

Impact of a \$12 an Hour Minimum Wage On the State of Oregon

Fewer Jobs, Reduced Employment

Prepared for the
Oregon Neighborhood Store Association

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Executive Summary

Economics International Corp. has been retained by the Oregon Neighborhood Store Association to evaluate proposals to increase the Oregon minimum wage to \$12 an hour, effective January 2016. During 2015, Oregon's Legislative Assembly is expected to consider several proposals that would raise the minimum wage, with some proposals hiking the minimum wage to as high as \$15 an hour. The analysis provides the following findings.

- **A minimum wage increase to \$12 an hour would reduce Oregon employment by approximately 52,500.** The reduced employment would result from some workers losing their jobs and some workers being unable to find a job. Others may be discouraged by the reduced employment opportunities and exit the labor force. A steeper hike would produce even bigger reductions in employment.
- **Most economic evidence indicates that increasing minimum wages are associated with reduced employment.** A comprehensive review of the research by the Congressional Budget Office finds that the negative impacts are felt through wide portions of the economy with youth employment disproportionately damaged. For example, studies find that a 10 percent increase in the minimum wage would be associated with a 1 percent to 4 percent decrease in teenage employment. CBO's analysis is based on an increase in the federal minimum wage. State-level impacts are likely to be larger as many employers operate in a national labor market and can shift staffing across state lines.
- **A \$12 an hour minimum wage would likely *reduce* total wage income in the state.** A minimum wage increase would take income from one group of Oregon workers in order to benefit another group of Oregon workers, without increasing—and likely *decreasing*—total Oregon wage income. While some employees would see a modest increase in their annual salaries, tens of thousands of Oregonians would be unable to find employment and would have no wage income.
- **A steep minimum wage increase would reduce employment through business closures and reduced hours of operation.** Some employers respond to a minimum wage increase by reducing their use of low wage workers. Some employers respond to a minimum wage increase by passing on some of the increased costs to consumers in the form of higher prices. Many businesses do not have the flexibility to adjust staffing or raise prices—these businesses would close locations or reduce hours of operation.

About the author

Eric Fruits, Ph.D. is president and chief economist at Economics International Corp., an Oregon based consulting firm specializing in economics, finance, and statistics. He is also an adjunct professor at Portland State University, where he teaches in the economics department and edits the university's quarterly real estate report.

Dr. Fruits has been engaged by private and public sector clients, including state and local governments, to evaluate the economic and fiscal impacts of business activities and government policies. His economic analysis has been widely cited and has been published in *The Economist*, the *Wall Street Journal*, and *USA Today*. His research has been published in top-tier academic journals, such as the *Journal of Law and Economics* and the *Journal of Real Estate Research*.

Dr. Fruits has been invited to provide analysis to the Oregon legislature regarding the state's tax and spending policies. His testimony regarding the economics of Oregon public employee pension reforms was heard by a special session of the Oregon Supreme Court. He has conducted previous research on the impact of minimum wage indexing on youth employment and on skilled nursing/assisted living facilities.

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Economics International Corp. has been retained by the Oregon Neighborhood Store Association to evaluate proposals to increase the Oregon minimum wage to \$12 an hour. Our research focuses on the employment impacts of the proposed minimum wage increase. The upcoming legislative session will likely consider proposals that would hike the minimum wage to as high as \$15 an hour. A steeper hike would produce even bigger reductions in employment.

