OREGON CENTER FOR PUBLIC POLICY

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Executive Summary

April 24, 2003

Cooking the Public Debate:

The Restaurant Association's Misleading Recipe for the Minimum Wage

By Jeff Thompson

The Oregon Restaurant Association (ORA), the Oregon Farm Bureau, and the National Federation of Independent Businesses have proposed legislation, House Bill 2624, that would eliminate annual inflation adjustments to Oregon's minimum wage approved by the voters last fall. The ORA, in particular, continues to argue that Oregon's 1996 voter-mandated minimum wage increases caused job losses and that the 2002 initiative's increases are causing job losses now.

Economic data belie the ORA's claims:

- A study cited repeatedly by the ORA concluded that its results "confirm prior findings that the employment effects of the minimum wage [increase] are small" and that Oregon restaurants did not actually lose jobs, they only lost growth in jobs compared to Washington.
- When compared to states other than Washington, Oregon restaurant employment growth does not appear to have slowed in the late 1990s. Most states with economies comparable to Oregon experienced slower growth in restaurant employment, even if they did not increase their minimum wage.
- The booming economy of the late 1990s provided workers with better job opportunities and made it difficult for restaurants, which tend to pay low wages, to hire workers. When the labor market fell slack during the 2001 recession, Oregon restaurants were again able to hire.
- Despite thousands of lost jobs during the 2001 recession and a subsequent "jobless" recovery, employment in Oregon's restaurants is growing. Sectors losing the most jobs in 2001, high-tech, manufacturing, construction, and business services, were only minimally affected by the minimum wage increases. Between December 2000 and 2001, when Oregon lost nearly 38,000 jobs, the restaurant industry grew by almost 1,000.
- Between March 2002 and 2003, restaurants added 1,900 jobs while total non-farm employment shrank by 1,500. The ORA recently reported that employment growth in restaurants is "one of the few true shining stars" in Oregon's economy.
- Young workers with little education, those most likely to work at or near the minimum wage, saw their employment prospects improve after the minimum wage increases of the late 1990s.
- The impact of minimum wage increases on restaurant costs has been relatively small. Restaurants have likely been able to pass such increases on to consumers through modest price increases.

Oregon's consistent high unemployment is due to rapid in-migration, a high concentration of seasonal employment, and rural isolation, not the minimum wage. Even if recent minimum wage increases were eliminated, the state would continue to have one of the highest unemployment rates in the country.

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By Jeff Thompson[1]

In November 2002, Oregon voters approved Measure 25, a citizen initiative that raised Oregon's minimum wage to $6.90 and required annual inflation adjustments. Several business lobbying groups, including the Oregon Restaurant Association (ORA), Oregon Farm Bureau Federation (OFB), and National Federation of Independent Businesses (NFIB), have proposed legislation, House Bill 2624, that would eliminate the inflation adjustments.

The ORA, in particular, continues to argue that Oregon's 1996 minimum wage increase caused job losses during the second-half of the 1990s, and that the 2002 increase is causing job losses now. The restaurant industry is hoping that these arguments, which failed to convince voters in 1996 and in 2002, will persuade legislators to overturn the result of the November 2002 election. Neither claim is accurate.

To support their claim that the 1996 increase caused job losses, the ORA relies on a study, conducted by professors at the University of Oregon, which found "small" job losses in Oregon restaurants, when compared to Washington. This finding does not hold when Oregon is compared to other states or to the national average.

Analysis of the available data suggests that employment in Oregon restaurants grew slowly in the late 1990s because they were unable to hire enough workers. Despite minimum wage increases in 1997, 1998, and 1999, wages offered by restaurants were still too low to attract workers who had better job prospects during the economic boom of the late 1990s. Employment data for young workers with little education, those most likely to work at or near the minimum wage, suggests that their chances of being employed rose after the increases of the late 1990s.

While thousands of Oregonians lost jobs in the recent recession, and the current recovery has been deemed "jobless," the minimum wage increases have not been the cause of Oregon's poor economic performance.[2] Job losses during the 2001 recession were concentrated in sectors only minimally affected by the minimum wage: high-tech manufacturing, construction, and business services. The industry with the highest concentration of minimum wage workers - the restaurant industry - expanded during the recession, and continued to grow rapidly during 2002.

Oregon's minimum wage increases had nothing to do with the state's unemployment rank nationally. The ORA's own estimates of restaurant industry job loss account for a tiny portion of Oregon's unemployment rate. Even assuming that the ORA's claims were true, Oregon's unemployment rate still would have been the second highest in the country if the previous increase in the minimum wage were reversed. Honest attempts to understand Oregon's high unemployment rate acknowledge that it is due to rapid in-migration, a high concentration of seasonal employment, and isolated rural areas.

Oregon's minimum wage increases have had a relatively small impact on restaurants' cost of doing business. Restaurants have likely been successful at responding to these industry-wide impacts through small price increases rather than widespread job losses.

The debate over minimum wages and jobs

Opponents of minimum wage increases continue to claim that increases in the wage are "irrefutable job killers."[3] The issue has been studied for decades, and research on the impact of minimum wage increases and employment regularly refutes the idea that an increase causes significant job losses. Some studies have shown that minimum wage increases are correlated with employment decreases, others have found no relationship, and still others have even found employment increases.[4] Summarizing the state of the research literature, economist Jared Bernstein recently wrote "At this point, I think it is fair to say that the debate over the purported job-loss effect is a debate over whether this effect is slightly below zero, or at zero. While this debate may be an important one among econometricians, from the perspective of policy makers… it is a distinction without a difference."[5]

Opponents of the minimum wage prefer to ignore this research and refer to individual studies they claim make the case for massive job loss as a result of increasing the minimum wage. The Oregon Restaurant Association has held up a study by University of Oregon professors Larry Singell and Jim Terborg to support their claims of job loss.[6] Singell and Terborg, however, are careful to point out that the study results "confirm prior findings that the employment effects of the minimum wage are small."[7] The ORA ignores this conclusion.

Even the small impacts claimed by the Singell and Terborg study are overstated. The Singell and Terborg results rely on a comparison between the states of Oregon and Washington. The findings do not hold if Oregon is compared to the US average or to other states.[8]

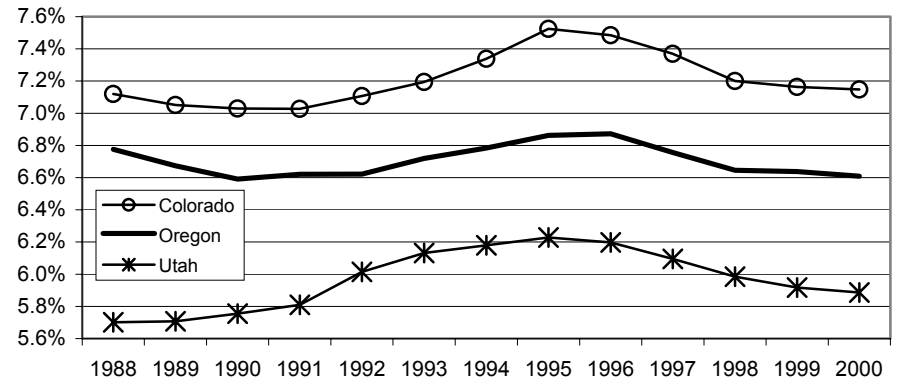
Restaurant employment in Oregon and other states

Singell and Terborg acknowledge that restaurants in Oregon did not actually lose jobs following the minimum wage increase, but that job growth slowed considerably, especially as compared to Washington. Singell and Terborg claim that if employment had continued to expand in Oregon as it did in Washington, then Oregon's restaurants would have employed three percent more workers, roughly three thousand jobs.[9]

The divergence between restaurant employment growth in Oregon and Washington, however, does not mean that Oregon would have seen more restaurant employment had it not increased its minimum wage in 1997, 1998, and 1999. For one thing, Washington's minimum wage also increased during this period. Washington's minimum wage rose five percent in late 1997, following federal legislation, and 11 percent in January 1999, due to a citizen initiative.

