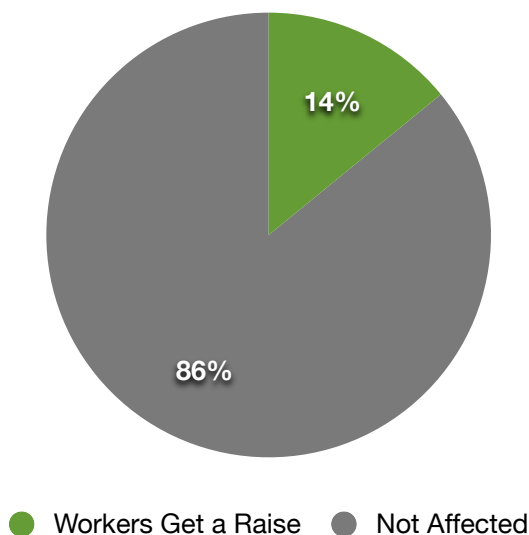
Why does the present study assume a starting point of \$7.25 an hour rather than accounting for the state law's current three tiers: \$6.15 an hour for large employers with gross annual revenue over \$500,000, \$5.25 for small employers with gross annual revenue \$500,000 or less, and the \$4.90 an hour training wage for new employees under age 20? According to the Minnesota Department of Labor and Industry, the number of workers covered by the lower rates of the Minnesota law is too small to accurately pull

from US Census data. For this reason, the department's own annual minimum wage report groups together all workers paid \$7.25 or less and does not break down the numbers according to the three-tier state law.

## The Results

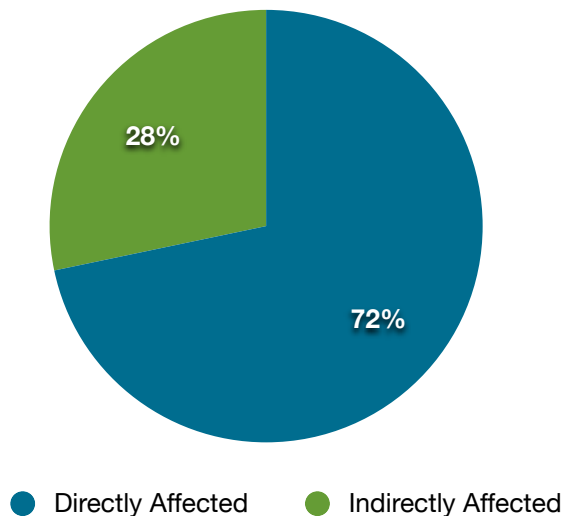
The body of the report follows below. The study results are presented in the following graphs and descriptive text.

**Workers Who Get a Raise**



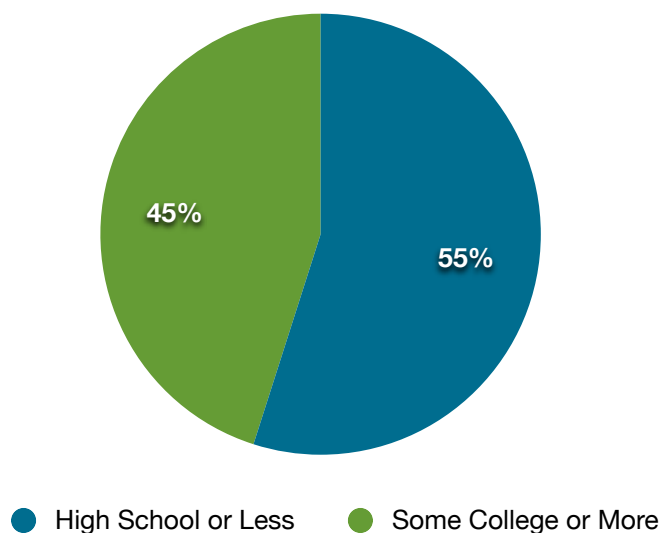
Out of Minnesota's 2,531,000 workers, about 14 percent, or 356,800 workers, would get a raise if Minnesota's minimum wage were increased to \$9.50 an hour.