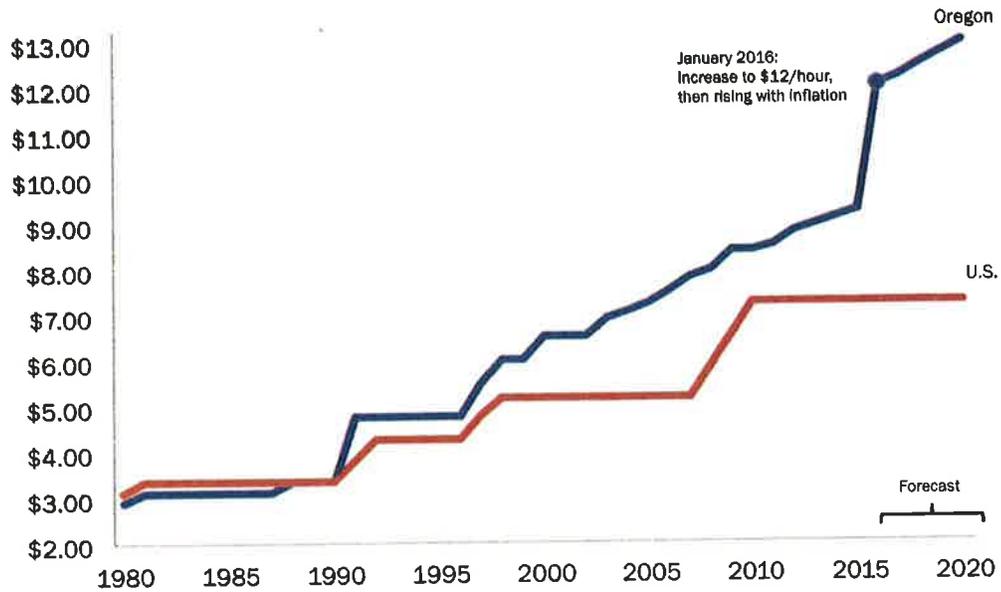
1 Introduction and Background

During 2015, Oregon's Legislative Assembly is expected to consider several proposals to increase the state's minimum wage. For example, Oregon Labor Commissioner Brad Avakian has indicated that he will propose in the upcoming legislative session that the state increase its minimum wage to \$12 an hour.¹ Other proposals would hike the minimum wage to as high as \$15 an hour.

Figure 1 shows that since the early 1990s, Oregon's minimum wage has exceeded the federal minimum wage. In November 2002, Oregon voters passed Measure 25, which increased Oregon's minimum wage to \$6.90 per hour effective January 1, 2003. In addition to the increase, the ballot measure requires the state to adjust annually the minimum wage for inflation based on a rise in the consumer price index. In January 2015, Oregon's minimum wage increased 15 cents to \$9.25 an hour, or \$2.00 more than the federal minimum wage. Assuming the federal rate remains unchanged, an increase to \$12.00 an hour would make Oregon's minimum wage 65 percent higher than the federal rate (Figure 2).

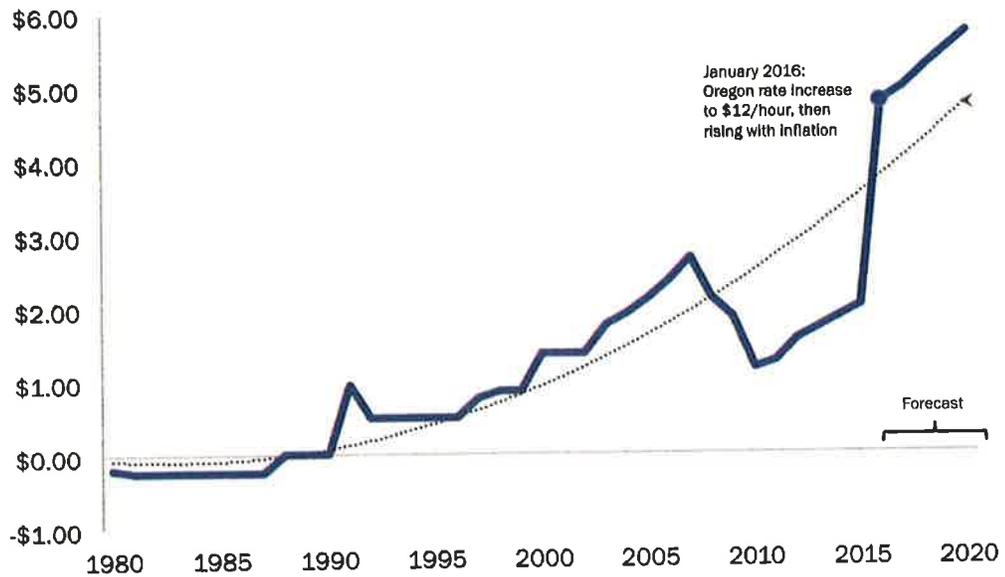
¹ See, for example, Glucklich, E. (2014). Labor chief to seek boost in Oregon minimum wage. *Register-Guard*. September 18. "Oregon Labor Commissioner Brad Avakian stopped short of explicitly advocating for a \$12 minimum wage. But he said meager increases based on inflation don't reflect the disparity between employee pay and the cost of feeding a family."

