

HOW RAISING AND INDEXING THE MINIMUM WAGE HAS IMPACTED STATE ECONOMIES

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INTRODUCTION

New Mexico is one of 18 states that require most of their employers to pay a higher wage than the federal minimum wage of \$7.25 an hour. New Mexico raised its minimum wage from \$5.15 to \$6.50 in 2008, then to \$7.50 in 2009. The federal Minimum Wage Act of 2007 increased the national minimum wage from \$5.15 to \$7.25 over the course of three years.

Because neither the state nor federal wages are indexed to rise with inflation, both have stayed where they were in 2009—despite the fact that inflation has made the cost of most goods and services higher. Some of New Mexico’s municipalities have enacted wage levels higher than the state’s minimum wage, but only the wage in Santa Fe is indexed.

The federal minimum wage was first implemented in 1938 and, although it set the wage at 25 cents and applied to just 20 percent of the workforce, it had considerable opposition.¹ The legislation—the Fair Labor Standards Act—also limited the workweek to 44 hours and prohibited children under the age of 16 from working. Over the years, the wage has been expanded to cover more workers—although tipped employees are still exempt. The federal minimum wage is periodically raised by Congress. When it was last raised in 2007, it had been stagnant for a decade.²

Since 2007, 18 states and the District of Columbia have set their state-level minimum wages above the

federal level. Nine states—Arizona, Colorado, Florida, Missouri, Montana, Nevada, Oregon, Vermont, and Washington—have indexed their minimum wage to keep pace with inflation. Four states—Arkansas, Georgia, Minnesota, and Wyoming—along with Puerto Rico, have statutes setting minimum wage levels below the federal wage. Five additional states—Alaska, Louisiana, Mississippi, South Carolina, and Tennessee—have no state minimum wage.

When the minimum wage is not indexed to inflation, its value falls by about 3 percent per year because inflation, as measured by the Consumer Price Index, is running at about 3 percent a year. Table I (“Value of New Mexico Minimum Wage Lost to Inflation,” page 2) shows how this will impact the New Mexico minimum wage over several years. By 2020, the real value of a minimum wage of \$750 an hour will fall to \$6.22, for a loss of \$1.38 an hour. A full-time minimum wage worker would lose \$2,870 each year as a result.

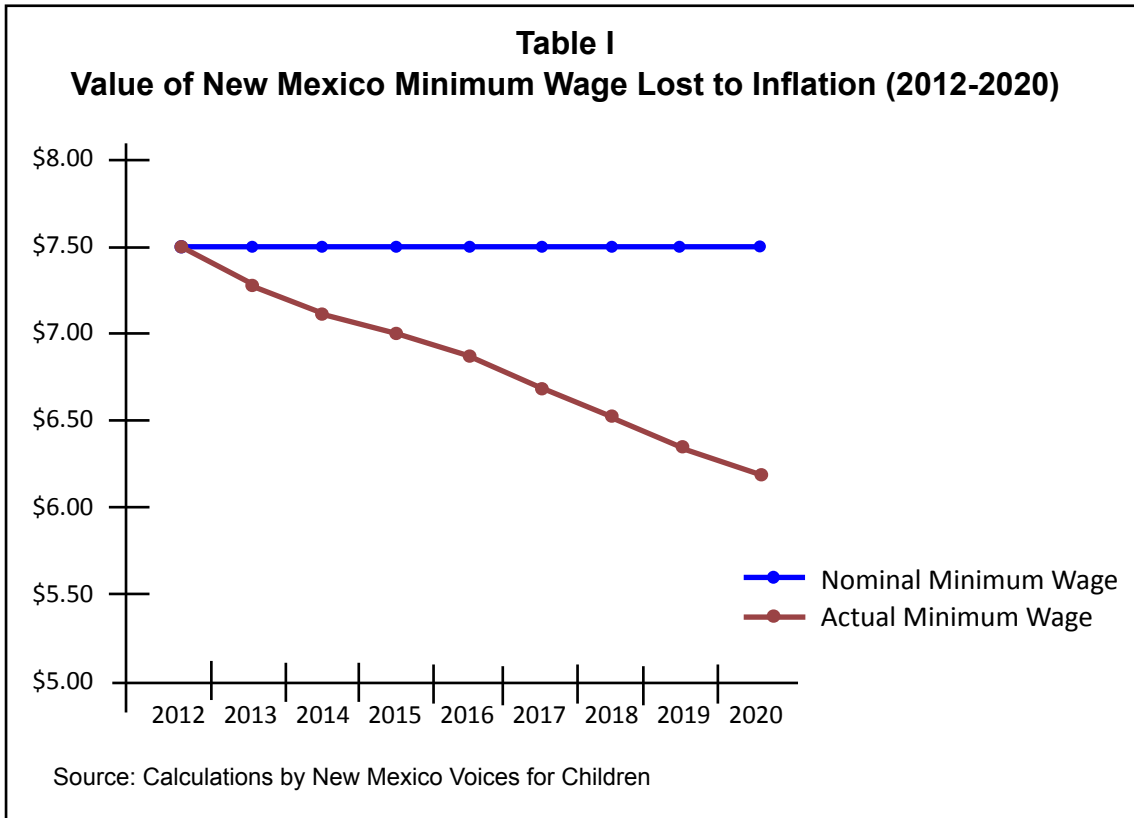
Every time a legislative body moves to raise the minimum wage it encounters opposition, largely from business interests. Such opposition is usually accompanied by prognostications of certain economic doom. But research has shown that raising the minimum wage is actually good for the economy.