**Directly & Indirectly Affected Workers Who Get a Raise**



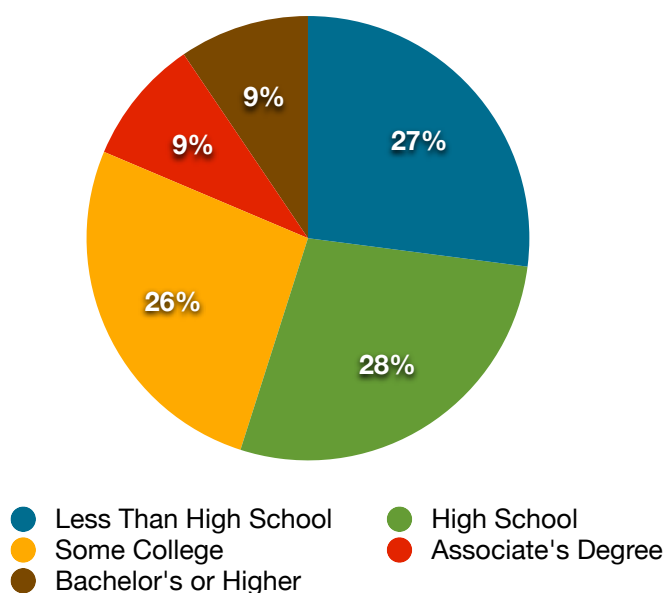
Among Minnesota workers who would get a raise, 72 percent, or 256,100 workers, would be directly affected because their current hourly wage is below \$9.50. Meanwhile, 28 percent, or 100,700 workers, would already have a wage of \$9.50 or slightly above and would get a raise indirectly, due to the spillover effect.

### Workers Who Get a Raise by Postsecondary Educational Attainment



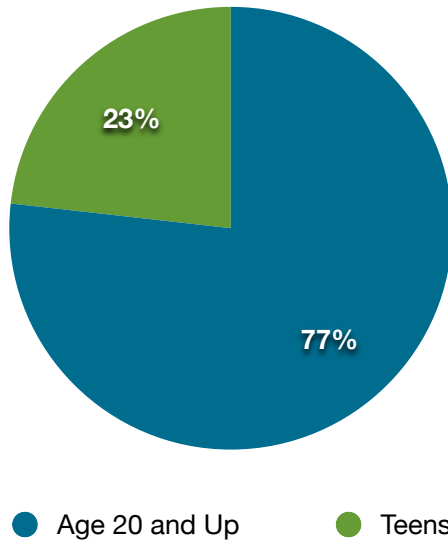
Among Minnesota workers who would get a raise, 45 percent or 160,800 workers have at least some college education, while 55 percent or 196,000 workers have a high school degree or less.

### Workers Who Get a Raise by Educational Attainment



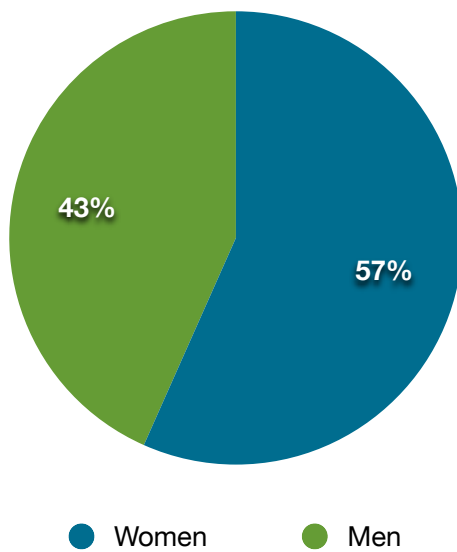
Among Minnesota workers who would get a raise, 27 percent or 96,480 workers have less than a high school education, 28 percent or 99,500 workers have a high school degree, 26 percent or 94,250 workers have some college but less than an associate's degree, 9 percent or 32,690 workers have an associate's degree, and 9 percent or 33,850 workers have a bachelor's degree or advanced degree.

### Adult & Teen Workers Who Get a Raise



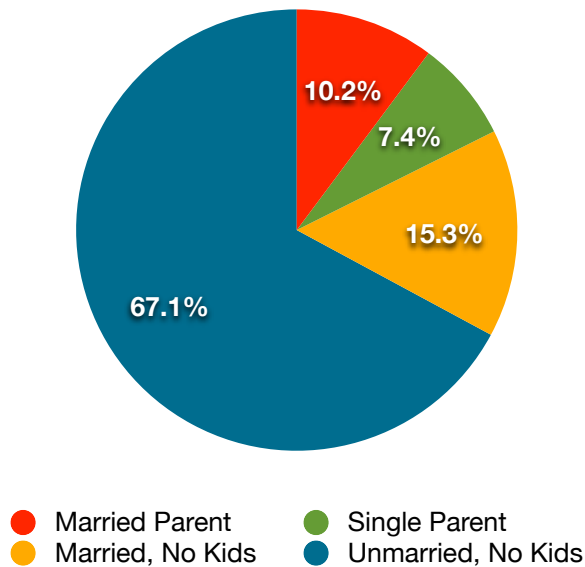
Among Minnesota workers who would get a raise, 77 percent or 273,900 workers are age 20 and up, while only 23 percent or 82,840 workers are teens.

