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June 2, 1999

Oregon's Increasing Minimum Wage Brings Raises to Former Welfare Recipients and Other Low-Wage Workers Without Job Losses

By Jeff Thompson

Executive Summary

Oregon's "highest in the nation" minimum wage continues to raise wages for former welfare recipients and other low-wage workers without harming their employment opportunities. Data through the first quarter of 1999 shows that the fully phased-in increase has reversed years of declining wages for welfare recipients and other low-wage workers.

The 1996 voter initiative increased the minimum wage from $4.75 per hour to $5.50 per hour on January 1, 1997, and to $6.00 on January 1, 1998. The final phase of the voter enacted minimum wage increase was implemented on January 1, 1999, raising the minimum to $6.50 per hour.

The study documents that:

- Oregon workers at the 10th and 15th percentiles of the wage distribution experienced increases in their wages, after adjusting for inflation, in the two years following the minimum wage increase. These workers' wages had fallen between 1994 and 1996, prior to the first minimum wage increase.
- Over 150,000 workers that had been earning less than $6.50 before 1999 have now been lifted up to and above the new minimum wage level.
- Real hourly starting wages for former welfare recipients rose to $7.23 in the first quarter of 1999, nearly a two percent increase over 1998, bringing the starting wage back up to pre-1994 levels.
- As many as one-half of the welfare recipients moving to work at the end of 1998 likely received a raise because of the 1999 minimum wage increase.
- The employment rate for young workers with low education levels grew faster than the rate for the workforce as a whole subsequent to the minimum wage increase.

The weight of the evidence shows that a rising minimum wage has been good for working families and good for Oregon. These increases demonstrate the value of the minimum wage in providing an effective floor to prop up low wages. Oregon's experience with the minimum wage provides a valuable lesson for policy makers in Oregon and throughout the nation.

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The two years following Oregon's enactment of the highest minimum wage in the country have shown that higher minimum wages can have substantial positive impacts on the earnings of low-wage workers, particularly welfare recipients moving to work and younger workers. Confirming results from recent research at the national level and in other states, these positive wage impacts have been achieved without significantly harming employment opportunities. Early evidence on the final phase of the minimum wage increase that went into effect January 1, 1999 continues to yield similar results.[1]

In 1996, Oregonians voted to increase the state's minimum wage gradually over three years. In January 1997, the first increase raised the minimum to $5.50 from $4.75, where it had been since 1991. One year later, in January 1998, the second increase took the minimum to $6.00. In January 1999, the final increase raised Oregon's minimum wage to $6.50, now the highest in the nation, although it has still not regained its value from the mid-1970s.[2]

This analysis shows that the impacts of the increase in Oregon's minimum wage on low-wage workers are clear and distinctly positive. After stagnating and even declining across most of the 1990s, workers at the 10th and 15th percentiles of the wage distribution received raises after Oregon increased its minimum wage. Between 1996 and 1998, inflation-adjusted wages at the 10th percentile of the earnings distribution rose 16 percent, while 15th percentile wages grew by 10 percent. From the early 1990s through the end of 1996,

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[1] The author is grateful to Ed Lazere of the Center on Budget and Policy Priorities, Jared Bernstein of the Economic Policy Institute, and Ted Helvoigt and Jeff Hannum of the Oregon Employment Department for their assistance.

[2] Unless the Oregon minimum wage is increased again or modified to include a cost-of-living adjustment, it will be surpassed by Washington state, which will begin adjusting its minimum wage with automatic, annual cost-of-living increases in January 2001.

average starting wages of former welfare recipients finding full-time work declined steadily after adjusting for inflation, falling to $6.48 by 1996.[3] The 1997 and 1998 minimum wage increases dramatically reversed this decline, raising the average starting wage to $7.11 in 1998.

