



PRESS RELEASE

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CONTACT: James Parrott
Fiscal Policy Institute
212-721-5624 or 917-880-9931

Sharon Kayne
Communications Director, New Mexico Voices for Children
505-244-9505 ext. 30 (p), 505-401-8709 (c), skayne@nmvoices.org

Fiscal Policy Institute Report: Higher Minimum Wages Help Small Businesses

ALBUQUERQUE—As more and more states and cities raise their minimum wage, a new report from the **Fiscal Policy Institute (FPI)** shows that a diverse set of states with minimum wages above the federal \$5.15 level have had faster job growth among small businesses and in the retail trade sector than states where the lower federal minimum prevailed.

Opponents of increasing the minimum wage have long argued that such a raise would adversely impact small businesses, which tend to be labor intensive and employ low-wage workers. A raise in wages, they argue, is a raise in operating expenses, which would require small businesses to lay off workers. To test this claim, FPI compared small business job growth and economic performance between the higher and lower minimum wage states from 1998 to 2003 (the latest year that an analysis for small business is possible). FPI's results consistently contradict the standard argument of minimum wage opponents. In fact, small businesses in the higher minimum wage states as a group had faster job growth (6.7%) than the other 40 states combined (5.3%). The higher minimum wage states also saw a greater gain in the number of small businesses and greater growth in total payrolls and average pay per worker for small employers.

FPI's Chief Economist James Parrott offered this explanation for these results: "Faced with an increase in the minimum wage, rather than cut jobs or the number of hours worked, small businesses may have benefited from some combination of higher productivity through improved worker retention and savings from recruitment and training." Parrott added, "There may also be a 'Henry Ford' effect at work: if you pay workers more, they can buy more, boosting the overall economy, especially among small, neighborhood retailers."

The federal minimum wage was last raised in September of 1997 and in a few months this will be the longest span without an increase in the wage floor since the establishment of a federal minimum wage in 1938. Since 1997, 19 states and the District of Columbia have

raised their own minimum wage levels above the federal \$5.15 hourly wage. Michigan joined this group of states recently when Governor Granholm signed into law a three-step increase that will raise Michigan's minimum to \$7.40 in July 2007.

In New Mexico's past legislative session, Governor Bill Richardson pushed for an increase in the state's minimum wage to \$7.50. The House passed an increase of \$7.50, but the Senate failed to act before time ran out. New Mexicans for a Fair Wage, a coalition of community groups that supports raising the minimum wage, is now pushing for an ordinance in the city of Albuquerque and is looking to other municipalities across the state to also enact local ordinances. The city of Santa Fe increased its minimum wage in 2005 to \$8.50 and then to \$9.50 on Jan. 1, 2006. Santa Fe has experienced healthy growth and lower unemployment than the rest of the state since raising its minimum wage.

The findings of the new FPI report are consistent with a growing body of economic research that has called into question the long-held prediction that a higher minimum wage will reduce the number of jobs or the number of hours worked by low-wage workers.

Overall, based on its extensive data analysis, the report concludes that higher minimum wages have helped workers get a fairer wage while small businesses have continued to grow.

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The Fiscal Policy Institute report, "*States with Minimum Wages above the Federal level have had Faster Small Business and Retail Job Growth*," is attached as a MS Word document.

FPI is a nonpartisan research and education organization that focuses on the broad range of tax, budget, and economic and related public policy issues that affect the quality of life and the economic well being of New York State residents. The FPI website may be found at: www.fiscalpolicy.org.

New Mexico Voices for Children is a nonprofit organization advocating for policies to improve the health and well-being of New Mexico's children, families and communities.
2340 Alamo SE, Suite 120, Albuquerque, NM 97106; 505-244-9505; www.nmvoices.org