### Workers Who Get a Raise by Gender



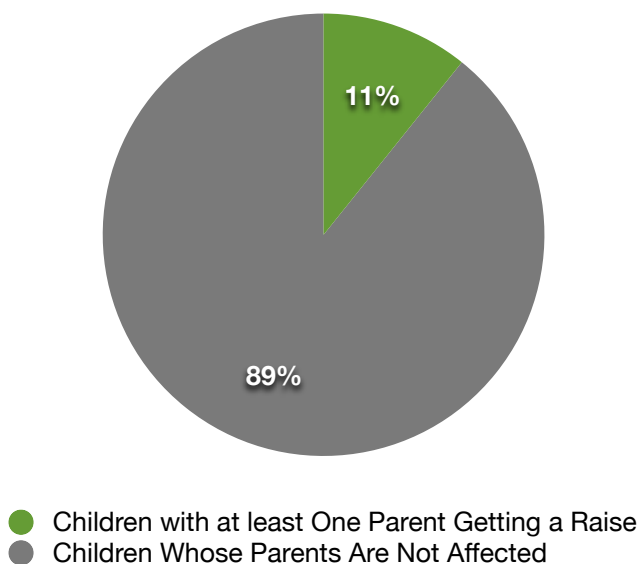
Although the number of women employed in Minnesota is about 150,000 fewer than men, the disproportionate number of women working low-wage jobs means that 57 percent of workers who would get a raise (or 202,100 workers) are women, while 43 percent or 154,600 workers are men.

### Workers Who Get a Raise by Marital Status



Among Minnesota workers who would get a raise, about 33 percent or 117,300 workers are married or are parents, while 67 percent or 239,500 workers are single with no children. Some 15.3 percent or 54,420 workers are married with no children, 10.2 percent or 36,380 workers are married with children, and 7.4 percent or 26,470 workers are single parents.

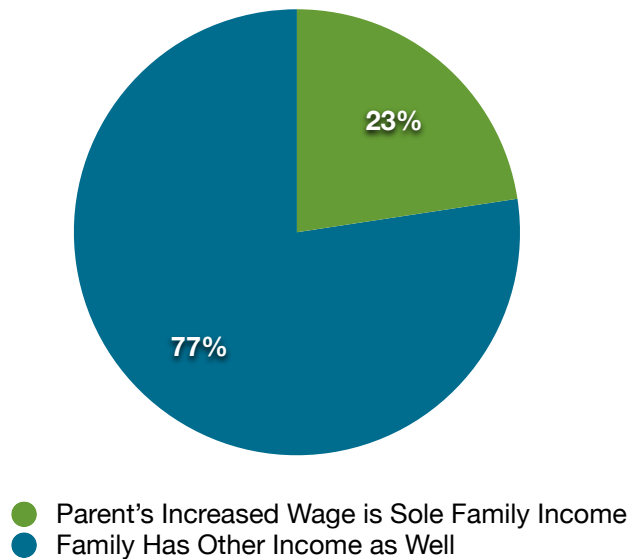
### Children Whose Parent or Parents Get a Raise



Out of Minnesota's 1,138,000 children, about 11 percent or 137,300 children have a parent or parents who would get a raise if Minnesota's minimum wage were increased to \$9.50 an hour. Children are defined here as persons under the age of 18 years.<sup>11</sup>

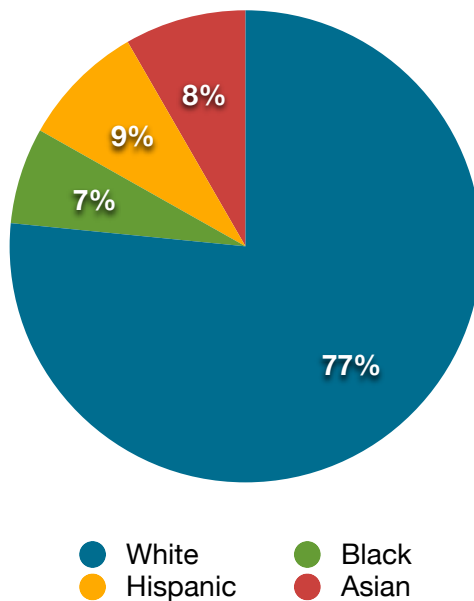


### Share of Parents Whose Raised Wage is Sole Family Income



Among Minnesota working parents who would get a raise, 23 percent or 14,200 parents are the sole wage earner for their family.