More importantly, the "missing restaurant jobs" that result from the Oregon/Washington comparison depend on the comparison state. In the late 1990s restaurant employment in Washington grew as fast as employment in other industries, maintaining a constant share of total employment. In most other states restaurant employment grew more slowly than in other industries, with the share of total employment declining. The performance of restaurants in Oregon looks bad in comparison to Washington state, but good when compared to other states. Had Singell and Terborg chosen to compare Oregon to states other than Washington, their results would have been different.

Figure 1. Eating and drinking share of total employment - selected states



Source: OCPP analysis of BEA data. Share of non-farm wage and salary employment.

Controlling for overall economic growth, by looking at restaurant employment as a share of total employment, restaurants in Oregon did not lose jobs compared to Colorado and Utah (Figure 1). Restaurant employment in Oregon, Utah, and Colorado grew faster than other industries in the early and mid-1990s, but more slowly in the second half of the 1990s. When labor markets became tight, these three states saw restaurant employment lag behind that of other industries. Since these two other states did not increase their minimum wages, but Washington did, it is unlikely that the differences in the performance of Oregon and Washington's restaurant industries are due to the minimum wage.

Washington may be Oregon's neighbor to the north, but geographic proximity does not necessarily make it the most appropriate state for economic comparison. Other states have economies that are arguably more similar to Oregon's, regardless of the geographic proximity. Based on a comparison of size and growth of Gross State Product, employment, population, and industry composition, there are at least eight other states that are arguably more similar to Oregon than is Washington. (See Appendix A for a detailed table and explanation of the state-by-state comparison.) Washington is, however, among the 13 states whose economies are most similar to Oregon's, based on these criteria. The relative performance of these states' restaurant industries is tracked in Table 1.

Analysis of these thirteen states and Oregon shows that nine saw the eating and drinking establishment share of employment decline between the mid-1990s and late-1990s. In these states, and in the national average, restaurant employment grew more slowly than overall employment during the late 1990s economic boom. None of these states saw total restaurant employment decline. In four states, including Washington, eating and drinking employment maintained its share of total employment. Only in tourism-heavy Nevada did eating and drinking employment actually grow as a share of employment in the late 1990s.

Table 1. Eating and drinking share of nonfarm wage and salary employment Oregon and comparison States

	Eating & Drinking Share			Growth	
	1990-91	1995-96	1998-99	early 90s to mid-90s	mid-90s to late 90s
United States	5.8%	6.1%	6.0%	0.3%	-0.1%
Arizona	6.8%	7.0%	6.7%	0.1%	-0.3%
Arkansas	5.1%	5.6%	5.5%	0.5%	0.0%
Colorado	7.0%	7.5%	7.2%	0.5%	-0.3%
Kentucky	6.2%	6.5%	6.5%	0.4%	0.0%
Minnesota	6.1%	6.1%	5.9%	0.0%	-0.2%
Nebraska	6.3%	6.3%	6.1%	0.0%	-0.2%
Nevada	5.3%	5.7%	5.8%	0.4%	0.1%
New Mexico	7.0%	7.4%	7.3%	0.4%	-0.1%
Oregon	6.6%	6.9%	6.6%	0.3%	-0.2%
South Dakota	7.0%	6.8%	6.7%	-0.2%	-0.1%
Tennessee	5.7%	6.2%	6.2%	0.5%	0.0%
Utah	5.8%	6.2%	6.0%	0.4%	-0.3%
Washington	6.3%	6.5%	6.5%	0.2%	0.0%
Wisconsin	6.5%	6.3%	6.1%	-0.1%	-0.2%

Source: OCPP analysis of BEA data. Share of nonfarm wage and salary employment.

Why use "share of employment"?
Employment may rise or fall in a given industry because of general economic factors affecting the entire state, or due to specific factors affecting only that industry. By examining changes in an industry's share of total employment, we can see how that industry is performing relative to the rest of the economy. Hence, we can isolate the impacts of trends impacting that industry, abstracting from changes in the broader economy.

In the first half of the decade, ten states, plus the national average, saw increases in the eating and drinking establishments' share of total employment. Between 1990-91 and 1995-96, when the economy was growing slowly, employment in eating and drinking establishments grew faster than in most other industries. Two of the states, Minnesota and Nebraska, saw no change in the eating and drinking share of employment, and two states, South Dakota and Wisconsin, saw the eating and drinking share decline.

During the second half of the 1990s, restaurant employment fared poorly relative to other industries in Oregon and in most comparison states, as well as nationally. It is unlikely that slower growth in Oregon's restaurant industry in the late 1990s is due to increases in the state's minimum wage.

Unattractive restaurant employment suffers in a "boom"

The relative decline of restaurant employment in the late 1990s appears be due to greater job opportunity for workers at the time. Restaurants were unable to hire enough workers because their jobs were relatively unattractive compared to the better offers then available to most workers. Irregular hours, combined with low pay and little opportunity for advancement, make restaurant work less desirable. In the early and mid-1990s, when the economy was growing slowly and labor markets were slack, more workers accepted jobs in the restaurant industry.[10] In that environment, restaurants were able to fill their job openings with relative ease.