Early evidence shows that the final increase in the state's minimum wage has continued to yield similar results. By the first quarter of 1999, average starting wages of former welfare recipients had risen to $7.23 per hour. Also, as many as 51 percent of former welfare recipients that found work toward the end of 1998 are expected to have received a raise because of the minimum wage increase. In addition, Census data show that between the first quarters of 1998 and 1999, more than 150,000 workers had received raises that took them to $6.50 per hour or higher.

Proposals to increase the minimum wage are often met with criticism that an increase will have unintended side effects. Critics warn that low-wage workers may be harmed as employers cut positions and hours to adjust to the higher minimum wage. Others claim that increasing the minimum wage is poorly targeted, with much of the increase not going to the poorest households. These concerns are overdrawn and at odds with data from Oregon's experience with recent increases in the minimum wage.

Low-End Wages

Reversing more than a decade of stagnation and outright decline, Oregon's minimum wage increase has helped bring rising wages to many of Oregon's low-wage workers. Oregon's minimum wage increase has clearly lifted earnings at the 10^{th} percentile (only 10 percent of workers had lower wages and 90 percent had higher wages) and appears to have also brought wage increases to workers as high as the 15^{th} percentile of the wage distribution.

Wages for workers at the 10^{th} percentile fell 7.5 percent between 1994 and 1996.[4] Between 1996 and 1998, however, wages at the 10^{th} percentile rose 15.5 percent, going from $5.19 to $6.00. It is no accident that the 1998 hourly wage at the 10^{th} percentile is identical to the minimum wage. As the minimum wage

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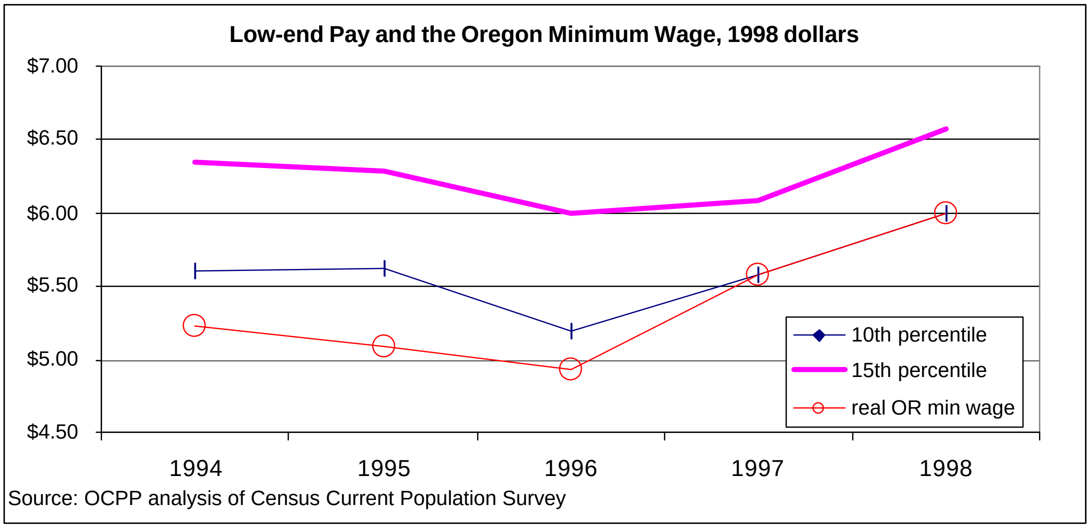
[3] Unless noted, all wages in this paper are presented in 1998 dollars using the US CPI-U.

[4] OCPP analysis of the Census Current Population Survey (CPS). Workers hourly wages combine the reported wage of hourly-paid workers with a calculated hourly wage for non-hourly-paid workers using weekly wages and weekly hours. All respondents with wages are included, except outlier wages discussed in Economic Policy Institute, *State of Working America*, Appendix B.

was increased in 1997 and 1998, it pushed these low wages up along with it. Prior to the 1997 increase, the value of Oregon's minimum wage had been seriously eroded by inflation and its effectiveness as a wage floor had been compromised. While the inflation-adjusted value of the minimum wage remains below levels in the mid-1970s, some of its capacity to provide an effective floor to prop up low wages has returned.