Figure 1
Minimum wage, Oregon and Federal



Source: U.S. Bureau of Labor Statistics; Tax Policy Center

Figure 2
Difference in Oregon and Federal minimum wage
Oregon wage minus Federal wage

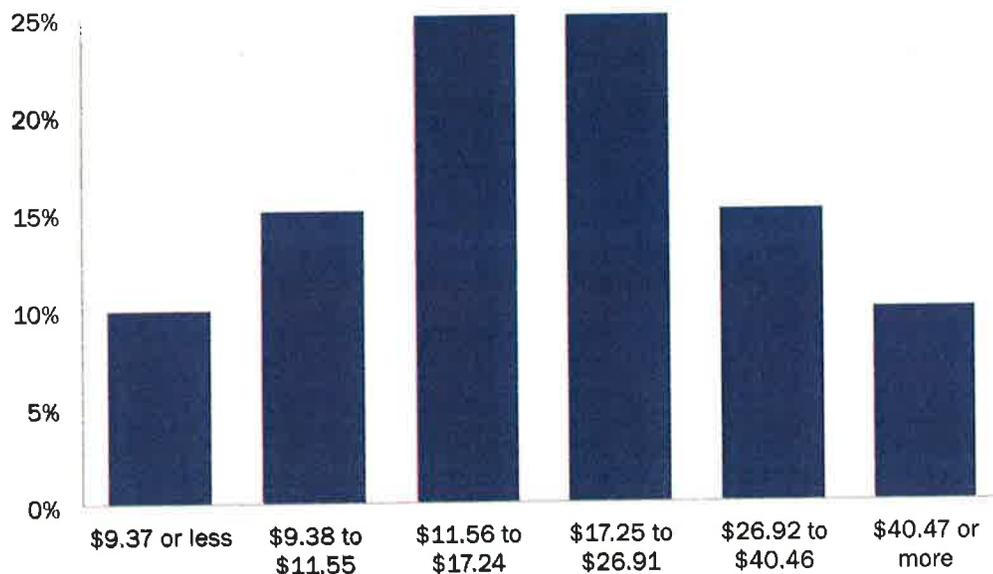


Source: U.S. Bureau of Labor Statistics; Tax Policy Center

The Oregon Bureau of Labor and Industries reports that approximately 142,000 Oregon workers—about eight percent of the state’s workforce—would be affected by the 2015 minimum wage increase.² Current Population Survey data provided by the U.S. Census Bureau and the U.S. Bureau of Labor Statistics report that fewer than one in six minimum wage earners are employed full time. CPS data also show that one-third of minimum wage earners are single adults and fewer than 15 percent are single parents. In other words, just over 1 percent of Oregon’s workers are single parents earning minimum wage.

In most families with a minimum wage earner, the worker at minimum wage is not the only source or even the primary source of family income. That is one reason why CPS data report the average income for an Oregon family with a minimum wage earner is approximately \$42,000 a year, or roughly double the federal poverty level for 2014 for a family of three or four. In addition, a large portion of families in poverty have no one working and thus would not benefit from an increase in the minimum wage.

Figure 3

Distribution of Oregon hourly wages and salaries, 2013

Source: U.S. Bureau of Labor Statistics

² Oregon Bureau of Labor and Industries (2014). Avakian announces 2015 minimum wage increase for 141,000 workers. Press release. September 17.

While minimum wage earners currently represent a fairly small share of the state's employment, the proposal to raise the minimum wage to \$12 an hour would affect a large portion of the state's workforce and could have significant impacts on employment and incomes. For example, information provided by BLS indicates that by 2016, approximately 25 percent of Oregon workers—about 450,000—would be employed in a job paying \$12 an hour or less (Figure 3).³ Indeed, many positions that are not typically considered “low wage” would be affected by the proposal, including veterinary assistants, non-emergency ambulance drivers, chauffeurs, and child care workers.