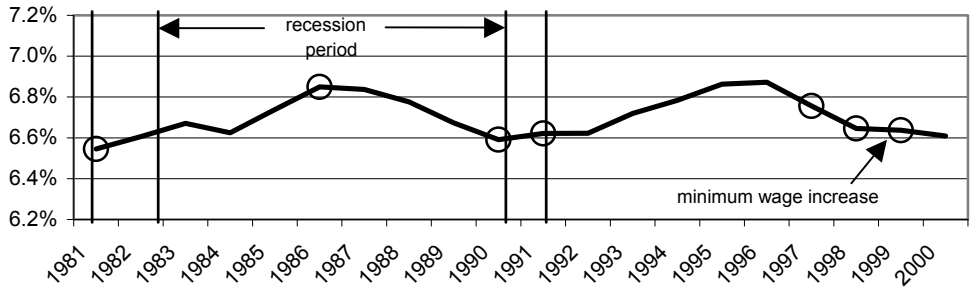
In the late 1990s the economy was growing rapidly and workers were harder to come by. Anecdotal evidence suggests that restaurants tried to hire workers, but had difficulty doing so in the late 1990s.[11] One newspaper story described how many Oregon businesses were struggling to find workers, particularly "businesses that pay workers $7.50 an hour or less, including many hotels and restaurants."[12]

Reports from the Oregon Employment Department showed that fast food workers, waiters and waitresses, and cooks were among the toughest jobs to fill across the state during the late 1990s.[13] The situation was severe enough that toward the end of 1999 a business reporter noted, "If Oregon restaurants collectively craved one thing, they would clasp their hands in prayer for a few good workers to staff bustling kitchens and serve jam-packed dining rooms."[14]

An Oregon Employment Department survey conducted in 2000 indicated that one-third of Oregon employers were having difficulty attracting and retaining workers. Retail trade establishments, including restaurants, reported having a more difficult time than most employers in hiring for sales, production, and service positions.[15] Thirty-four percent of retail firms reported having a high level of difficulty in hiring seasonal and part-time positions, and 45 percent had a high level of difficulty hiring for regular positions.[16]

Other industries had an easier time hiring, with only 19 percent of all firms reporting high levels of difficulty hiring seasonal and part-time positions, and 31 percent hiring regular positions.[17] The retail trade industry also did more hiring in general, with 79 percent of firms attempting to hire in the 12 months prior to the survey, compared with 67 percent of all firms in Oregon.

Figure 2. Oregon eating and drinking share of total non-farm employment



Source: OCPP analysis of BEA data.

The Oregon Employment Department wrote about the restaurant situation:

> "With much of the available labor force employed, there may be constraints on the available number of workers who are qualified and seeking work in the restaurant industry. …[M]any workers will opt to seek work in other industries where the average workweek is longer and employment is less seasonal. According to the National Restaurant Association surveys, 'finding qualified and motivated workers would be the most significant challenge that their business would face in both 1998 and 1999.'"[18]

Discussing employment patterns in the service industry, researchers at the Bureau of Labor Statistics identified certain industries whose employment appears to behave counter-cyclically – not faring as badly as other industries in recessions while faring worse in expansions.[19] Low-paying jobs in child day care, private schools, amusement and recreation, and nursing homes appear to behave counter-cyclically due to "the availability of more attractive job opportunities in other industries during times of economic expansion… Labor shortages in lower paying industries during economic expansions, then, may contribute to their noncyclical or countercyclical behavior."

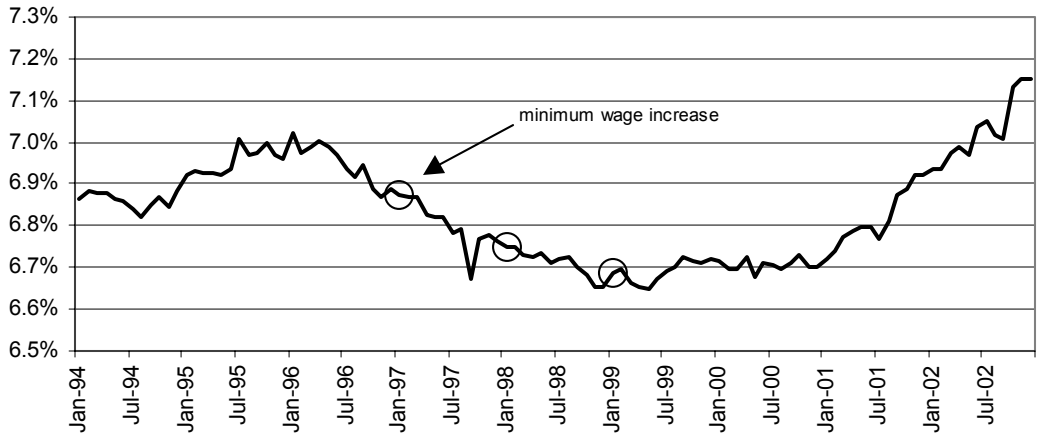
When the economy peaks, restaurants go down

Looking back across the last two business cycles, the growth in restaurant employment in Oregon does seem to fluctuate counter-cyclically, with little correlation to increases in the minimum wage (Figure 2). The restaurant share of employment in Oregon rose in the first half of the 1980s and during the first half of the 1990s, both periods when weak labor markets were recovering from periods of recession. In both the early 1980s and in the early 1990s, growth in restaurants relative to other industries followed increases in the minimum wage in 1981, 1990, and 1991.

When labor markets tightened toward the end of the business cycles during the last two decades, in the second half of the 1980s and the second half of the 1990s, the restaurant share of employment fell in Oregon. In the 1980s business cycle, the decline in the restaurant share of employment followed shortly after an increase in the minimum wage. In the 1990s, restaurants' share of employment began to lag behind other industries before the minimum wage increase.

Monthly data make the decline in the restaurant share of employment more clear (Figure 3). The restaurant share of employment crested in early 1996 and declined for most of that year prior to the

Figure 3. Oregon eating and drinking share of employment



Source: OCPP analysis of BLS data. Seasonally adjusted nonfarm employment.

January 1997 implementation of the increase in Oregon's minimum wage.[20]

The data in Figure 3 also demonstrate that, following the state's descent into recession in 2001, the restaurant industry has grown considerably faster than other industries, rising as a share of total employment. The restaurant share of employment was 6.7 percent between late 1997 and late 2000. Starting in early 2001, the restaurant share of employment increased, rising to nearly 7.2 percent by the end of 2002.

When Oregon's economy returns to rapid growth in the future, restaurants will likely again find it difficult to attract workers, and will grow more slowly than other industries that offer more attractive jobs. Until then, Oregon restaurants can expect relatively impressive employment gains in a slow-growing economy

Employment rates of young workers belie ORA claims

If the minimum wage increase had eliminated jobs, young workers with little education would have been the group most heavily impacted. This did not occur in Oregon.

The data show that young workers with little education had a better chance of being employed following Oregon's minimum wage increases in the late 1990s than they did before. Young workers, aged 16-24, with a high school degree or less, did not experience employment declines following Oregon's minimum wage increases.

While the employment rate (the share of the population that is employed) for those aged 16-24 was 55.9 percent in 1995, it had risen to 58.3 percent by 1998 (Table 2).[21] The low-education youth employment rate not only grew following the 1997 and 1998

Table 2. Oregon employment to population rates

	Ages 16-24 with high school degree or less	All persons ages 16+
1995	55.9	64.8
1996	57.4	65.2
1997	57.7	64.9
1998	58.3	65.5
1999	57.5	64.5
2000	58.5	66.1
Change		
1995 to 1998	2.4	0.7
1996 to 1998	0.9	0.3
1996 to 1999	0.1	-0.7
1998 to 1999	-0.8	-1
1995 to 2000	2.6	1.3

Source: OCPP analysis of Census Current Population Survey

increases in the minimum wage, but also grew faster than the employment rate of the rest of Oregon's population.[22] The employment rate for young workers grew by 2.4 percentage points between 1995 and 1998, while the employment rate of the total population grew less than one percentage point.