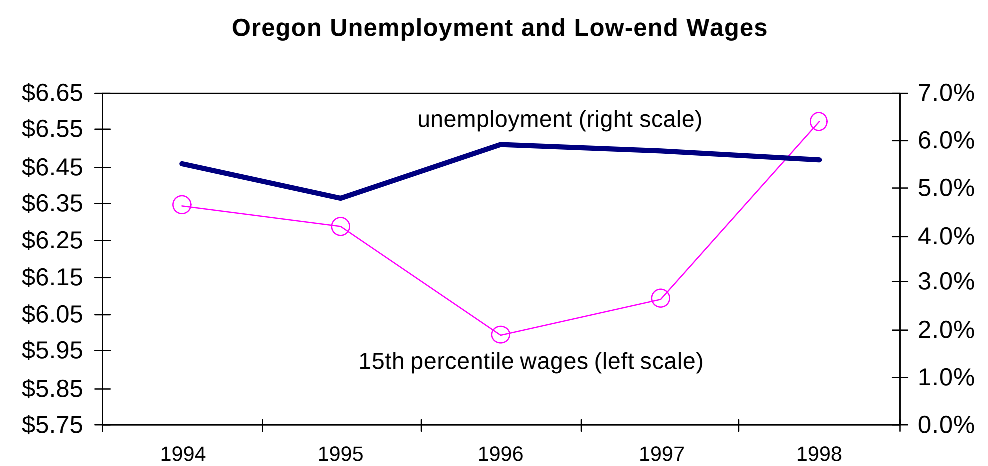


Workers at the 15th percentile of the wage distribution experienced a 9.7 percent increase in their wages, after adjusting for inflation, in the two years following the minimum wage increase. Their wages rose from $5.99 in 1996 to $6.57 in 1998, when the minimum wage was $6.00. These workers' wages had fallen 5.7 percent between 1994 and 1996. The wage gain by workers at the 15th percentile demonstrates that the minimum wage increase benefits workers at incomes slightly above the minimum wage, as well.

Low-wage workers around the country have also been receiving raises over the past couple of years. Two of the major reasons for this have been the 1996-97 increase in the federal minimum wage along with sustained low unemployment rates, which have been at their lowest levels in twenty years.[5] The relationship between unemployment and low-end wages, however, has not been as straightforward in Oregon. Though not necessarily high by recent standards, Oregon's unemployment rate has not been nearly as low as the federal rate in

[5] Council of Economic Advisers, *Good News for Low Income Families*, December 1998 and Economic Policy Institute, *Wages Gain Ground*, February 1999.

recent years. In fact, low-end wages were falling when Oregon's unemployment rate was lower in 1994 and 1995. Low-end wages did, however, begin to rise after the enactment of Oregon's minimum wage increase.



Source: OCPP analysis of Census CPS data and Oregon Employment Department.

Though the impacts of the minimum wage increases do have limits, probably reaching as high as the 15th percentile in Oregon, the numbers of workers impacted are quite large. Census data from the first quarter of 1998 show that there were 192,000 hourly-paid workers in Oregon receiving less than $6.50 per hour. By the first quarter of 1999, only 41,000 workers were receiving less than $6.50 per hour.[6] The number of workers at this low level of pay dropped by 78 percent, even while the total number of hourly-paid workers grew by more than three percent over the same period.

As of the third quarter of 1998, nearly 14 percent of all hourly-paid workers were still being paid less than $6.50 per hour.[7] By the first quarter of 1999, however, only four percent of hourly-paid workers were getting less than $6.50 per hour.

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[6] Some employers are slow to adjust to new increases and there is some violation of the minimum wage law. While most workers are protected by the minimum wage, there are some occupations that are not covered, including related workers in family-owned businesses, informal workers such as baby-sitters, some agricultural workers, domestic service workers and the self-employed.

[7] OCPP analysis of Census Current Population Survey. Figures comparing the distribution of hourly-paid workers are in current dollars.