This paper will present estimates on the economic impact of raising and indexing the minimum wage

in New Mexico. It will also describe the economic performance of states with a minimum wage higher than the federal level in four commonly used measures: job growth, poverty, state per capita personal income, and the proportion of hourly wage workers paid at or below the federal minimum.

\$350. The total amount of increased wages would be more than \$20 million.

When low-wage workers receive wage increases, the vast majority of that money is plowed right back into the local economy. This is because workers earning



ECONOMIC IMPACT

Raising the minimum wage does stimulate the economy, although modestly. Predictably, most of the impact of raising the minimum wage goes to low-wage workers. The Economic Policy Institute (EPI) recently released an estimate of the economic impact of a 25 cent increase in the New Mexico minimum wage. This is roughly the increase that would have resulted if the state wage had been indexed for a 3 percent rate of inflation. Of New Mexico's 723,000 hourly workers, 36,000 would have received that 25 cent increase from \$7.50 to \$7.75. Another 23,000 hourly workers would have been indirectly impacted because, as the bottom of the wage scale moves up, wages for the next tier of low-wage workers are increased. The total number of affected hourly workers would be 59,000, or 8.2 percent of hourly workers. The EPI estimated that each worker would receive an average annual increase of

low incomes generally have to spend their entire paycheck on day-to-day living expenses. They have little, if any, money left over for savings. Because of this new spending, the \$20 million increase in wages would result in an increase of the state Gross Domestic Product (GDP) of \$12.8 million. (The fact that the GDP for the state is lower than the wage increase is the result of some consumption from increased wages going to buy goods from out of state.) Increased spending leads to job growth and the EPI estimates that New Mexico would see 110 more jobs due to the economic impact.

JOB GROWTH

When looking at other states that have increased their minimum wage, we can conclude that it does not impact state job growth. About half the states that

have increased their minimum wage saw employment growth as they recovered from the Great Recession.³ Job growth in those states with a wage higher than that is

indexed to inflation also did not seem to be impacted (see Table II, “State Non-Farm Employment Growth in Annual Averages,” below).

Table II
State Non-Farm Employment Growth in Annual Averages (2009-2011)

	2009	2011	% change
United States	13,0807	13,1359	0.4%
States with Job Growth			
North Dakota	367	394	7.5%
Washington, DC	702	728	3.7%
Alaska	321	329	2.5%
Texas	10,305	10,557	2.5%
Michigan	3,871	3,936	1.7%
Utah	1,189	1,208	1.6%
Indiana	2,787	2,830	1.6%
New York	8,556	8,683	1.5%
Tennessee	2,620	2,656	1.4%
Pennsylvania	5,618	5,687	1.2%
Kentucky	1,769	1,790	1.2%
West Virginia	746	754	1.1%
Virginia	3,642	3,680	1.0%
Maryland	2,524	2,548	1.0%
Massachusetts	3,181	3,211	0.9%
South Carolina	1,816	1,832	0.9%
Louisiana	1,901	1,917	0.8%
Minnesota	2,655	2,676	0.8%
Vermont*	297	300	0.8%
South Dakota	403	406	0.6%
Oklahoma	1,542	1,550	0.6%
Colorado*	2,246	2,255	0.4%
Oregon*	1,613	1,618	0.3%
Florida*	7,254	7,272	0.2%
North Carolina	3,913	3,922	0.2%
Ohio	5,073	5,083	0.2%
Delaware	417	417	0.2%
Hawaii	592	592	0.1%
Illinois	5,657	5,663	0.1%
Georgia	3,881	3,880	0.0%