### Workers Who Get a Raise by Race

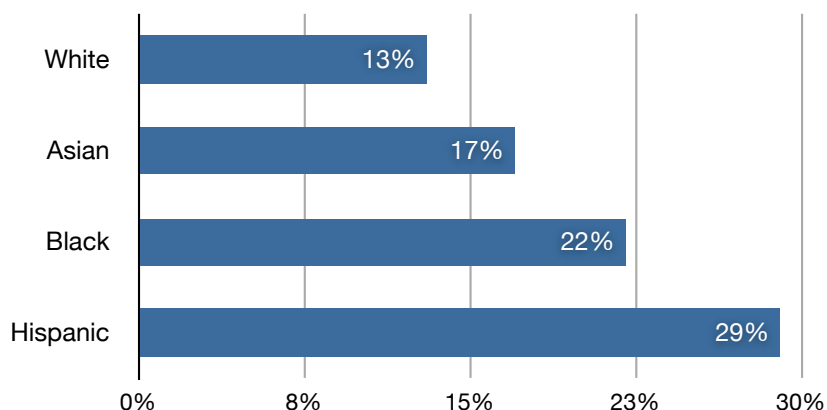


Among Minnesota workers who would get a raise, 77 percent or 273,200 workers are White, while 7 percent or 23,550 workers are Black, 9 percent or 30,340 workers are Hispanic, and 8 percent or 29,710 workers are Asian.

The large number of White workers who would get a raise is not a surprise considering that the White labor force of 2,615,000 in Minnesota dwarfs the labor force size of racial minority populations. The Black labor force is 126,000, the Hispanic labor force is 111,000, and the Asian labor force is 145,000 persons.<sup>12</sup>

Although White workers constitute the largest share of all Minnesota workers who would get a raise, the disproportionately large share of workers of color who are paid low wages means that communities of color would see a larger share of their own workers getting a raise.

### Share of Workers from Each Racial Community Who Get a Raise

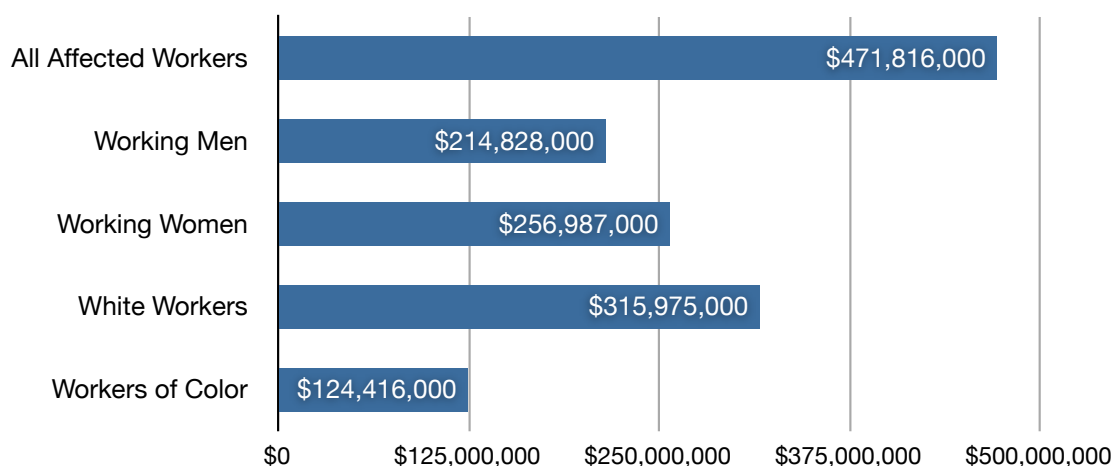


Out of all White workers in Minnesota, 13 percent or 273,200 workers would get a raise. Meanwhile 17 percent of Minnesota's Asian workers or 29,710 persons, 22 percent of black workers or 23,550 persons, and 29 percent of Hispanic workers or 30,340 persons would get a raise.

Raising the state minimum wage to \$9.50 an hour would increase the aggregate earnings of Minnesota's working people by an estimated \$471,816,000 per year. This would mean an average increase of about \$1,300 in yearly pay for every worker whose wage would get a boost as a result of the new minimum wage. Actual increases would be larger for workers currently earning well below \$9.50 an hour, smaller for workers already making close to \$9.50 an hour.

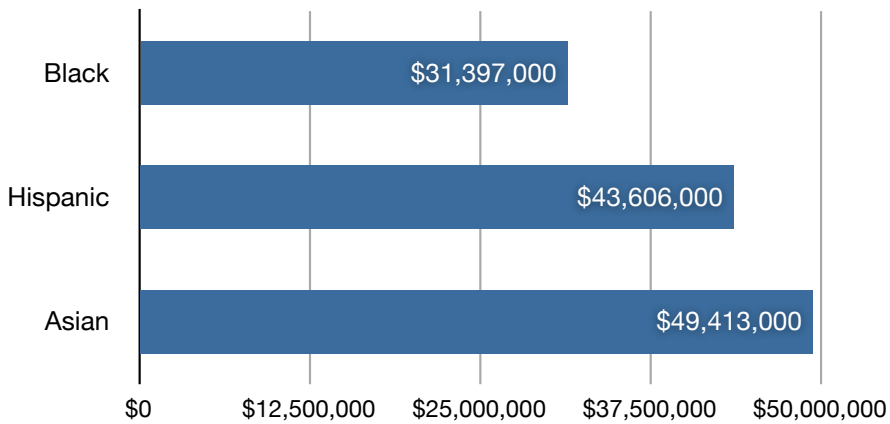
A \$9.50 minimum wage would provide an important wealth-building effect for various demographic populations defined by gender or race. Out of the estimated total increase in wages for Minnesota workers, men would see an aggregate annual increase of \$214,828,000, women \$256,987,000, White workers \$315,975,000, and workers of color \$124,416,000.