Oregon Wage Distribution (hourly-paid workers)	**3rd Quarter 1998**	**1st Quarter 1999**	**Difference**
Less than $6.50	14%	4%	-10%
$6.50 to $6.99	5%	9%	4%
$7.00 to $7.99	16%	17%	1%
$8.00 to $8.99	13%	12%	-1%
$9.00 to $9.99	9%	10%	1%
$10.00 or more	43%	49%	6%
Source: OCPP analysis of Census Current Population Survey data.			

As the table above shows, Oregon's wage distribution shifted upward between the third quarter of 1998 and the first quarter of 1999, with the most noticeable impact being around the minimum wage. Since the passage of the minimum wage, the wages of workers at the bottom have risen, reversing previous trends. Also, fewer workers are receiving the lowest levels of wages, with 151,000 being moved above the $6.50 level between 1998 and 1999.

Welfare-to-Work Wages

Prior to the implementation of Oregon's new minimum wage law, former welfare recipients moving to work faced declining average real starting wages (wages measured against inflation.)[8] Immediately after the new wage law went into effect this situation was reversed. In response to the 1997 and 1998 increases in the minimum wage, former welfare recipients have seen rising real starting wages. Between the first quarter of 1994 and the fourth quarter of 1996, real starting wages of welfare recipients finding full-time work fell more than five percent, dropping from $6.80 to $6.45.[9] The 1997 and 1998 minimum wage

[8] Center on Budget and Policy Priorities, *New Findings from Oregon Suggest Minimum Wage Increases Can Boost Wages for Welfare Recipients Moving to Work*, May 1998.

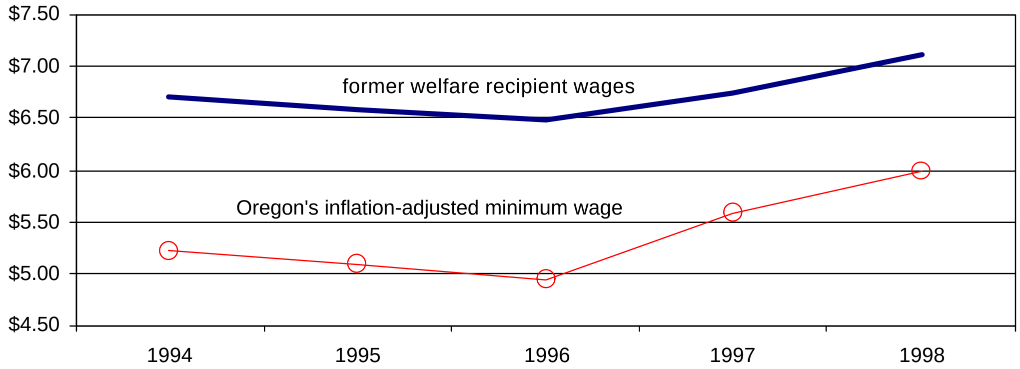
[9] OCPP analysis of Adult and Family Services quarterly performance data. Wages are hourly starting wages for full-time workers that are reported to AFS by former welfare recipients.

(footnote continued on next page)

increases reversed this trend, taking welfare recipients' full-time placement wages back to $6.83 by the fourth quarter of 1997 and on to $7.21 by the fourth quarter of 1998.[10]

Annual average real hourly wage growth for former welfare recipients showed clear trends around the minimum wage increase, declining before the increase and rising afterward.

Former Welfare Recipient Wages and Oregon's minimum wage, 1998 dollars



Source: OCPP Analysis of AFS data. Wages adjusted by cpi-u xi series.

As many as one half of Oregon's recent welfare-to-work job placements, including those receiving less than and slightly above the new minimum wage by the end of 1998, are expected to have received a raise because of 1999's new minimum wage level. Twenty-eight percent of those clients placed in full-time jobs during the last quarter of 1998 were earning the previous minimum wage of $6.00 and could anticipate a raise to $6.50. Another six percent of job placements were making more than the old minimum, but less than the new minimum. Minimum wage "ripple effects" may also bring wage increases to the

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(footnote continued from previous page)
Quarterly average starting wage is deflated using the CPI for the middle month in the quarter. (i.e. February for Q1).