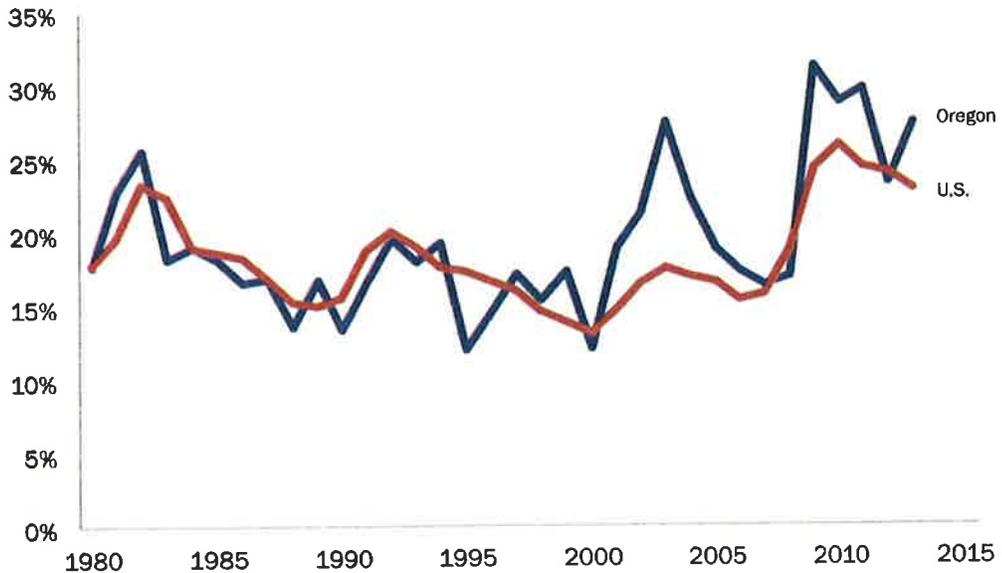
Oregon persistently has had one of the highest unemployment rates in the U.S. In many of the past 30 years, Oregon has ranked in the top 10 states for unemployment. In addition to the state's high and annually increasing minimum wage, several other factors explain Oregon's persistently high unemployment. For example, Oregon has a reputation for rigid employment laws and health insurance mandates that add to firms' costs of growing their workforces. In addition, Oregon has had relatively high rates of in-migration, adding to competition for employment opportunities. The additional costs of employment associated with state regulations also contribute to Oregon's lagging wage income growth relative to the U.S. as a whole.

Employment opportunities for the youngest members of Oregon's working age population are exceptionally bad. Since the last recession, unemployment among the state's 16–19 year olds has been 25 percent or higher. While Figure 4 gives the impression that unemployment among members of this age group roughly tracks U.S. trends, Figure 5 shows that, in fact, the employment situation has worsened over time. The figure shows that since the 2001 recession, Oregon's unemployment among 16–19 year olds worsened relative to the U.S. as a whole and is currently four percentage points higher.

Similarly, Figure 6 gives the impression that labor force participation among Oregon 16–19 year olds is following the same downward trend experienced in the U.S. as a whole. However, Figure 7 shows that Oregon's labor force participation has worsened since the mid-1990s, dropping steeply in the 2001 recession. Thus, not only has Oregon's young labor force shrunk relative to the rest of the country, those that are in the labor force increasingly are having more difficulty finding employment. A higher minimum wage would only worsen the state's youth employment situation.

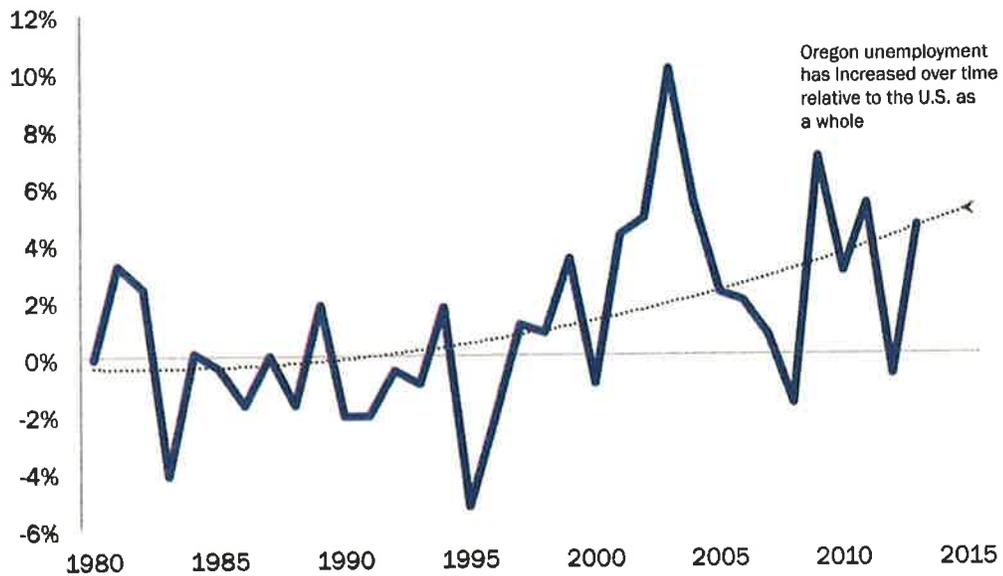
³ United States Bureau of Labor Statistics (2014). May 2013 state occupational employment and wage estimates Oregon. <http://www.bls.gov/oes/special.requests/oesm13st.zip>.