As total employment growth slowed in 1999, the employment rate dropped slightly for these young workers, declining 0.8 percent between 1998 and 1999. The drop, however, was less than the employment rate decline for the entire working age population, and still left the employment rate higher than during the years preceding the minimum wage increase.

The employment rate for all adults, including low-educated younger workers, rebounded between 1999 and 2000. By 2000, the employment rate for low-educated younger workers was 2.6 percent higher than in 1995, compared to an increase of just half that much for the 16 and over population. Because the employment of young people with low education has not been harmed, it is difficult to support the claim that they have experienced negative impacts from the minimum wage increase.[23]

Recent job losses and growth in the restaurant industry

Oregon's economy is struggling to emerge from the 2001 recession. The ORA claims that Oregon's job losses and continuing economic hardship in many business sectors are due to the minimum wage are misplaced.

The businesses hit hardest by Oregon's recession are concentrated in high-tech manufacturing, construction, and business services – sectors without much minimum wage employment.[24] These three sectors provide less than 15 percent of Oregon's total employment, but accounted for over 56 percent of the job losses during the 2001 recession.[25]

The industry with the highest concentration of minimum wage workers is the restaurant industry. Restaurant employment, however, expanded during the recession. At the low-point of the recent recession, in December 2001, the state had lost nearly 38,000 non-farm jobs compared to the prior year, but Oregon's eating and drinking establishments grew by 1,000 jobs over the same period.

The most recent employment data show that Oregon's economy is still struggling, but that restaurants continue to add jobs at a steady pace. Between March 2002 and 2003, total non-farm employment fell by 1,500 jobs, or 0.1 percent (Table 3). Over the same period, Oregon's "food services and drinking places," the industry classification that includes restaurants in the newly adopted North American Industry Classification System (NAICS), added 1,900 jobs, growing by 1.8 percent.[26] The ORA's trade association magazine *Main Ingredient* recently reported that "full-service" restaurants are "one of the true shining stars of our state's economy, adding jobs when many sectors of the economy are experiencing downsizing and layoffs."[27] Employment in "full-service" restaurants accounts for half of employment in the "foodservices and drinking places" sector.

Table 3. Employment by industry in Oregon

	Mar-02	Mar-03	Growth #	Growth %
Total Nonfarm Employment	1,554,600	1,553,100	-1,500	-0.1%
Foodservices and Drinking Places Employment	104,900	106,800	1,900	1.8%

Source: OCPP analysis of BLS NAICS data.

While the total number of businesses in Oregon grew just 1.6 percent between 1999 and 2001, the number of eating and drinking places grew nearly 5 percent. Oregon added more than 300 new establishments.[28] The Oregon Employment Department projects that waiters and waitresses, food preparation workers, and restaurant cooks will be three of the ten jobs with the largest growth during the coming decade.[29]

Oregon's high unemployment rate

The ORA claims that Oregon's minimum wage is responsible for the state's high unemployment relative to other states. The ORA ignores that Oregon's unemployment rate is high relative to other states during good economic times as well as bad, for reasons that have nothing to with the minimum wage. Oregon's unemployment rate has only fallen below the national average four times in the last 31 years.

Honest attempts to understand Oregon's consistently high rate of unemployment, relative to other states, acknowledge that it is the result of basic structural features of the state's geography, population, and economy. According to the Oregon Employment Department:

> "[t]here are several key reasons why Oregon's unemployment rate is likely to be consistently higher than that of the United States as a whole. These include rapid in-migration, significant rural economic and geographic isolation, high dependence on seasonal industries, reliance on some industries which tend to be more impacted by economic cycles, and the long-term decline of some traditional industries."[30]

The Employment Department has noted that states that currently have the lowest unemployment rates had lower population growth than Oregon throughout the 1990s. With more people coming to and wanting to remain in Oregon than many other states, Oregon maintains a relatively high unemployment rate in both good and bad economic times.[31]

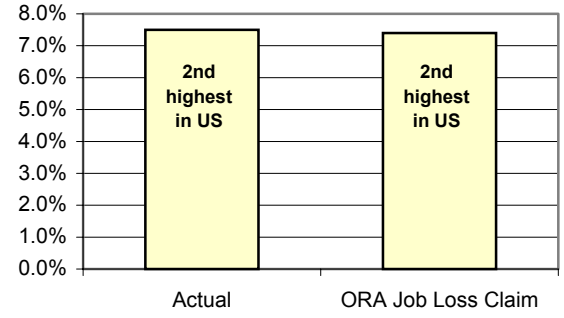
Other states did better than Oregon for reasons beyond our control or our interest:

> "The primary reasons why some states have weathered the current recession better than Oregon include the presence of energy- or defense-related industries; little growth during the 1990s, few jobs to lose during the recession; little or no population growth; and heavy dependence on … industries not impacted by the current recession. These are all factors that are either impossible to duplicate here or that many Oregonians would find "… undesirable to replicate."[32]

The ORA's numbers don't add up to a difference

Even if the minimum wage increase did cause the job losses opponents claim, the impact on the unemployment rate would be nearly imperceptible. In 2002 Oregon had 138,000 jobless workers and an unemployment rate of 7.5 percent, second highest in the nation.[33] Assuming the minimum wage was not increased, reducing the number of jobless by 3,000, the estimated job loss publicized by the ORA, Oregon's unemployment rate would have been 7.4 percent in 2002. The small decrease in the unemployment rate (0.1 points) is likely high, because the ORA scenario assumes that none of the hypothetical job losers left the labor force and that none found work in other industries. Put another way, using the ORA's numbers, Oregon's unemployment rate would still have been second highest in the country (Figure 4).[34]

Figure 4. Unemployment in Oregon - 2002
Actual Versus ORA Job Loss Claim



Source: OCPP analysis of BLS data.

Regardless, researchers typically do not use the unemployment rate when trying to understand the impact of minimum wage increases on jobs. If a minimum wage increase attracts some people to join the labor force, the unemployment rate will rise even if no jobs are lost because the size of the potential labor force, as well as the number of jobs, affects the unemployment rate.