[10] While welfare recipients finding part-time work had lower wages, they experienced the same trends as full-time workers. The majority of former welfare recipients moving to work found full-time work.

17 percent of former welfare recipients with starting pay between $6.50 and $6.99.[11]

Starting wage data on the former welfare recipients that found work in the first quarter of 1999 show that the post-minimum wage increase trend of rising wages has continued. Rising to an inflation-adjusted level of $7.23, real starting wages of full-time workers was up nearly two percent over the first quarter of 1998.[12]

Oregon Former Welfare Recipient Wages, 1998 dollars

	Average starting wage for full-time workers	% change from previous year
1995- 1st quarter	$6.75	-.7%
1996- 1st quarter	$6.59	-2.4%
1997- 1st quarter	$6.71	1.8%
1998- 1st quarter	$7.11	6.0%
1999- 1st quarter	$7.23	1.7%

Source: OCPP analysis of AFS Quarterly Performance Update data.

Many critics of welfare reform had expected welfare and other low-end wages would decline even further in the wake of welfare reforms that restricted access to education and training, while requiring welfare recipients to find and to take any job, an approach commonly referred to as "work first." Welfare recipients moving to work have seen rising real starting wages despite any downward pressure that the "work first" approach to welfare reform may have had on wages.

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[11] "Ripple effects," which bring wage increases to workers already earning above the new minimum, are discussed in David Card and Alan Krueger, *Myth and Measurement: The New Economics of the Minimum Wage*, Princeton, 1995.

[12] Because some employers adjust to the new minimum wage before January 1 some of the increase in wages due to the new minimum will be picked up in the fourth quarter of the previous year.

Employment Impacts

The most common fear when considering raising the minimum wage is that it will result in job losses for minimum wage workers. Income gains to affected workers have to be weighed against potential job losses. Economic data for the period following the first two phases of the minimum wage increase show, however, that the decision to raise the minimum wage has not resulted in any significant job losses. As the Oregon Employment Department reported in its 1998 review, "The first two minimum wage increases appear to have had little or no adverse employment effect."[13]

A variety of measures of Oregon employment show that, following the 1997 and 1998 minimum wage increases:

- Employment rates have risen for young workers with low-education;
- Unemployment has fallen;
- Retail trade employment growth has continued, and;
- The share of the welfare caseload moving to work has increased.

Unemployment Rates and Employment by Industry

Unemployment was lower in both 1997 and 1998 than it was in 1996. In the year before the first increase, unemployment averaged 5.9 percent for the state. Over the next two years, the unemployment rate dropped to 5.8 percent and then 5.6 percent.

Following the implementation of the new minimum wage, employment has continued to grow for the overall economy and in retail trade, the industry most heavily impacted by the minimum wage.[14]

[13] Oregon Employment Department, *Labor Trends*, December 1998.

[14] Counter to the expectations of critics of the minimum wage, average hours worked in the retail trade industry increased slightly after the new minimum wage law was implemented. In 1996, retail workers were putting in 28.9 hours per week, on average. By 1998, average hours worked had inched up to 29.7 hours per week.

Oregon Employment Growth Rates 1996-1998			
	1996	**1997**	**1998**
Total Nonfarm Employment	4.0%	3.5%	2.0%
Retail Trade	3.1%	2.6%	1.4%
Total Nonfarm Employment Less Retail	4.2%	3.7%	2.1%
Source: OCPP analysis of Oregon Employment Department data.			