Figure 4
Unemployment rate, ages 16-19, Oregon and U.S.



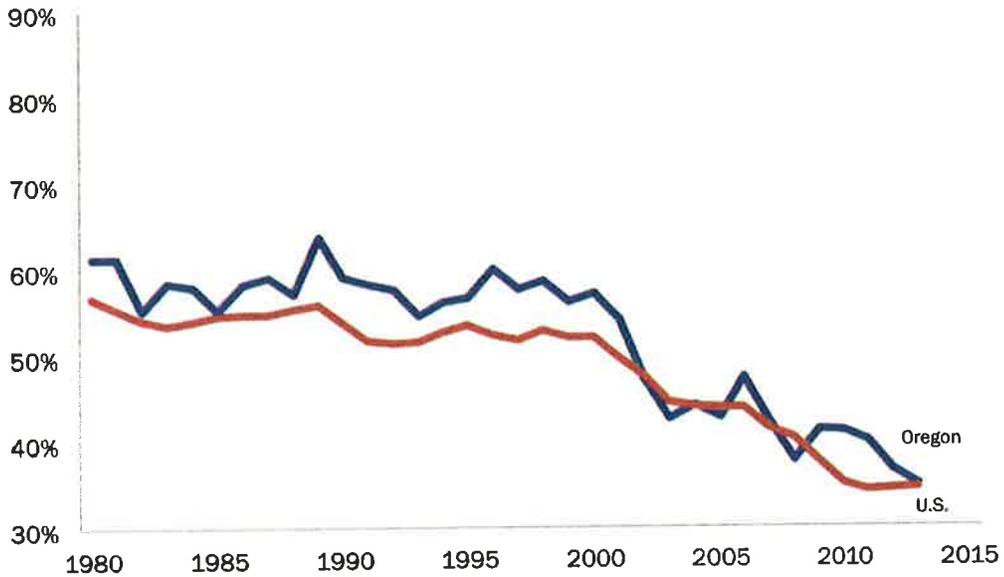
Source: Oregon Employment Department; U.S. Bureau of Labor Statistics

Figure 5
Difference in Oregon and U.S. unemployment rate, ages 16-19
 Oregon rate minus U.S. rate



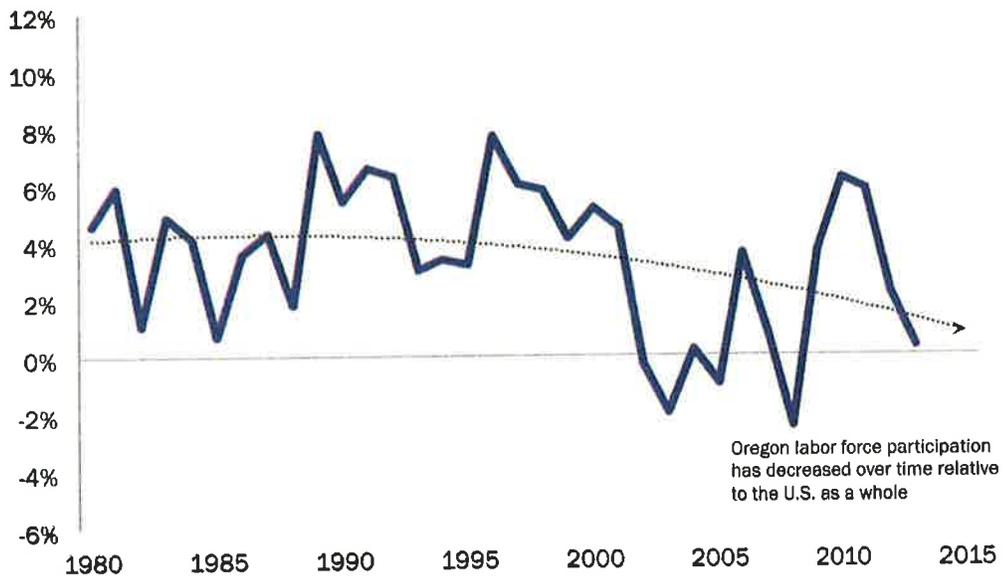
Source: Oregon Employment Department; U.S. Bureau of Labor Statistics