Impact of the minimum wage on restaurant prices

One reason that restaurants have not experienced the job losses predicted by opponents of the minimum wage increase is that the impact on the cost of doing business has been relatively small. Most of the increase has likely been passed on to consumers through higher prices. The Economic Research Service of the US Department of Agriculture studied the impacts of a proposed 50 cent increase in the federal minimum wage.[35] If price increases are fully passed through to consumers, a 50 cent increase in the federal minimum wage would lead to 0.9 percent increase in restaurant prices. Minimum wage increases in Oregon would lead to similar results if price increases are passed through to consumers.[36]

Table 4. Estimated impact of minimum wage increases on restaurant costs

		Size of increase in minimum wage	Share of workers impacted	Compensation share of business costs	Impact on restaurant cost of doing business
Measure 25 – January 2003		6.2%	25%	34%	0.5%
		6.2%	50%	34%	1.0%
Measure 25 – Future Increases		2.5%	25%	34%	0.2%
		2.5%	50%	34%	0.4%

Source: OCPP

Measure 25 raised Oregon's minimum wage by 40 cents, or nearly 6.2 percent, but because the increase impacts only the lowest-paid portion of workers, and wages represent only a portion of total costs, the impact on the cost of doing business is considerably smaller than 6.2 percent. Table 4 demonstrates the likely impact on Oregon restaurants cost of doing business. With between one-quarter and one-half of the sector's workers impacted, and compensation representing 34 percent of total costs, the minimum wage increase in January 2003 increased the cost of doing business by somewhere between 0.5 percent and 1.0 percent.[37]

Future increases in the minimum wage under Measure 25, dependent on changes in the US Consumer Price Index, are expected to fluctuate between two and three percent annually. Current economic projections expect the US CPI-U to rise between 2.3 percent and 2.6 percent annually between 2003 and 2009.[38] Future minimum wage increases of 2.5 percent would raise restaurant's cost of doing business between 0.2 percent and 0.4 percent annually, depending on the share of workers impacted.

Occupational wage data for Oregon suggest that one-quarter is a conservative, yet reasonable, estimate of the share of restaurant workers directly affected by a minimum wage increase, and that one-half of workers is likely an upper-limit.[39] In 2002, before the increase in the minimum to $6.90 per hour, none of the major restaurant occupations had as much as one-quarter of workers earning less than $6.90 (Table 5). Waiters, waitresses, dishwashers, attendants, and hosts have the lowest wages in restaurants, but the 2002 median hourly wage in these jobs was between 15 cents and 39 cents higher than the new minimum wage in 2003. For half of waiters and waitresses to be directly impacted by the January 2003 increase, the wage would have had to been set at $7.08. The assumption that one half of restaurant workers are impacted by a

Table 5. Hourly wage distribution for selected occupations in Oregon - 2002	10th percentile	25th percentile	Median
Cooks, Fast Food	$6.93	$7.15	$7.77
Cooks, Restaurant	$7.27	$7.89	$8.91
Cooks, Short Order	$7.03	$7.63	$8.73
Cooks, All Other	$6.95	$7.29	$8.15
Food Preparation Workers	$6.94	$7.22	$8.13
Bartenders	$6.93	$7.20	$8.18
Combined Food Preparation and Serving Workers, Including Fast Food	$6.93	$7.11	$7.72
Counter Attendants, Cafeteria, Food Concession, and Coffee Shop	$6.90	$7.02	$7.64
Waiters and Waitresses	$6.87	$6.94	$7.08
Food Servers, Non-restaurant	$6.91	$7.07	$8.35
Dining Room and Cafeteria Attendants and Bartender Helpers	$6.86	$6.93	$7.05
Dishwashers	$6.88	$6.98	$7.29
Hosts and Hostesses, Restaurant, Lounge, and Coffee Shop	$6.87	$6.95	$7.15
All Other Food Preparation and Serving Related Workers	$6.91	$7.06	$7.90

Source: Oregon Employment Department, 2002 Oregon Wage Information.

minimum wage increase is a conservative upper limit.

The total added wage bill for the average restaurant will be quite small. The average Oregon restaurant employs 16 workers. If one-quarter of the average restaurant's workers get a raise because of the January 2003 minimum wage increase, the increase will amount to $1.60 per hour for the entire restaurant (Table 6). In other words, the average restaurant needs to generate $1.60 more per hour in order to cover the total added labor costs due to Measure 25. If one-half of restaurant workers get the raise, the total increase in wage costs for the average restaurant would be $3.20 per hour. Such small increases, especially ones incurred due to an industry-wide labor price increase, should not be difficult for restaurants to pass on in modest price increases.

Increases in future years will be even smaller. If the US Urban Consumer Price Index (US CPI-U) rises at 2.5 percent in 2003, Oregon's minimum wage will rise to $7.07 in January 2004. The total added hourly wage costs for the average Oregon restaurant will be $0.69 if one-quarter of workers are affected and $1.38 if one-half are affected.[40]

In recent years, prices at restaurants in Oregon have risen by more than enough to accommodate these small increases in the cost of doing business. Between 1997 and 2001, restaurant prices in Oregon increased three percent per year, and between 1993 and 2001 they increased two percent per year. Other economists studying the impacts of the minimum wage have found that restaurant prices increased enough to cover the added costs from the minimum wage.[41]

Table 6. Minimum wage impacts on restaurant hourly wage bill	Scenario A	Scenario B
Size of Average Restaurant	16	16
share of workers impacted	25%	50%
# of impacted workers	4	8
Measure 25 - 2003		
New Minimum Wage	$6.90	$6.90
Change	$.40	$.40
Total Added Wage bill per hour	$1.60	$3.20
Measure 25 - Future years		
New Minimum Wage	$7.07	$7.07
Change	$0.17	$0.17
Total Added Wage bill per hour	$0.69	$1.38

Source: OCPP

Conclusion

Despite claims by the Oregon Restaurant Association, there is little reason to think that raising the minimum wage has caused significant restaurant job loss in Oregon's restaurants. Research literature, including the study cited by the ORA, generally finds that job losses due to minimum wage increases are small or non-existent. Employment data for Oregon show that vulnerable workers, young and with little education, had a better chance of having a job following the last increase in the minimum wage.

Oregon restaurants had a tough time hiring workers in the late 1990s, but not because of the 1996 minimum wage increase. Restaurants tried to hire, but could not compete with other employers who offered better wages and more attractive jobs. After the state economy slowed in 2001, Oregon's restaurants once again were able to hire workers, and restaurant employment has grown considerably faster than in other industries over the last year.

Through small price increases Oregon's restaurant will be able to pass along much, if not all, of the impacts of minimum wage increases.

Jeff Thompson is a policy analyst at the Oregon Center for Public Policy. His previous work has focused on the economy, taxes, and labor issues.

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Appendix A.

States with geographic proximity do not always have similar economies (for example, California and Oregon, while neighbors, have very different economies). Politicians tend to be drawn to comparisons with neighboring states, but there are often other states that make better and more realistic comparisons.

To determine which states were most comparable to Oregon, we looked at Gross State Product, nonfarm employment, population, and industry composition. Specifically, we compare the states based on:

1. Population growth between 1990 and 2000;
2. Size of Population in 2000;
3. Growth of Gross State Product between 1989 and 2000;
4. Size of Gross State Product in 2000;
5. Growth in non-farm employment for both 1989 to 2000 and 1989 to 2001;
6. Total non-farm employment for both 2000 and 2001;
7. Durable goods share of non-farm employment in 2000 and;
8. Services share of non-farm employment in 2000.

Table A-1 shows that results of the comparison. Gray cells indicate that the state is one of the twenty closest states, either bigger or smaller, in each of the ten comparison factors. The table shows that some states and their economies are very different from Oregon. New Jersey is not among the closest states to Oregon on any of the above criteria. Wyoming is only comparable on one. Other states are very similar. Minnesota is among the comparable states according to all ten factors, and Utah and Colorado are comparable on nine of the 10 factors. On six of the ten factors Washington state is among the 20 most similar states.

