

Introduction

This short research paper examines a number of issues and arguments concerning the minimum wage. Studies of direct and indirect losses by small business owners from minimum wage increases are specifically reviewed. The paper also focuses on who precisely earns the minimum wage. It also briefly covers a number of issues related to the minimum wage: the loss of experience by those who either lose their jobs, or are unable to obtain employment when the minimum wage increases, as well as the demographics of who loses and who gains based upon previous minimum wage increases. Further examination of the literature determines how long workers actually receive the minimum wage.

This research note has a national perspective, although state specific examples are provided. As of January 1, 2005, 15 states had increased their hourly minimum wage rates above the federal minimum of \$5.15 per hour. It is likely that many states will continue debating minimum wage increases in the forthcoming 2006 legislative sessions, including refundable *state* earned income tax credits (EITCs).

I. Who Earns The Minimum Wage?

The most recent national data on minimum wage workers is for 2004. It comes from the U.S. Department of Labor, Bureau of Labor Statistics (BLS), and was published in April 2005. The BLS data indicate that 73.9 million workers were paid hourly rates in 2004 (67.2 percent), out of about 110 million workers employed in private establishments. Of those paid by the hour, 520,000 were reported as earning exactly the Federal minimum wage of \$5.15, and another 1.5 million were reported earning wages below the minimum, or about 2.7 percent of hourly workers.¹

Characteristics of Minimum Wage Workers²

- 1. Minimum wage workers are quite young. Fifty-one (51) percent were 16-24 years old, and of those, 25 percent were 16-19 years old;**
- 2. About 4 percent of women were paid hourly wages at or below the prevailing Federal minimum, compared with about 2 percent of men;**

¹ U.S. Department of Labor, Bureau of Labor statistics, "Characteristics of Minimum Wage Workers: 2004. Available at www.bls.gov. Those paid below the minimum do not indicate violations of the Fair labor Standards Act, but include many tipped employees working in restaurants, bars, etc. In other cases, these may be employees working on a combination of salary plus commissions.

² Except where noted, all of the data come from the 2005 BLS report in footnote 1.

3. **Part-time workers (persons who usually work less than 35 hours per week) were much more likely to earn the minimum wage or less than their full-time counterparts (about 7 percent versus 1 percent);**
4. **About 15 percent of minimum wage workers are single earners with children;³**
5. **By industry, about 62 percent of minimum wage workers were employed in the leisure and hospitality sectors. BLS estimates that a majority of these workers were employed in food services and drinking places, where wages are supplemented by tips. About 10 percent of minimum wage workers were each employed in retail trade and in the health services sectors. The remainder were in other sectors in small proportions;**
6. **Seventy-one (71) percent of minimum wage workers have at least a high school education;**
7. **Many minimum wage workers are students living in homes with high family incomes, according to an analysis of Census data;⁴**
8. **In the late 1990's, about 60 percent of minimum wage workers were employed in small firms with fewer than 500 employees; the remainder were employed in large corporations.⁵**

II. Issues and Arguments

The Loss of Jobs and the Loss of Work Experience

There is a good literature summary on effects of minimum wage increases in a 2003 paper by Daniel Aaronson and Eric French of the Federal Reserve Bank of Chicago.⁶ Using a statistical model for food consumed away from the home, the authors estimate a job loss of 2 percent-3 percent for a 10 percent increase in the minimum wage. For example, an increase in the minimum wage by \$1.00 (say from \$5.15 to \$6.15 per hour) represents an increase of 19.4 percent. Therefore, the job loss in the restaurant industry could be as high as 6 percent. There were 9.1 million people employed in the “food services and drinking places sector” in June 2005, and a 6 percent job loss would represent more than half a million jobs.

³ Craig Garthwaite, “Testimony before the House Subcommittee on Workforce, Empowerment, and Government Programs.” U.S. Congress, April 29, 2004.

⁴ Bruce Barlett, “The Minimum Wage is Bad Policy.” National Center for Policy Analysis, “Policy Brief.” (Washington, D.C., February 4, 2005).