Figure 6
Labor force participation, ages 16-19, Oregon and U.S.



Source: Oregon Employment Department; U.S. Bureau of Labor Statistics

Figure 7
Difference in Oregon and U.S. labor force participation, ages 16-19
 Oregon rate minus U.S. rate



Source: Oregon Employment Department; U.S. Bureau of Labor Statistics

In addition to a worsening employment situation in the state, wage and salary incomes in Oregon have not kept pace with the U.S. as a whole. Figure 8 shows that both Oregon and U.S. wage and salary income per worker has increased over time, masking the widening gap in Oregon's average incomes relative to the U.S. as a whole.

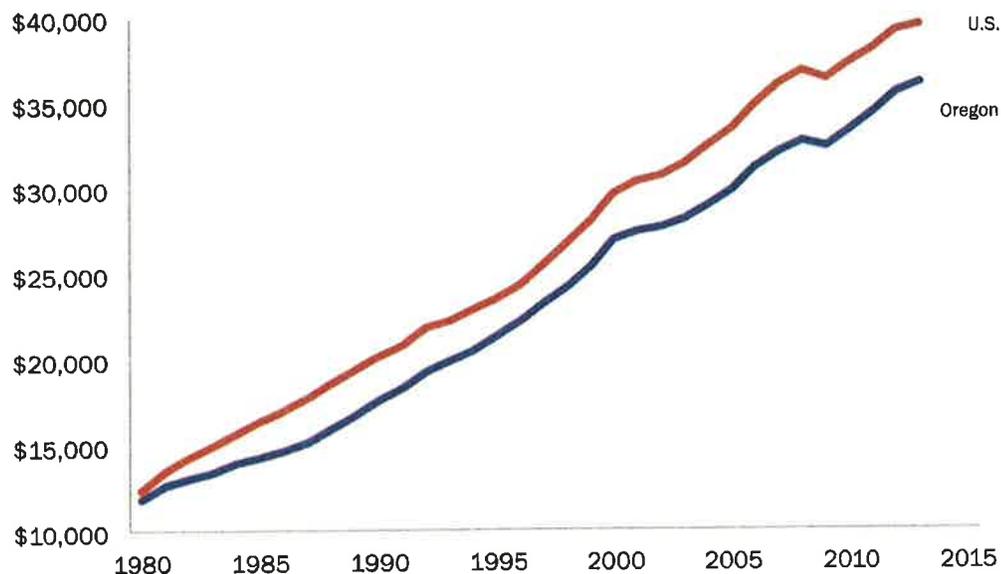
Figure 9 shows that in 1980, the average Oregon employee had about \$500 less in wage and salary income than the U.S. average. In 2013, the gap had widened to \$3,360, despite the high and annually increasing minimum wage. In 2013, average wage and salary income per worker in Oregon was 8.5 percent below the U.S. average.

While many factors contribute to Oregon's sluggish income growth, Figure 10 suggests that the state's ever-rising minimum wage is not boosting income growth. In fact, the figure indicates that as Oregon's minimum wage grew, state-wide wage income slipped further behind the U.S. as a whole.

For Oregon, it appears that the ever increasing minimum wage has not reversed the steady worsening of the state's poverty rate. Figures 11 and 12 show that from 1980 through 2000, Oregon's poverty rate was 1.4 percent lower than the U.S. average. From 2001 to the present—in the face of high and annually increasing minimum wages—the poverty rate has worsened to 0.6 percent lower than the U.S. average.