### Wealth-Building Effect by Gender & Race



Wealth estimates rounded to nearest thousand.

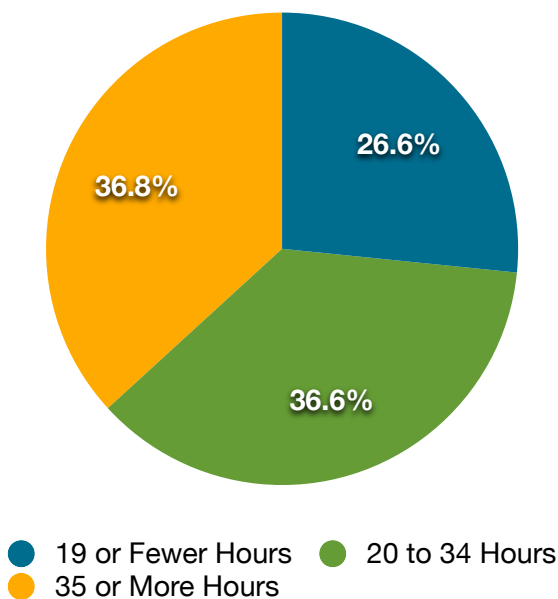
### Minority Wealth-Building Effect by Race



Among communities of color, Black workers would see an aggregate annual increase of \$31,397,000, Hispanic workers \$43,606,000, and Asian workers \$49,413,000.

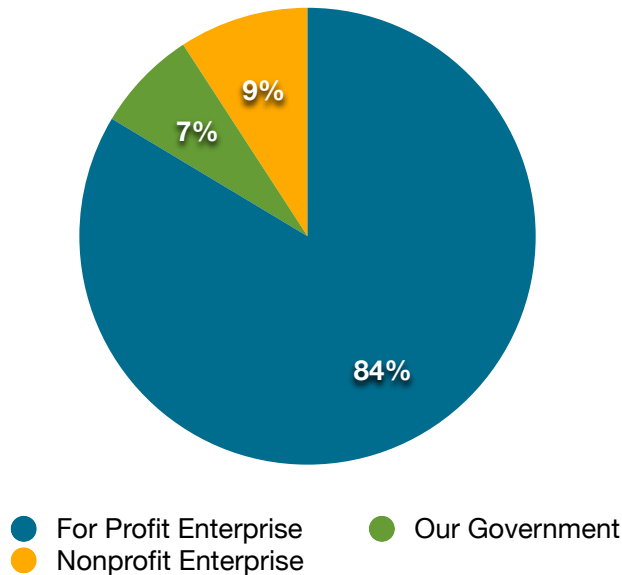
Wealth estimates rounded to nearest thousand.

### Workers Who Get a Raise by Hours



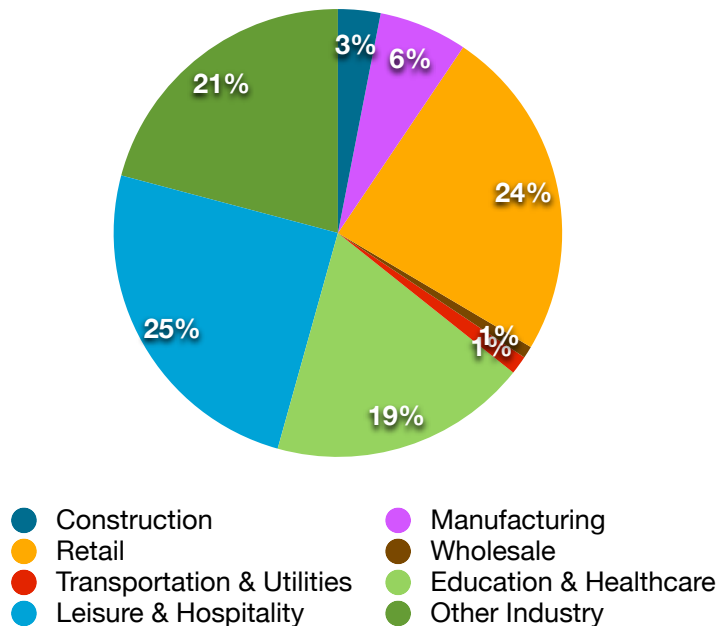
More than a third of Minnesota workers who would get a raise work full-time or close to full-time hours. Some 36.8 percent or 131,200 workers work 35 or more hours per week, while 36.6 percent or 130,600 workers work 20 to 34 hours a week, and 26.6 percent or 94,920 workers work 19 or fewer hours a week.