Table A-2 shows the value for the comparisons made in Table A-1.

Table A-1. Comparison of States

	Population Size and Growth Compared to Oregon 1990 to 2000		BEA GSP Growth Compared to Oregon 1989 to 2000		Non-Farm Employment Compared to Oregon 1989 to 2000		Total Non-Farm Employment Compared to Oregon 1989 to 2001		Durable Goods Emp. Compared to Oregon 2000	Services Emp. Compared to Oregon 2000	Total Number
	Growth	Size	Growth	Amount	Growth	Amount	Growth	Amount	%	%	
AL		✓		✓		✓		✓	✓		5
AK	✓		✓								2
AZ			✓	✓	✓	✓	✓	✓			6
ARK	✓	✓			✓	✓	✓	✓	✓		7
CA											1
CO	✓	✓	✓	✓	✓	✓	✓	✓		✓	9
CT		✓		✓		✓		✓	✓		5
DE	✓										1
DC											
FLA	✓		✓		✓		✓				4
GA	✓		✓		✓		✓				4
HA										✓	1
ID	✓		✓		✓		✓				5
IL									✓	✓	2
IN			✓	✓					✓		3
IA		✓		✓		✓		✓	✓		5
KS		✓		✓		✓		✓	✓		5
KY		✓		✓	✓	✓	✓	✓	✓		7
LA		✓		✓		✓		✓		✓	5
ME										✓	1
MD	✓	✓		✓		✓		✓			5
MA											
MI									✓	✓	2
MN	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	10
MS		✓		✓	✓	✓		✓	✓		5
MO		✓		✓						✓	2
MT	✓				✓		✓			✓	3
NE		✓	✓	✓	✓	✓	✓	✓		✓	8
NV		✓	✓	✓	✓	✓	✓	✓			7
NH	✓		✓					✓	✓	✓	5
NJ											
NM	✓	✓	✓		✓	✓	✓	✓		✓	8
NY											
NC	✓		✓		✓		✓		✓		5
ND					✓					✓	2
OH									✓		1
OK		✓		✓		✓		✓		✓	5
OR											
PA									✓		1
RI									✓		1
SC	✓	✓	✓	✓		✓		✓			6
SD			✓		✓		✓			✓	4
TN	✓		✓	✓	✓		✓		✓		6
TX	✓		✓		✓		✓			✓	5
UT	✓	✓	✓	✓	✓	✓	✓	✓		✓	9
VT									✓		1
VA	✓									✓	2
WA	✓		✓		✓		✓		✓	✓	6
WV		✓				✓		✓		✓	4
WI		✓	✓	✓		✓	✓		✓		6
WY							✓				1

Source: OCPP analysis of BEA, BLS, and Census data.

Table A-2. State-level data

	Census Population		BEA Gross State Product		Total Non-Farm Employment		Total Non-Farm Employment		Durable Goods	Services
	Growth 1990-2000	2000	Growth 1989-00	2000	Growth 1989-2000	2000	Growth 1989-2001	2001	% of emp 2000	% of emp 2000
AL	10.1%	4,447,100	35.0%	28,682	21.3%	415,911	20.4%	398,735	8.5%	27.0%
AK	14.0%	76,889	-13.9%	-3,906	19.8%	65,427	22.8%	75,095	1.1%	28.1%
AZ	40.0%	1,465,404	91.9%	72,002	50.7%	944,054	52.5%	977,613	6.2%	33.4%
ARK	13.7%	322,675	46.9%	20,527	28.1%	316,845	28.1%	316,623	9.8%	26.4%
CA	13.8%	4,111,627	40.9%	367,843	18.7%	3,048,492	19.9%	3,243,822	6.6%	35.1%
CO	30.6%	1,006,867	84.1%	71,279	47.7%	940,835	49.1%	969,726	4.7%	32.6%
CT	3.6%	118,449	27.5%	32,294	3.3%	66,574	3.2%	64,227	8.9%	34.7%
DE	17.6%	117,432	32.8%	8,010	22.6%	93,194	22.4%	92,339	3.8%	30.0%
DC	-5.7%	-34,841	7.2%	3,627	-1.5%	-11,793	-2.0%	-15,280	0.2%	47.5%
FLA	23.5%	3,044,452	46.5%	138,846	35.0%	2,299,755	37.1%	2,433,482	3.5%	37.7%
GA	26.4%	1,708,237	68.0%	110,759	36.3%	1,291,752	36.6%	1,301,079	5.5%	29.6%
HA	9.3%	103,308	9.3%	3,273	9.2%	63,317	10.3%	70,941	0.7%	33.1%
ID	28.5%	287,204	91.0%	17,657	51.7%	254,560	54.1%	266,485	7.0%	28.3%
IL	8.6%	988,691	40.3%	126,892	17.8%	1,106,442	17.3%	1,077,701	7.9%	32.7%
IN	9.7%	536,326	44.5%	56,192	22.8%	668,864	20.9%	614,062	14.0%	27.7%
IA	5.4%	149,569	40.2%	24,830	24.3%	357,954	23.6%	348,417	8.6%	29.2%
KS	8.5%	210,844	36.2%	21,166	23.4%	321,635	24.0%	330,905	7.5%	28.2%
KY	9.7%	356,473	43.1%	33,078	27.3%	478,569	26.2%	458,517	9.0%	27.5%
LA	5.9%	249,003	14.2%	14,941	24.0%	460,648	24.4%	467,645	3.9%	30.4%
ME	3.8%	46,995	17.4%	4,917	12.5%	86,838	13.3%	92,396	6.2%	32.1%
MD	10.8%	515,018	26.2%	35,639	14.0%	377,834	15.0%	404,682	3.1%	36.2%
MA	5.5%	332,672	38.9%	75,469	9.7%	361,505	10.1%	375,749	6.9%	38.9%
MI	6.9%	643,147	34.1%	77,711	19.6%	913,296	17.5%	817,748	13.8%	30.7%
MN	12.4%	544,380	50.8%	58,882	28.3%	716,929	28.7%	727,640	8.3%	32.4%
MS	10.5%	271,442	39.8%	17,893	27.1%	308,320	25.1%	286,513	10.5%	26.1%
MO	9.3%	478,138	34.6%	43,145	19.7%	558,526	19.1%	541,657	7.1%	30.6%
MT	12.9%	103,130	34.1%	5,196	33.4%	132,447	35.3%	139,692	3.6%	32.5%
NE	8.4%	132,878	44.3%	16,445	25.2%	226,260	25.6%	229,731	5.3%	30.5%
NV	66.3%	796,424	95.2%	32,799	77.4%	553,102	82.0%	585,788	2.3%	41.9%
NH	11.4%	126,534	61.3%	17,529	18.3%	120,801	19.4%	127,841	10.3%	32.5%
NJ	8.9%	684,162	33.5%	84,878	8.6%	376,628	9.0%	393,220	4.2%	34.1%
NM	20.1%	303,977	85.3%	24,608	29.7%	218,255	31.9%	234,119	3.5%	32.1%
NY	5.5%	986,002	31.3%	184,619	6.7%	654,378	6.6%	645,641	4.6%	37.7%
NC	21.4%	1,420,676	57.1%	92,979	28.9%	1,088,879	27.7%	1,042,562	8.2%	27.8%
ND	0.5%	3,400	36.4%	4,635	24.4%	80,626	25.6%	84,539	3.9%	31.6%
OH	4.7%	506,025	33.9%	89,141	17.9%	1,023,725	16.8%	962,178	11.0%	30.3%
OK	9.7%	305,069	29.5%	19,343	24.1%	374,261	25.1%	388,731	6.3%	30.5%
OR	20.4%	579,078	87.9%	56,001	34.2%	521,010	34.0%	518,098	9.3%	30.9%
PA	3.4%	399,411	30.3%	87,482	11.8%	727,348	12.0%	739,481	8.0%	34.2%
RI	4.5%	44,855	29.6%	7,669	3.4%	19,118	3.9%	22,008	8.6%	35.6%
SC	15.1%	525,309	44.0%	32,489	23.8%	436,761	22.1%	405,523	7.2%	26.6%
SD	8.5%	58,840	55.4%	8,021	35.5%	126,469	36.5%	129,794	7.3%	30.3%
TN	16.7%	812,098	49.8%	55,372	28.7%	759,265	27.5%	728,005	9.1%	29.7%
TX	22.8%	3,865,310	60.8%	258,605	36.3%	3,199,745	37.5%	3,304,668	5.8%	30.6%
UT	29.6%	510,319	83.5%	28,779	55.0%	485,982	56.3%	498,254	6.7%	30.8%
VT	8.2%	46,069	31.4%	4,192	18.1%	60,591	19.2%	64,160	9.3%	34.4%
VA	14.4%	891,157	36.0%	62,468	20.6%	744,448	21.1%	765,508	4.9%	32.4%
WA	21.1%	1,027,429	57.9%	74,512	30.6%	813,506	30.5%	812,117	7.4%	30.9%
WV	0.8%	14,867	26.6%	8,354	17.5%	129,220	17.6%	129,989	5.9%	30.4%
WI	9.6%	471,906	45.7%	51,720	26.2%	693,503	25.8%	682,136	11.6%	28.7%
WY	8.9%	40,194	28.6%	3,875	24.1%	61,389	27.3%	69,498	2.0%	26.3%