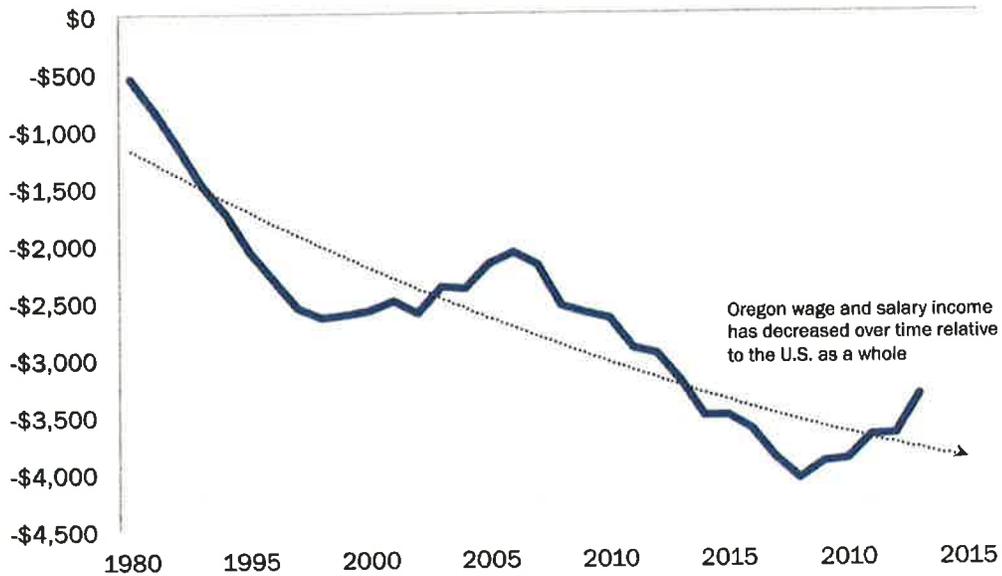
Figure 8

Average wage and salary income per employee, Oregon and U.S.



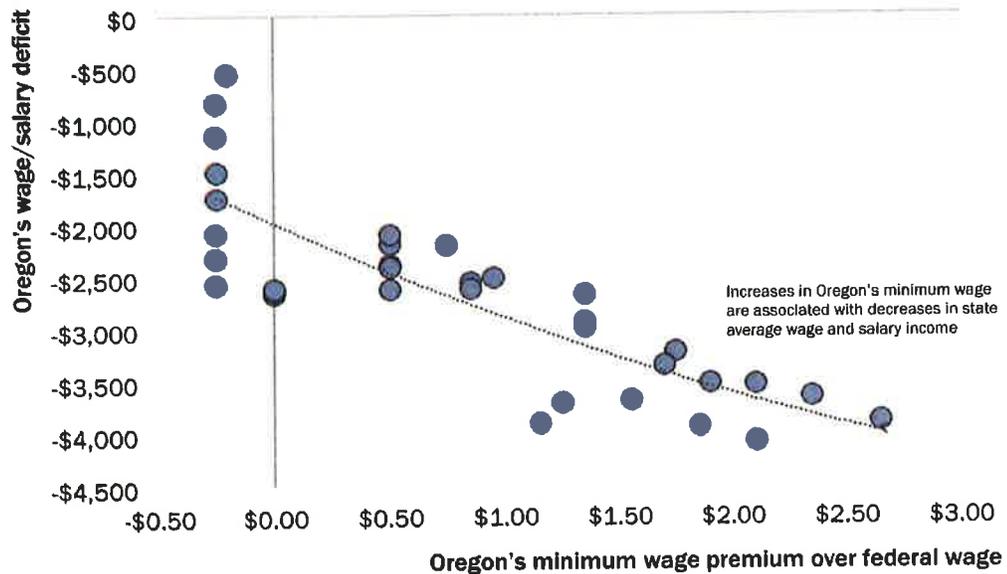
Source: U.S. Bureau of Economic Analysis

Figure 9
Difference in Oregon and U.S. average wage and salary income
 Oregon average minus U.S. average