⁵ Mark C. Berger, Dan A. Black, Frank A. Scott, and Steven A. Allen, “Distribution of Low-Wage Workers By Firm Size in the United States: Final Report. Prepared under contract for the Office of Advocacy of the SBA by Carolyn Loeff and Associates, Lexington, Kentucky, December 9, 1999. Available at www.sba.gov/research .

⁶ Daniel Aaronson and Eric French, “Product Market Evidence on the Employment effects of the Minimum Wage.” Working Papers, Federal Reserve Bank of Chicago, November 3, 2003.

The last increase in the federal minimum wage to \$5.15 per hour occurred in two steps- rising to \$4.75 per hour in October 1996 and then to \$5.15 per hour in September 1997. One-third of minimum wage workers were teenagers in the late 1990's, and the National Center for Policy Analysis concluded that the minimum wage hike "may have killed as many as 380,000 jobs for teens."⁷ Many of these were likely entry-level jobs for teenagers since about 46 percent of 16-24 year olds in the labor force worked 21-35 hours per week in 2003.⁸

Richard Burkhauser, Kenneth Couch and David Witenberg, writing in the *Journal of Labor Economics* in October, 2000 concluded that the 1997 minimum wage increase caused about a 6 percent loss in jobs, although the effects ranged from 2 percent-6 percent, depending upon the detailed industry studied. These estimates imply elasticity estimates in the -0.2 to -0.6 range.⁹

David Neumark and William Wascher, in a series of three papers written between 1996 and 2003 on increases in the minimum wage, observe about a 2 percent decline in jobs, generally for teenagers and in the fast food industry.¹⁰ Since the last increase in the minimum wage occurred during the Clinton welfare reform period of 1996/1997, it is possible that some of the lost jobs would have been taken by former welfare recipients now unable to find employment.

Other economists that have studied the last increase in the federal minimum wage include the extensive articles and book by David Card and Alan Krueger (1997).¹¹ Studying the fast-food industry in New Jersey and Pennsylvania, increases in California's 1988 minimum wage, and the 1990-1991 federal minimum wage increase, the authors first concluded that minimum wage increases caused few changes in employment. They were subsequently challenged by the Neumark and Wascher team above, and finally concluded that "the New Jersey minimum wage

⁷ Perspective: A New Minimum-Wage Hike?" *Investors Business Daily*, January,30, 1998. Quoted in National Center For Policy Analysis, "Idea House." Online at www.ncpa.org/hotlines/min/jan98c.html

⁸ Based upon 2003 Current Population Survey data. For further details, see Bruce D. Phillips, The Future Small Business Workforce: Will Labor Shortages Exist?" *Business Economics*, October, 2004, pp. 19-23.

⁹ Richard Burkhauser, Kenneth Couch and David Wittenberg, "A Reassessment of the New Economics of the Minimum Wage Literature with Monthly Data from the Current Population Survey." *Journal of Labor Economics*, October, 2000, 18(4), , pp. 653-680.

¹⁰ David Neumark and William Wascher, "Reconciling the Evidence on Employment Effects of Minimum Wages: a Review of Our Research Findings." In Marvin Kosters, ed. *The Effects of Minimum Wages on Employment* (American Enterprise Institute, 1996), pp. 55-86.; David Neumark and William Wascher, "Minimum Wages and Employment: A Case Study of the Fast Food Industry in New Jersey and Pennsylvania: Comment." *American Economic Review*, December, 2000, 90 (5), pp. 1362-1396; David Neumark and William Wascher, "Minimum Wages, Labor Market Institutions and Youth Unemployment: A Cross-National Analysis," Working Paper, Federal Reserve Board of Governors, 2003.

¹¹ David Card and Alan Krueger, *Myth and Measurement: The New Economics of the Minimum Wage*. (Princeton, New Jersey, 1997).

increase did not reduce total employment, but it did slightly reduce the average number of hours worked per employee.”¹²

While not all of the cited authors agree, there is consensus that perhaps half a million workers during the past few years could not obtain employment in entry level jobs due to minimum wage increases. Since research indicates that about 60 percent of entry-level jobs are generally provided by small business owners, it is likely that small business owners would not or could not hire these workers when the minimum wage rose (Schiller, 1986)¹³.