Source: OCPP analysis of BEA, BLS, and Census data.

Endnotes

[1] Thanks to Maegan Vidal and Peter Noordijk for their research assistance.

[2] Among other sources making this determination is the Oregon Office of Economic Analysis in its *Oregon Economic and Revenue Forest March 2003*.

[3] J.L Wilson, lobbyist for the National Federation of Independent Business, quoted in Esteve, Harry, "Testimony on wage measure open to invitation-only speakers," *The Oregonian*, March 19, 2003.

[4] A few of the recent studies include: Bernstein, Jared and John Schmitt, "Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase," Economic Policy Institute, 1998. Bernstein, Jared and John Schmitt, "The Impact of the Minimum Wage: Policy Lifts Wages, Maintains Floor for Low-wage Labor Market," Economic Policy Institute, 2000. Card, David and Alan Krueger, "A Reanalysis of the Effect of the New Jersey Minimum Wage Increase on the Fast-Food Industry with Representative Payroll Data," January 1998, WP#393, Princeton University. Turner, Mark, "The Effects of Minimum Wages on Welfare Recipiency," June 1999. Levin-Waldman and George W. McCarthy, "Small Business and the Minimum Wage, " 1998/3 Jerome Levy Economics Institute. Dickens, Richard, Stephen Machin, and Alan Manning, "The Effects of Minimum Wages on Employment: Theory and Evidence from Britain," *Journal of Labor Economics*, 1999, vol. 17, no. 1.

[5] Bernstein, Jared, "Minimum Wages and Poverty," Testimony before the House Education and the Workforce Committee on April 27, 1999.

[6] Singell, Larry and James Terborg, "Production, Labor Utilization, and Employment Effects of the Oregon Minimum Wage: A Survey and Natural Experiment in the Restaurant Industry," August 2001 working paper.

[7] Singell and Terborg, page 22.

[8] Singell and Terborg use three different pieces of evidence in their study, employment data, help-wanted ads, and a survey of restaurants. Only the employment data are directly addressed in this paper. This piece of evidence has received most attention, and it is the most reliable. The survey of restaurants amounts to little more than an opinion poll allowing restaurateurs to convey how much they dislike the minimum wage. They hate it. Their claimed responses to the minimum wage, however, seriously overshoot the actual employment record, suggesting their responses are not reliable as indicators of the employment response to a minimum wage increase. See Thompson, Jeff and Anna Braun, "The Effects of the Recent Minimum Wage Increases on the Restaurant Industry," March 1999. Available at http://www.ocpp.org/1999/es032399.htm.

The Second piece of evidence compares restaurant help-wanted ads in Portland and Seattle during the mid-late 1990s. The Portland-Seattle comparison suffers the same limitations as the Oregon-Washington comparison.

[9] Ibid, page 16. See also Kramer, Andrew, "Oregon will vote on minimum-wage boost," *Seattle Post-Intelligencer*, October 14, 2002.

[10] Due to rapid population growth across much of the 1990s and growth firms hiring of workers from out of the state, Oregon's unemployment rate alone is an inadequate measure of labor market tightness over the last decade. See Thompson, Jeff and Michael Leachman "Boom, Bust, and Beyond: The State of Working Oregon 2002," pp. 19-22 for analysis of these labor market dynamics in the 1990s.

[11] If restaurants were trying to hire workers, and being unsuccessful in doing so, one would expect that restaurants would be raising their wages in an effort to attract more workers. This is, in fact, what occurred. National data show that hourly wages rose faster than in other industries in the final years of the last two economic expansions (1987-1990 and 1996-2000), but considerably slower than other industries during the period slow economic growth following the recession (1983-86 and 1992-95). Hourly wages paid to non-supervisory restaurant workers are less than half that paid to production and non-supervisory workers in other industries. OCPP analysis of BLS data. Data for annual average earnings show that in the second half of the 1990s earnings in Oregon restaurants grew faster than in other industries. Because they combine hours and weeks of work, and include supervisors, annual average

earnings data are inferior to average hourly wages in demonstrating the industry response to labor shortages.

[12] *The Oregonian*, "Oregon's low jobless rate translates to plentiful pickings," 1/30/2000.

[13] Oregon Employment Department, Labor Trends, July 1999.

[14] *The Oregonian*, "Hungry for Help," 12/17/99.

[15] *Workforce 2000, An Oregon Employer Perspective*, Oregon Employment Department, page 12.

[16] Retail trade data from special tabulation conducted by Bradley Angle, Oregon Employment Department.

[17] *Workforce 2000,* pages 14-18.