### Workers Who Get a Raise by Sector



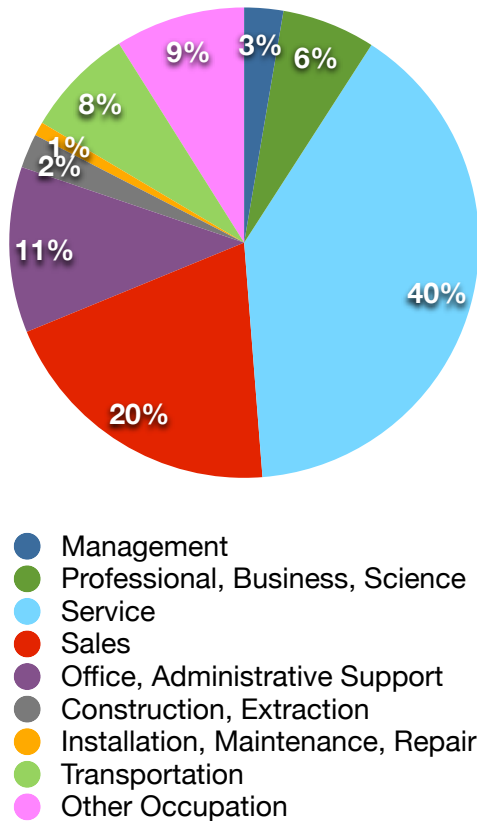
Among Minnesota workers who would get a raise, the vast majority are employed in the for-profit sector. About 84 percent or 298,200 workers are employed by for-profit businesses, while only 9 percent or 32,740 workers are employed by non-profit enterprises and 7 percent or 25,790 workers are employed by government.

### Workers Who Get a Raise by Industry



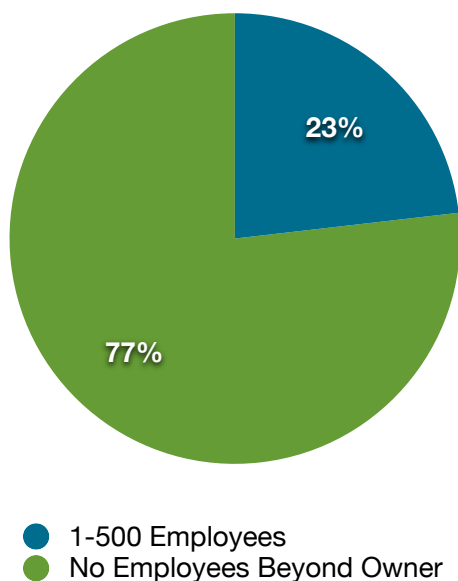
Among Minnesota workers who would get a raise, the leisure & hospitality industry employs 25 percent or 88,500 workers, retail employs 24 percent or 85,890 workers, other industries employ 21 percent or 74,430 workers, education & healthcare employs 19 percent or 66,420 workers, manufacturing employs 6 percent or 22,740 workers, construction employs 3 percent or 10,910 workers, wholesale employs 1 percent or 3,100 workers, and transportation & utilities employs 1 percent or 4,770 workers.

### Workers Who Get a Raise by Occupation



Among Minnesota workers who would get a raise, service occupations employ 40 percent or 141,400 workers, sales 20 percent or 71,540 workers, office & administrative support 11 percent or 40,660 workers, other occupations 9 percent or 31,910 workers, transportation 8 percent or 26,920 workers, professional, business, & science 6 percent or 22,950 workers, management 3 percent or 9,570 workers, construction & extraction 2 percent or 8,400 workers, and installation, maintenance, & repair 1 percent or 3,400 workers.