III. Winners and Losers From Minimum Wage Increases

Identifying winners and losers from minimum wage increases varies according to the time frame used (i.e. the length of time that has passed since the minimum wage increase was enacted), and the specific point in the business cycle. There is virtually no literature on impacts of minimum wage increases measured by the point in the business cycle. Within these limitations, some generalizations are possible.

Losers from minimum wage increases can be divided into both workers and small business owners. Among low-skilled workers, teenagers with below average education suffer most. To quote from a recent 2005 press release of the Employment Policies Institute:

...”Increasing the minimum wage hurts low-skill employees. Most economists agree that increasing the minimum wage destroys jobs. This job loss is concentrated on the least skilled employees in the economy. Research from Duke University, the University of Wisconsin, and Michigan State University indicates that increases in the minimum wage hurt low-skill employees. Cornell University economists found that groups such as high school dropouts and black young adults suffer four times more employment loss from a minimum wage increase than their non-black and more educated counterparts.”¹⁴

David Macpherson of Florida State University and Craig Garthwaite of the Employment Policies Institute do not understand why the California legislature

¹² David Card and Alan B. Krueger, “Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania: Reply.” *American Economic Review*, December, 2000, pp. 1397-1420.

¹³ Bradley R. Schiller, “Early Jobs and Training: The Role of Small Business.” Prepared under contract for the Office of Advocacy of the SBA by Capitol Research, Inc, 1986

¹⁴ “Proposed Minimum Wage Hike Would Harm Albuquerque’s Least Skilled Employees.” Employment Policies Institute, Press Release, May 25, 2005.

continues to propose minimum wage increases-originally scheduled to rise to \$7.75 per hour, effective January 2007, but vetoed by the governor last summer¹⁵. They estimate that at least 19,000 more California workers would become unemployed.¹⁶ Between May, 2004 and May, 2005, while California's unemployment rate fell from 6.6 percent to 5.8 percent, the number of unemployed teenagers increased from 136 thousand to 154 thousand.¹⁷

In an earlier analysis in the Monthly Labor Review (1990), Linda Martin and Demetrios Giannaros argue that newly employed women are also at great risk from minimum wage increases.¹⁸ The authors emphasize that women are already over-represented in the low wage labor market, and further increases in the minimum wage are likely to exacerbate this situation by denying them jobs or having business owners reduce their hours of employment.

Losses to small business owners from minimum wage increases may be direct losses, such as cutting jobs or hours, or indirect losses—such as rising numbers of job vacancies, profit declines from increased costs, and price increases by small firm owners. Depending upon the stage of the business cycle, and specific industry/area conditions, these price increases may or may not stick and result in a loss of business. They further reduce owner flexibility depending upon the stage of the business cycle.

In recent months, according to NFIB's Small Business Economic Trends, some-what less than one third of owners have been increasing prices, with increases more likely in financial services, health services, real estate and management and engineering services.¹⁹ But many owners in the hospitality industry have also been able to raise prices somewhat faster than employee compensation, generating reasonable profits. But add a minimum wage increase to this equation and employee compensation may increase faster than prices. The result will be profit declines if the price increases cannot stick. And inflation (excluding energy) seems more likely to be well behaved in the near future based upon the consensus of economic forecasters and the changing global labor market.²⁰

¹⁵ "California Labor Market Review," May, 2005 (Sacramento, California), page 2.

¹⁶ David A. Macpherson and Craig Garthwaite, "The Effects of the Proposed California Minimum Wage Increase." Published online by the Employment Policies Institute, www.epionline.org, May, 2005.

¹⁷ "California Labor Market Review," Ibid.

¹⁸ Linda R. Martin and Demetrios and Giannaros, "Would a higher minimum wage help poor families headed by women?" Monthly Labor Review, August, 1990, pp.33-37.