As reflected the table above, employment growth has continued through 1998, but at a slower pace than in recent years. Slower growth, however, has not been isolated in the retail trade industry. Total employment growth has slowed at essentially the same pace in retail trade and in the rest of the economy. This slowing is commonly attributed to the impacts of the Asian financial crisis on the Oregon Economy.[15]

Former Welfare Recipient Job Placement Rates

Slower employment growth in 1997 and 1998 apparently has not impacted the ability of welfare recipients to find work. The share of the Adult and Family Services caseload finding work was higher in both 1998 and 1997 than it was in 1996, before the minimum wage increase. In 1998, 8.2 percent of Oregon welfare recipients found work in an average quarter.[16] In 1997 and 1996 average quarterly job placement rates were 7.3 percent and 6.4 percent respectively. Absolute numbers of welfare recipients finding work in any given quarter have fallen, but this should be expected as the total welfare caseload has declined dramatically.

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[15] Oregon's economy is quite dependent on exports and those exports are more highly concentrated in Asia compared to most other states. A slump in commodity prices, as well as declining demand for high-tech exports, has negatively impacted some of Oregon's largest industries. And while retail trade wouldn't necessarily be directly impacted by these international forces, it would be affected by the slowing in the rest of the economy. See Oregon Employment Department, *Labor Trends* March 1999 and *Labor Trends* January 1999.

[16] OCPP analysis of AFS *Statewide Data* publication for various months.

Employment Rates of Young Workers

In addition, Census Bureau data from the monthly Current Population Survey supports the conclusion that employment has not declined as a result of Oregon's higher minimum wage. In fact, the population commonly cited as facing the greatest risk of unemployment, young workers with a high school degree or less, had greater chances of being employed after the minimum wage increase. Young workers, ages 16-24, with low-education did not experience any decrease in employment after Oregon's minimum wage increase.

While the employment rate (the share of the population that is employed) for these young workers was 55.9 percent in 1995, it had risen to 58.3 percent by 1998.[17] The low-education youth employment rate not only grew following the 1997 and 1998 increases in the minimum wage but grew faster than the employment rate of the rest of Oregon's population. 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. Because this group's employment has not been harmed it is hard to claim that there have been negative impacts from the minimum wage increase.

Oregon Employment Rates

	1995	**1996**	**1997**	**1998**	**95-98 change**
Youth 16-24 with high school degree or less	55.9%	57.4%	57.7%	58.3%	2.4%
Female	51.3%	52.1%	53%	53.8%	2.5%
All persons ages 16+	64.8%	65.2%	64.9%	65.5%	.7%

Source: OCPP and Economic Policy Institute analysis of Census Monthly Current Population Survey.

These results hold for both males and females. Employment rates for young females with low levels of education grew from 51.3 percent in 1995 to 53.8

[17] 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.

percent in 1998.[18] Because most welfare recipients are females with low-education, these results are consistent with analysis of the employment data provided by Oregon's welfare agency. These data show that welfare recipients' ability to find work has not been negatively impacted by the increased minimum wage.

Studies on Minimum Wage Employment Effects

The results from Oregon are also consistent with the most complete research on the impacts of increasing the minimum wage. A growing body of research and analysis now shows that increasing the minimum wage does not necessarily lead to lower employment for teenage or lesser-educated adult workers.

Studies examining the impacts of recent increases in the federal minimum wage have found that increases don't necessarily lead to declining employment. A recent study by the Economic Policy Institute found that the 1996-97 minimum wage increase, which brought the federal minimum wage to $5.15, failed to result in employment losses for young workers.[19] The EPI study replicated four basic tests that different researchers have proposed to determine the employment impacts of minimum wage increases and found that there were none. While the 1996-97 minimum wage increase was successful in raising the earnings of low-wage workers, EPI found that there was no systematic job loss. Following the 1990-91 federal minimum wage increase, economist David Card also could not find any negative employment impacts.[20] Even teenage employment trends were unrelated to increases in the minimum wage.

Several studies have also been carried out to assess the impacts of state-level minimum wage increases in New Jersey, Washington, Texas and California.

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[18] Evidence showing that young workers' employment has not been harmed by the minimum wage increase is also confirmed by OCPP analysis of data from the Oregon Population Survey (OPS). 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. Using the Census CPS data also fails to reveal negative employment impacts for teenagers. The employment rate for Oregon teens was 50 percent in 1995, 51 percent in 1996, 48 percent in 1997, and 50 percent in 1998, with no significant change over the period as a whole.