### Minnesota Small Businesses Without Employees



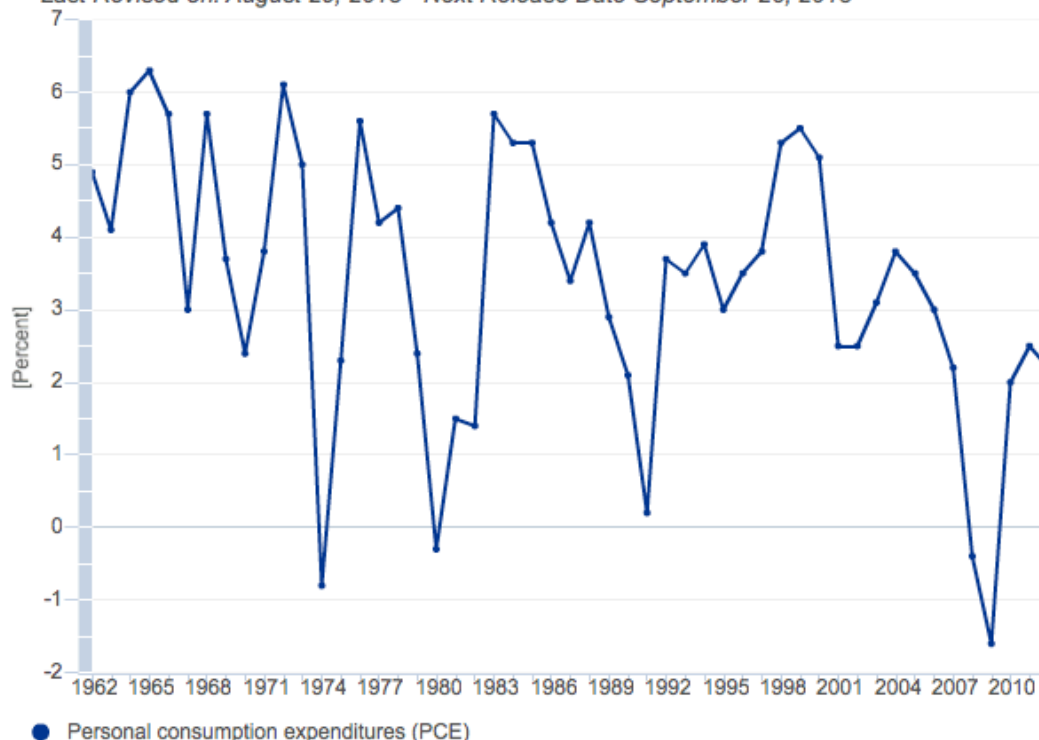
According to the US Small Business Administration, 77 percent of Minnesota's 496,900 small businesses are owner operated with no employees.<sup>13</sup> The wage bill for these businesses will not be affected by a minimum wage increase.

The economic principle of the marginal propensity to consume suggests, in fact, that increased wages for workers at the low end of the pay scale will largely be spent locally on life necessities. This would mean that a higher Minnesota minimum wage is likely to boost local sales for Minnesota's small businesses.

Nationally the growth rate in personal consumption expenditures has been declining for almost fifty years, according to the Bureau of Economic Analysis' National Income and Product Accounts. From a high of 6.3 percent annual growth in personal consumption in 1965, the growth rate has fallen to 5.5 in 1999, to 2.5 in 2011, and to 2.2 in 2012. The rate stood at 1.9 percent as of the second quarter of 2013. The increased \$472 million in annual consumer spending power which this study estimates could result from a \$9.50 an hour minimum wage would be one step toward strengthening Minnesota's consumer economy.

**Table 2.3.1. Percent Change From Preceding Period in Real Personal Consumption Expenditures by Major Type of Product**

*Last Revised on: August 29, 2013 - Next Release Date September 26, 2013*



Source: U.S. Bureau of Economic Analysis

## Conclusion

Raising the Minnesota minimum wage to \$9.50 an hour would benefit working Minnesotans across the demographic spectrum and would help strengthen Minnesota's consumer economy, giving a much-needed boost to sales at local businesses due to the marginal propensity to consume.

## EPI Analysis Methodology

EPI's demographic and wage analysis is based chiefly on data from the 2012 Current Population Survey, Outgoing Rotation Group. The scenario models a 3-stage increase in the minimum wage, a \$0.75 increase on August 1, 2013, a \$1.00 increase on August 1, 2014, and a \$0.50 increase on August 1, 2015.

Demographic characteristics are taken from step three, because the step three demographics describe cumulatively all workers affected as a result of all the increases. Wage increase totals are the sums of all three steps.

Assumed annual population growth: 0.858% (MN projected average annual rate from 2012 to 2015 according to Minnesota State Demographic Center, January 2012: <http://www.demography.state.mn.us/resource.html?Id=32539>)

No annual wage growth is assumed in first year, 1.7 percent wage growth assumed in years two and three (Minnesota average wage growth of bottom 20 percent of wage earners in 2012, according to CPS).

Total estimated workers is estimated from the CPS respondents who were 16 years old or older, employed, and for whom either a valid hourly wage is reported or one can be imputed from weekly earnings and average weekly hours. Consequently, this estimate represents the identifiable wage-earning workforce and tends to understate the size of the full workforce.

Directly affected workers will see their wages rise as the new minimum wage rate will exceed their current hourly pay.