¹⁹ The monthly Small Business Economic Trends report may be found on-line at www.nfib.com/research

²⁰ Joel Popkin and Company, "Wage Trend Indicator," Prepared for the Bureau of National Affairs and the monthly newsletter of the Popkin Company, "The CPI's Future."

Indirect Losses From Minimum Wage Increases

The direct employment losses from minimum wage increases were discussed above. Much of the remaining literature on the indirect losses suffered by small business owners from minimum wage increases concern increased job vacancies, lost productivity, pressures for raises by non-minimum wage workers, and lost business (leading to) lost profits. The national data on job vacancies does not indicate whether a job is vacant due to a minimum wage increase, supply limitations, business cycle considerations, unqualified applicants or local conditions. NFIB's Small Business Economic Trends Survey indicates that every month, about 40 percent of small business owners report "few or no qualified applicants" for available jobs.²¹

The little data available on job vacancies and minimum wage increases comes from a few states that have a minimum wage rate higher than the federal rate and have also measured job vacancies. Consider Massachusetts. The state's Department of Workforce Development estimates that 70 percent of job vacancies—increasing according to the most recent survey—are in small firms with less than 250 employees. The highest vacancy rates are in the health care and food-service preparation industries.²² With Mass' current minimum wage rate of \$6.75 per hour, (with proposals to increase it to \$8.25 by 2007), high and increasing job vacancies are not surprising: owners simply cannot afford the workers at those rates, or refuse to pay those rates for unqualified individuals.²³

Washington state indexed its minimum wage rate to the annual change in the CPI in 1998 and as of 2005, it had the highest minimum wage rate in the nation at \$7.35 per hour. In July 2005, the state's Department of Employment Security reported that job vacancies were the highest in the three- year history of the survey. The majority of positions were available in healthcare, finance, leisure services and hospitality.²⁴ While no literature is available to statistically prove that the high minimum wage rate is causing job vacancies to increase, it is likely that many small employers, particularly in the labor- intensive leisure services, hospitality and healthcare sectors, are simply trying to do more with fewer workers. Add in annual

²¹ William C. Dunkelberg and Holly Wade, "NFIB Small Business Economic Trends." July 2005, page 9 (NFIB Research Foundation, Washington, D.C., July, 2005).

²² Massachusetts Job Vacancy Survey: Hiring trends by Industry and Occupation, second quarter, 2004." Massachusetts Department of Workforce Development, Division of Unemployment Assistance, Revised, November 2004.

²³ Economists' Statement Supporting an Increase in the Massachusetts Minimum Wage" May 31 2005. Massachusetts Budget and Policy Center, available on-line at www.massbudget.org/list/php?topic=3.

²⁴ Employment Security Department, State of Washington, "Job Vacancies Highest in survey's Three Year History, July 5, 2005. Available at www.fortress.wa.gov.esd/portal/news_tem2005-07-06.07287-46475.

health care increases of over 10 percentage points, and price pressures are likely thwarting additional hiring.²⁵

Price Increases

In a 2000 paper, James MacDonald and Daniel Aaronson used BLS data from January 1995 to December 1997 to construct the Food Away from Home component of the CPI (Consumer Price index). They compared price changes over two month periods.²⁶ They found that restaurant prices rose by 3 percent- 6 percent, on average, within a 6- month period following imposition of the minimum wage increase. Not every price on every menu increased, and some prices were increased very selectively, depending upon the owners' perception of demand. Very low priced food (say menu items at 99 cents) may not have increased at all.

In some additional work, Card and Krueger found that between 1989 and 1992, prices increased more in cities with higher proportions of low-wage workers.²⁷ It is not clear whether small firm owners were more adversely affected in those areas; it depends whether the price increases could be made permanent. No such data exists over time to answer this question.

In an updated paper in 2004, Aaronson, French and MacDonald verified their earlier 2000 results, and learned that price increases following minimum wage increases are larger for establishments that are more likely to pay the minimum wage.²⁸ (Such establishments may not be small firms, but part of larger firms). Small restaurant owners may not have been able to pass along these price increases, depending upon their individual situations. Small business owners unable to increase prices may well have lost profits, but data to verify this outcome is lacking.

Who Gains From Minimum Wage Increases?