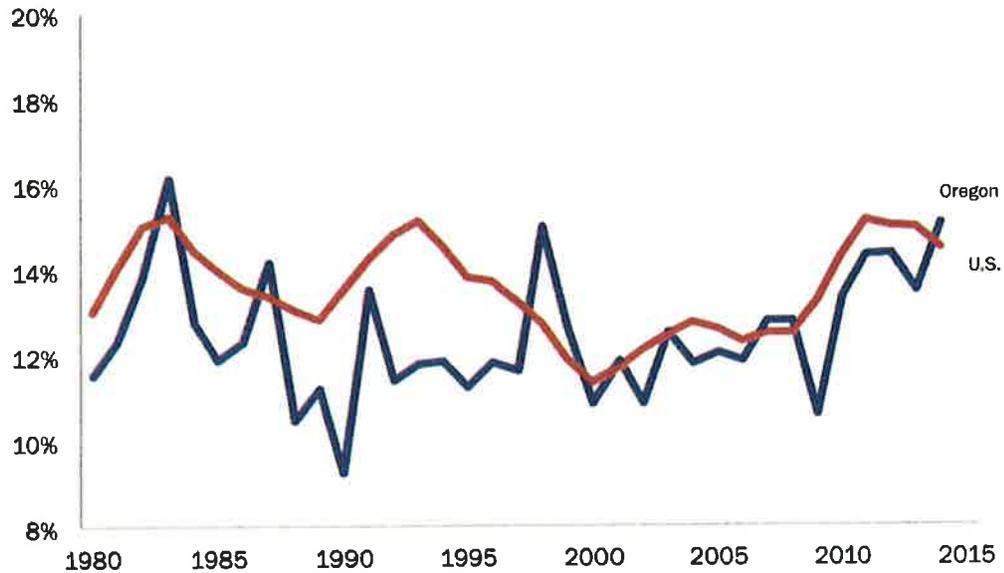
Source: U.S. Bureau of Economic Analysis

Figure 10
Increasing Oregon minimum wage associated with decreasing incomes
 Oregon wage minus Federal wage



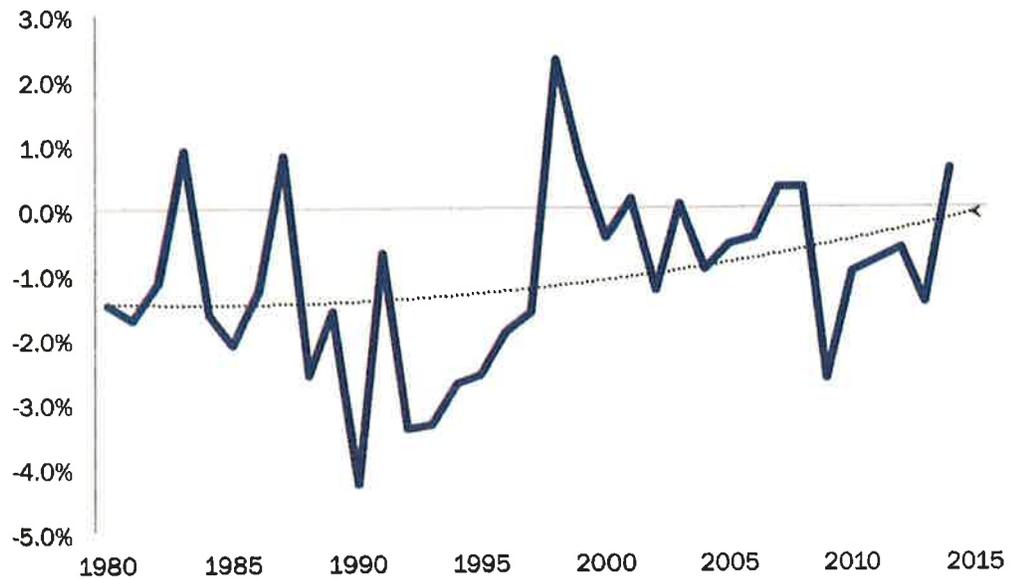
Source: U.S. Bureau of Labor Statistics and Bureau of Economic Analysis; Tax Policy Center

Figure 11
Poverty rate, Oregon and United States



Source: U.S. Census Bureau

Figure 12
Difference in Oregon and U.S. poverty rate
 Oregon rate minus U.S. rate



Source: U.S. Census Bureau

increase in their annual salaries, tens of thousands of Oregonians would be unable to find employment and would have no wage income.