Indirectly affected workers have a wage rate between the new minimum wage and the new minimum wage plus the dollar amount of the increase in the previous year's minimum wage (\$0.50 in the scenario). They will receive a raise as employer pay scales are adjusted upward to reflect the new minimum wage.

## Relation Between the Study Model and Actual Policy

Movement of the actual bill through the Minnesota legislature during the 2013 legislative session has resulted in certain deviations from the theoretical model. For example, because the bill stalled in conference committee, bill proponents have now indicated they are seeking two steps to \$9.50 for large employers, one step in 2014 and one step in 2015, and the dollar amount of each step has not yet been determined. The compression from three steps to two steps would raise the spillover effect limit from \$10.00 to \$10.50. Thus the present report's estimation of spillover effects would be understated. However, the present report models a single-tier minimum wage of \$9.50 an hour for all workers, while the actual bill calls for a three-tier minimum wage of \$9.50 by 2015 for employees of large employers (\$500,000 or higher gross annual revenue), \$8.50 an hour for employees of small employers (under \$500,000 gross annual revenue), and \$8.00 training wage for employees under age 20 employed by their current employer for under three months. The three-tier bill could mean that the present report's estimation of the number of affected workers is overstated at the top end (because some minimum wage workers will be paid \$8.50 instead of \$9.50). However, the fact that out of all Minnesota small businesses (defined as businesses with fewer than 500 employees), 77 percent are owner-operated and have no employees at all suggests that the Minnesota small employer minimum wage tier might apply to a relatively small share of Minnesota businesses and employees. The absence of the state law's three tiers in the study model also suggests that aggregate wage increases may be understated in the study. The study assumes that the lowest affected wages would rise from \$7.25, while in reality some wages would rise from Minnesota's lower tiers of \$6.15 and below, meaning that aggregate increases will be greater than estimated here.

## Endnotes

1. Worker demographic effects and wage effects result from an analysis of the 2012 Current Population Survey's Outgoing Rotation Group, conducted by the Economic Policy Institute, Washington, DC, exclusively for JOBS NOW Coalition. In JOBS NOW's demographic graphs and descriptions, numbers in millions are rounded to the nearest thousand, 100 thousands are rounded to the nearest 100, and 10 thousands and under are rounded to the nearest 10.
2. HF 92, 4th Engrossment - 88th Legislature (2013 -2014), Minnesota House of Representatives. See [www.revisor.mn.gov/bills/text.php?number=HF92&version=4&session=ls88&session\\_year=2013&session\\_number=0](http://www.revisor.mn.gov/bills/text.php?number=HF92&version=4&session=ls88&session_year=2013&session_number=0).
3. "Case for a Substantial Minimum Wage Hike for Minnesota", Ann Markusen, Jennifer Ebert, and Martina Cameron, Humphrey Institute of Public Affairs, University of Minnesota, 2004.
4. Find today's value of the 1968 \$1.60 minimum wage using the US Bureau of Labor Statistics CPI Inflation Calculator at [www.bls.gov/data/inflation\\_calculator.htm](http://www.bls.gov/data/inflation_calculator.htm).
5. "The Minimum Wage Is Too Damn Low", John Schmitt, Center for Economic and Policy Research, 2012.
6. US Department of Labor. See [www.dol.gov/compliance/guide/minwage.htm](http://www.dol.gov/compliance/guide/minwage.htm).
7. Family Wage and Budget Calculator, JOBS NOW Coalition. See [www.jobsnowcoalition.org/calculator/calculator.html](http://www.jobsnowcoalition.org/calculator/calculator.html).
8. "Case for a Substantial Minimum Wage Hike for Minnesota", Ann Markusen, Jennifer Ebert, and Martina Cameron, Humphrey Institute of Public Affairs, University of Minnesota, 2004. See discussion of spatial effect, page 5.
9. National Income and Product Accounts, Personal Consumption Expenditures, US Bureau of Economic Analysis. See Section 2 - Personal Income and Outlays, Table 2.3.1, at [www.bea.gov/iTable/index\\_nipa.cfm](http://www.bea.gov/iTable/index_nipa.cfm).
10. Minimum Wage Report, Minnesota Department of Labor and Industry. See [www.dli.mn.gov/RS/MinWageReport.asp](http://www.dli.mn.gov/RS/MinWageReport.asp).
11. Total of Minnesota children taken from Quick Facts, Minnesota, US Census. See [quickfacts.census.gov/qfd/states/27000.html](http://quickfacts.census.gov/qfd/states/27000.html).
12. Geographic Profile, Table 14, US Bureau of Labor Statistics, 2012.
13. "Small Business Profile, Minnesota", US Small Business Administration, Office of Advocacy, 2013. See [www.sba.gov/advocacy/848](http://www.sba.gov/advocacy/848).