	2009	2011	% change
States with Job Losses			
Nebraska	945	944	-0.1%
Rhode Island	461	460	-0.1%
Washington*	2,822	2,821	-0.1%
Iowa	1,479	1,478	-0.1%
Wisconsin	2,744	2,741	-0.1%
Connecticut	1627	1,624	-0.2%
California	14,092	14,061	-0.2%
New Hampshire	628	626	-0.2%
Wyoming	286	286	-0.2%
Arkansas	1,165	1,160	-0.4%
Kansas	1,343	1,337	-0.4%
Maine	596	593	-0.5%
Idaho	610	607	-0.5%
Mississippi	1,096	1,090	-0.6%
Montana*	429	426	-0.7%
Arizona*	2,429	2,406	-1.0%
New Jersey	3,895	3,856	-1.0%
New Mexico	812	804	-1.0%
Alabama	1,887	1,867	-1.1%
Missouri*	2,684	2,650	-1.3%
Nevada*	1,148	1,125	-2.0%

States with minimum wage higher than federal
* States with minimum wage indexed to inflation

Source: US Bureau of Labor Statistics Current Employment Statistics program. Calculations by NM Voices for Children.

Based on the experience of other states during the recovery from the Great Recession, an increase in New Mexico’s minimum wage to \$8.50 with indexing would not result in job loss. As noted above, a simulation performed recently by the Economic Policy Institute for New Mexico Voices for Children predicts a modest positive effect on employment.

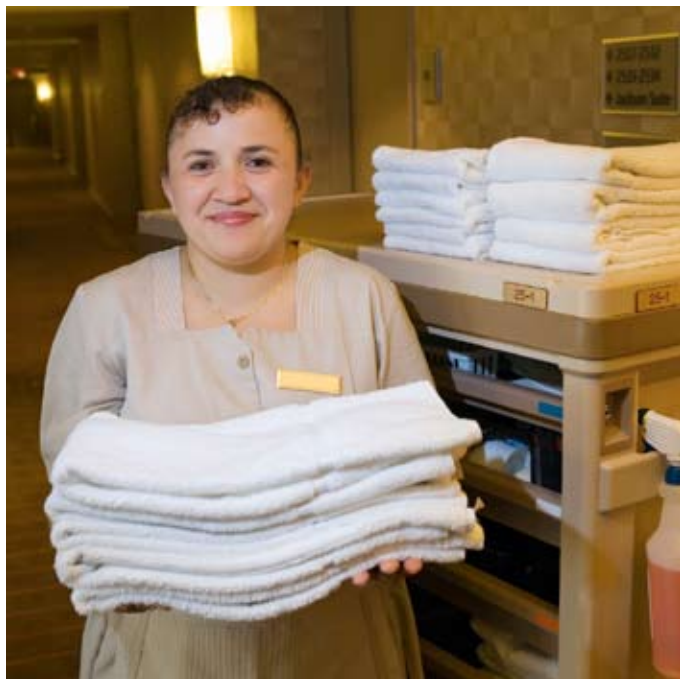
the benefits of that growth are spread across the population will have a stronger impact on poverty than the higher minimum wage. Still, the higher minimum wage is important (see Table III, “Percent of State Population Living Below the Federal Poverty Line,” page 5).

POVERTY

More than half of the states that have raised their minimum wage have poverty rates lower than the national average of 15.3 percent. Unfortunately, New Mexico is not one of the states experiencing a lower-than-average poverty rate. Clearly, while a higher minimum wage may help to alleviate poverty, many other economic factors are at work. The overall rate of economic growth and whether