[19] Economic Policy Institute, *Making Work Pay: the Impact of the 1996-97 Minimum Wage Increase*, 1998.

[20] Card and Krueger, *Myth and Measurement: The New Economics of the Minimum Wage*, chapter 4.

The most in-depth research on the impacts of state-level minimum wages undertaken was a series of studies comparing the fast food industries in New Jersey and Eastern Pennsylvania.[21] Using establishment interviews, employer records, and confidential payroll tax files, researchers found that after New Jersey raised its minimum wage from $4.25 to $5.05 in 1992, there were no identifiable negative employment effects. In fact, employment in fast food restaurants grew more quickly in New Jersey than in Pennsylvania, where the minimum wage had not been raised. An earlier study in Washington found that the state's 1989-90 minimum wage increases also failed to cause significant decreases in employment.[22] Surveying thousands of businesses and hundreds of affected workers, the Northwest Policy Institute found that Washington state's decision to raise its minimum from $2.30 to $4.25 (an 85 percent increase) resulted in "relatively few disemployment effects" impacts resulting from raising the minimum wage.

Minimum Wage Increases Targeted to Low-income Families

Because workers at or near the minimum wage are classified as "low-wage" workers, it is true by definition that increasing the minimum wage brings raises to low-wage workers. Many low-wage workers, however, are not part of low-income households, and this is a source of concern for some analysts.[23] Because some minimum wage workers belong to middle and even upper income households, some consider the minimum wage to be a "blunt" instrument when it comes to impacting poverty. Some of the increase will be captured by families that do not "need it."

Regardless of the merits of this concern, the data show that the majority of minimum wage workers are members of lower-income households. Analysis by the Economic Policy Institute indicates that over 60 percent of the increase in the federal minimum wage went to the poorest 40 percent of working households.[24] While reaping the lion's share of gains from the minimum wage

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[21] David Card and Alan Krueger, "A Reanalysis of the New Jersey Minimum Wage Increase on the Fast-Food Industry with Representative Payroll Data," unpublished paper, January 1998. Card and Krueger, *Myth and Measurement,* 1995.

[22] Northwest Policy Center, *Minimum Wage Study: The Impacts of the Minimum Wage Initiative in Washington State*, January 1991.

[23] See Susan Houseman, "The Effects of Employer Mandates" in *Generating Jobs*, Russell Sage Foundation, 1998.

[24] Economic Policy Institute, *Making Work Pay*, 1998.

increase, the bottom 40 percent had only 16 percent of total national income. Also, economist David Macpherson has estimated that over 75 percent of the workers impacted by the 1998 and 1999 increases in Oregon's minimum wage belong to families with below-average incomes.[25] It is clear that the bulk of the benefits from a rising minimum wage go to workers that are in lower income households.[26]

Conclusion

Oregon's experience with the highest minimum wage in the country provides important evidence confirming that moderate increases in the minimum wage help low-wage workers, especially former welfare recipients, and do not necessarily have significant negative impacts on employment. The long-term declining wage trends that welfare recipients and other low-wage workers faced were only reversed after Oregon's minimum wage was increased. Most evidence also points to an improved employment environment for the general workforce, welfare recipients and young workers, the population usually expected to face employment hardships from a minimum wage increase. The weight of the evidence shows that a rising minimum wage has been good for working families and good for Oregon. Oregon's experience with the minimum wage provides a valuable lesson for policy makers in Oregon and throughout the nation.

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[25] David A. Macpherson, *Effects of the 1998-1999 Oregon Minimum Wage Increase*, Employment Policies Institute, 1998, pg. 12.

[26] Data presented by Macpherson and the Economic Policy Institute also show that in the US and in Oregon a majority of workers impacted by the minimum wage increase are *not* teenagers, and are disproportionately minority and female.