[18] Tauer, Guy, "Restaurant Industry in Oregon," *Oregon Labor Trends*, September 2000. While noting the labor force shortages faced by restaurateurs in Oregon, this article also mentions that the declining restaurant employment share of total employment might also be the result of Oregon's minimum wage. This claim, illustrated by comparing data for the years 1993 and 1999, is not supported when examining data covering the entire decade.

[19] Goodman, William, "Employment in services industries affected by recessions and expansions," *Monthly Labor Review*, October 2001.

[20] Employment data from the Bureau of Economic Analysis and the Bureau of Labor Statistics use slightly different definitions. These differences produce small differences in the employment share of eating and drinking establishments, but the trends followed by both series is the same.

[21] The change between 1995 and 1998 is significant at the 90% confidence level. Those excluded from this measure are not necessarily "unemployed." Some are unemployed, while others are outside of the labor force, which usually means enrolled in school for this age group.

[22] Speculation about the youth employment rate rising due to increased dropouts is not supported. Over the second half of the 1990s, Oregon dropout rate declined consistently. The dropout rate declined each year between 1997-98 and 2000-01, falling from 6.9 percent to 4.9 percent. See http://dbi.ode.state.or.us/dropout.htm.

[23] OCPP analysis of data from the Oregon Population Survey confirms evidence showing that the minimum wage has not harmed young workers' employment. OPS data show that in 1996 the employment rate of all teenagers (ages 16-19) was 52 percent and had risen to 55 percent by 1998, although the change was not significant at standard confidence levels. Because of changes to the survey, no comparable data exist from the 2000 OPS. Using the Census CPS data also fails to reveal negative employment impacts for teenagers. The employment rate for Oregon teens was 45 percent in 1994, 50 percent in 1995, 51 percent in 1996, 48 percent in 1997, 50 percent in 1998, 46 percent in 1999, and 50 percent in 2000.

[24] Even relatively poorly paid workers in the temporary help services had an average hourly wage of $11.63 in 2001, compared to just $9.00 for restaurants (OCPP analysis of OED covered employment and payroll data for 2001). Hourly wages were calculated using average weekly wages divided by average hours worked per week. Data on hours worked is from the Bureau of Labor Statistics. Annual averages between 1998 and 2002 show that workers in the temporary help services put in 32 hours per week, while food services and drinking place workers put in 25.5.

[25] Thompson, Jeff and Michael Leachman, *Boom, Bust, and Beyond: The State of Working Oregon 2002*, Oregon Center for Public Policy, page 26.

[26] The NAICS industry "foodservices and drinking places" industry is similar to the "eating and drinking" industry in the Standardized Industry Coding (SIC) system used until 2003, but it is not identical. In the NAICS data, industry employment declined by 300 jobs between December 2001 and 2002, but increased 1,200 jobs between 2000 and 2001 looking at the annual averages.

[27] Tauer, Guy, "Employment Trends in Oregon's 'New' Restaurant Industry," *Main Ingredient*, April 2003.

[28] OCPP analysis of OED Covered Employment and Payroll data.

[29] These occupations are among the fastest growing in absolute terms, adding more jobs than other occupation groups in Oregon. Oregon Employment Department, *Employment Projections by Occupation: 2000 –2010*, October 2001, Table 5. The OED employment projections were made prior to the November 2002 minimum wage increase, but after the full implementation of three-staged 1996 increase. Given that the $.40 increase in Oregon's minimum wage that was implemented in January 2002 does not even make up for inflation experienced since the last increase in January 1999, it is unlikely that the January 2002 increase would significantly alter the OED projections. Even if the minimum wage increases included in Measure 25 had twice the impact on jobs as is claimed by the ORA (six percent job loss versus three percent) these three occupations would remain three of the eleven fastest growing in Oregon between 2000 and 2010.

[30] Slater, Graham, Art Ayre, and Steve Williams, "The Impact of Recession 2001: A Comparison of Oregon & Selected Other States," *Oregon Labor Trends*, July 2002. Available at http://www.qualityinfo.org/olmisj/OlmisZine.

[31] *Ibid.* The OED speculates that Oregon's "higher-than-national" minimum wage may raise the unemployment rate, but provides no analysis supporting the claim. The OED typically reminds readers of the expectations of textbook economic theory in regard to the minimum wage, but the research and data for Oregon suggest that there is little or no job loss caused by minimum wage increases.

[32] *ibid*, page 7.

[33] OCPP analysis of BLS data, seasonally adjusted unemployment and labor force figures.

[34] For Oregon's 2002 unemployment rank to drop to third highest, the number of unemployed would have to decline by 15,000. Looking at January 2003, when Oregon's unemployment rate was highest in the country, shows similar results. For Oregon's January 2003 unemployment rate to fall to second highest, the number of unemployed workers would have to decline by 13,000.

[35] See Chinook Lee and Brian O'Roark, "The Impact of Minimum Wage Increases on Food and Kindred Products Prices: An Analysis of Price Pass-Through," *USDOL Technical Bulletin* No. 1877, July 1999. Also see Chinook Lee, Gerald Schulter, and Brian O'Roark, "How Much Would Increasing the Minimum Wage Affect Food Prices?" *Current Issues in Economics of Food Markets*, May 2000.

[36] Raising prices is one of the most common responses cited by restaurant owners and managers in the survey discussed by Singell and Terborg.

[37] The Economic Research Service found that wage and salary compensation accounts for 34 percent of restaurants' cost of production. The ERS also found that between 23 and 28 percent of restaurant workers are directly affected by minimum wage increases.

[38] US-CPI-U projections are from the March 2003 Oregon Economic and Revenue Forecast.

[39] These price impact scenarios are conservative for several additional reasons. First they assume that all workers that are impacted are "fully impacted," meaning that their wage rises by the full size of the increase. Some workers will receive an increase that is just a fraction of the size of the increase in the minimum wage. Many workers earning above the old minimum, but below the new minimum will receive an increase that is less than the size of the increase in the minimum wage. Second, these scenarios assume that compensation increases by the size of the increase in the minimum wage. Wages and salaries are a large portion of total compensation, but not all. Some non-wage compensation will rise along with wages, but not all does. Finally, even though compensation accounts for 34 percent of a restaurants cost of doing business, compensation is not spread equally across all employees. Since the minimum wage only impacts the lowest paid in any business, the impact on compensation would be smaller than the full amount.

[40] Some opponents of the minimum wage claim that higher prices for food will harm the low-wage workers minimum wage increases are intended to help. Given that food accounts for a small part of households' budgets, small price increases will be inconsequential, especially when they are attributable to increases in the wages of low-paid workers. The lowest income twenty percent of US households spend 17 percent of their budget on food, with 11 percent for food prepared in the home and 6 percent for food eaten away from home at restaurants, cafeterias and other establishments.[40] A one percent increase in restaurant prices represents a 0.6 percent increase to the total household budget costs of low-income families, a tiny

fraction of the minimum wage increases experienced by low-wage workers (OCPP analysis of Consumer Expenditure Survey data for US households).

[41] Lee, Shultz, and O'Rourke, May 2000.