SANTA FE LIVING WAGE: A CASE STUDY

The Santa Fe metropolitan area provides an ongoing real-time experiment in the impact of a fairly high minimum wage on the economy. Santa Fe currently has the strongest economy in New Mexico. Since April of this year, Santa Fe employers have been required to pay a minimum wage of \$10.29 an hour. The Santa Fe Living Wage ordinance initially set the Santa Fe wage at \$8.50 an hour in 2004. It was raised to \$9.50 in 2006 and, because it is indexed, has increased at regular intervals since that time. The unemployment rate in Santa Fe County—at just 4.7 percent—is the lowest of New Mexico’s four metropolitan areas. Job growth in Santa Fe is now at 2.1 percent, which may not seem impressive until one considers that the other three metropolitan areas are still losing jobs. Most of the job growth was in the leisure and hospitality sector—the sector most affected by the living wage floor. The record in Santa Fe demonstrates that it is possible to have a fairly high cost of living and a fairly high minimum wage along with low unemployment and strong job growth.



PER CAPITA INCOME

Half of the states that have a minimum wage above the federal level have a per capita income higher than the national average. Per capita income is the most commonly used measure of economic performance and is determined by dividing the state’s personal income by the state population. Personal income includes all earned income from wages and salaries, unearned income from dividends, interest and rents, and transfer receipts such as Social Security and Medicare. Clearly, having a higher minimum wage does not damage a state’s economic success as measured by per capita income (see Table IV, “State Per Capita Income,” page 6).

PROPORTION OF MINIMUM-WAGE WORKERS

In 2006, before the state and federal minimum wage increases, almost 6 percent of New Mexicans earned the minimum wage. This was double the national average at the time of approximately 3 percent.⁴ Now, because New Mexico's minimum wage is higher than the federal, the portion of New Mexico's hourly workforce that is paid the current federal minimum wage is lower than the national average. Raising the state minimum wage to \$7.50 has been a clear success in that New Mexico no longer ranks at the top by percentage of low-wage workers (see Table V, "Percent of Minimum Wage Workers by State," page 7).

CONCLUSION

State lawmakers should raise the state minimum wage and index it to inflation during the 2013 legislative session. Doing so will actually give a modest boost to the economy and create more than 100



jobs. New Mexico's low-wage workers would earn a combined \$20 million more each year, much of which would be spent right here in New Mexico.

Table III
Percent of State Population Living Below the Federal Poverty Line (2010)
 Ranked Highest to Lowest

United States	15.3%		
		Montana*	14.6%
Mississippi	22.4%	South Dakota	14.4%
New Mexico	20.4%	Rhode Island	14.0%
Washington, DC	19.2%	Illinois	13.8%
Alabama	19.0%	Kansas	13.6%
Kentucky	19.0%	Colorado*	13.4%
Arkansas	18.8%	Pennsylvania	13.4%
Louisiana	18.7%	Washington*	13.4%
South Carolina	18.2%	Utah	13.2%
West Virginia	18.1%	Wisconsin	13.2%
Georgia	17.9%	North Dakota	13.0%
Texas	17.9%	Maine	12.9%
Tennessee	17.7%	Nebraska	12.9%
North Carolina	17.5%	Vermont*	12.7%
Arizona*	17.4%	Iowa	12.6%
Oklahoma	16.9%	Delaware	11.8%
Michigan	16.8%	Minnesota	11.6%
Florida*	16.5%	Massachusetts	11.4%
California	15.8%	Wyoming	11.2%
Ohio	15.8%	Virginia	11.1%
Oregon*	15.8%	Hawaii	10.7%
Idaho	15.7%	New Jersey	10.3%
Indiana	15.3%	Connecticut	10.1%
Missouri*	15.3%	Alaska	9.9%
Nevada*	14.9%	Maryland	9.9%
New York	14.9%	New Hampshire	8.3%

States with minimum wage higher than federal

* States with minimum wage indexed to inflation

Source: US Bureau of Labor Statistics Current Employment Statistics program. Calculations by NM Voices for Children.

ENDNOTES

- 1 "Fair Labor Standards Act of 1938: Maximum Struggle for a Minimum Wage," Jonathan Grossman, US Department of Labor, <http://www.dol.gov/oasam/programs/history/flsa1938.htm>.
- 2 History of Federal Minimum Wage Rates Under the Fair Labor Standards Act, 1938 – 2009, US DOL, <http://www.dol.gov/whd/minwage/chart.htm>.
- 3 Current Employment Survey conducted by the U.S. Bureau of Labor Statistics.
- 4 Other states with a higher-than-average portion of minimum wage workers include Louisiana (5%), Oklahoma (close to 5%), Texas (almost 4%); Colorado (close to 4%), Arizona (about 3%) and Utah (almost 3%).

Table IV
State Per Capita Income (2011)
Ranked Highest to Lowest

United States	\$41,663		
Washington, DC	\$73,105	Wisconsin	\$40,073
Connecticut	\$56,889	Texas	\$39,593
Massachusetts	\$53,621	Florida*	\$39,563
New Jersey	\$53,181	Louisiana	\$38,578
Maryland	\$51,038	Missouri*	\$38,248
New York	\$50,545	Nevada*	\$38,173
Wyoming	\$47,301	Maine	\$37,973
Virginia	\$45,920	Oregon*	\$37,909
New Hampshire	\$45,787	Ohio	\$37,791
North Dakota	\$45,747	Oklahoma	\$37,277
Alaska	\$45,529	Montana*	\$36,573
Minnesota	\$44,672	Michigan	\$36,533
California	\$44,481	Tennessee	\$36,533
Washington*	\$44,294	North Carolina	\$36,164
Illinois	\$44,140	Georgia	\$36,104
Colorado*	\$44,088	Arizona*	\$35,875
Rhode Island	\$43,992	Indiana	\$35,550
Hawaii	\$43,053	Alabama	\$34,650
Pennsylvania	\$42,478	New Mexico	\$34,575
Vermont*	\$41,832	Arkansas	\$34,014
Delaware	\$41,635	Utah	\$33,790
South Dakota	\$41,590	South Carolina	\$33,673
Nebraska	\$41,584	Kentucky	\$33,667
Kansas	\$40,481	West Virginia	\$33,513
Iowa	\$40,470	Idaho	\$33,326
		Mississippi	\$32,176

States with minimum wage higher than federal
* States with minimum wage indexed to inflation

Calculations by NM Voices for Children

Table V
Percent of Minimum Wage Workers by State (DATE)
 Ranked Highest to Lowest

	Total	At \$7.25	Below \$7.25
United States	5.2	2.3	2.9
Georgia	9.6	5.1	4.5
Mississippi	8.5	5.4	3.1
Texas	8	4.4	3.6
West Virginia	7.4	4.3	3
Louisiana	7.4	3.3	4.2
South Carolina	7.3	3.9	3.4
Virginia	7.1	3.4	3.8
Missouri*	7.1	3.5	3.6
Kansas	7	3.4	3.6
Tennessee	6.9	3.3	3.6
Oklahoma	6.8	4.3	2.4
North Carolina	6.8	3.2	3.6
Arkansas	6.6	4.4	2.1
Alabama	6.5	3.7	2.7
Florida*	6.3	1.9	4.4
Indiana	6.2	3.1	3.1
Wyoming	6	3	3
Louisiana	5.8	2.8	3.1
Pennsylvania	5.7	2.9	2.8
Iowa	5.6	3	2.7
Arizona*	5.6	1.3	4.3
New Jersey	5.5	2.3	3.2
Nebraska	5.5	2.8	2.6
North Dakota	5.3	2.9	2.4
Delaware	5.2	1.4	3.8
South Dakota	5.1	2.8	2.4

	Total	At \$7.25	Below \$7.25
New York	5.1	2.3	2.7
Minnesota	5.1	3	2
Maryland	5.1	2.1	3
Idaho	5	3.2	1.8
Ohio	4.7	0.8	3.8
Hawaii	4.7	2.5	2.2
Wisconsin	4.6	1.9	2.7
Utah	4.6	2	2.6
Michigan	4.6	1.1	3.5
New Mexico	4.4	1.3	3.1
Washington, DC	4.3	1.1	3.2
Colorado*	4	0.7	3.3
Massachusetts	3.9	0.7	3.2
Rhode Island	3.8	1	2.8
New Hampshire	3.8	1.1	2.7
Montana*	3.7	2.2	1.5
Maine	3.7	0.8	2.9
Illinois	3.5	0.9	2.6
Nevada*	3.3	1.3	1.9
Connecticut	2.9	0.5	2.4
Vermont*	2.2	0.5	1.6
Alaska	1.9	0.5	1.4
Washington*	1.8	0.4	1.5
California	1.6	0.6	1
Oregon*	1.2	0.4	0.8

States with minimum wage higher than federal

* States with minimum wage indexed to inflation

Source: US Bureau of Labor Statistics. Calculations by NM Voices for Children.



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