In theory, even with adverse employment effects, higher minimum wages might benefit poor families if the wage gains were concentrated among low- income workers in low- income families.²⁹ And it would be useful to assume that all

²⁵ Katherine Baicker and Amitabh, "The Labor market Effects of Rising Health Insurance Premiums," NBER Working Paper 11160, August, 2005.

²⁶ James M. MacDonald and Daniel Aaronson, "How Do Retail Prices React to Minimum Wage Increases?" Federal Reserve Bank of Chicago, Working Paper, WP2000-20, December, 2000.

²⁷ Ibid.

²⁸ Daniel Aaronson, Eric French and James MacDonald, "The Minimum wage, Restaurant Prices, and labor Market Structure." Federal reserve Bank of Chicago, working Paper 2004-21.

²⁹ David Neumark, Mark Schweitzer and William Wascher, "Will Increasing the Minimum Wage Help the Poor?" Federal Reserve Bank of Cleveland, February 1, 1999.

employment losses occurred to young persons from more affluent families. This however, is not the case.

The lack of demographic time series data on minimum wage effects makes it difficult to precisely measure who gains from minimum wage increases. The scant evidence available seems to indicate that two general classes of workers gain from minimum wage increases. About seventeen (17) percent of beneficiaries are single heads of households living in poor families, while the remaining 83 percent are relatively affluent young people living in middle class or upper income families, dual earner couples, or adults living alone. ^{30 31}

According to the Economic Policy Institute, poor women—disproportionately represented in low income households—are most likely to be helped by a minimum wage increase. However, because it takes almost \$17,000 to lift a family of four out of poverty, the amount of the minimum wage increase is likely to be insufficient to eradicate poverty by itself. ³² **This idea was also recently expressed by Joseph Sabia and Richard Burkhauser of the Employment Policies Institute when commenting on New York’s proposed increase in the minimum wage: only a small fraction of New York’s** ³³ **poor families would be lifted out of poverty from minimum wage increases. (The governor vetoed the proposed increase in July, 2004 that would have increased the state’s minimum wage in steps from \$5.15 per hour to \$7.15 per hour).**

Back in 1985, when the poverty rate was considerably higher, a BLS study found that one in five hourly wage- workers paid at or below the federal minimum wage lived in households with incomes below the poverty level. ³⁴ **The Employment Policies Institute estimated that the average family income of non-poor beneficiaries of the 1996 and 1997 minimum wage increases was over \$44,000 (or about \$55,000 in 2005 dollars).** ³⁵ **Jeffrey Cornwall of Belmont University, quoting**

³⁰ Richard Burkhauser, “Testimony before the House Committee on Education and the Workforce, U.S. congress, April 27, 1999.

³¹ David A. Macpherson and Craig Garthwaite, “The Effects of the Proposed California Minimum Wage Increase.” Employment Policies Institute, available at www.EPIonline.org

³²Jared Bernstein, “The Minimum Wage Increase: A Working Women’s Issue” Economic Policy Institute, Working Paper, 2005 cited on www.ncpa.org/bothside/krt/krt100799a.html.

³³ Joseph Sabia and Richard Burkhauser, “Raising New York’s Minimum Wage: A Poor Way to Help the Working Poor.” Employment Policies Institute, July 2004.

³⁴ Ralph E. Smith and Bruce Vavrichek, “The minimum wage: its relation to incomes and poverty.” *Monthly Labor Review*, June, 1987, pp. 24-30.

³⁵ Employment Policies Institute, “Who Benefits From a Minimum Wage Hike: A State by State Profile:2004 Edition.” Presented in testimony before the U.S. Congress, Subcommittee on Workforce, Empowerment, and Government Programs, April 29, 2004. Available at www.house.gov/smbiz/hearings/databaseDrivenHearingsSystem/displayTestimony.

Richard Burkhauser in 2005 Congressional testimony, states that 51 percent of the teenagers impacted by a minimum wage increase lived in families whose income was three or more times above the poverty line.³⁶ The unambiguous conclusion of this literature is that minimum wage increases are poorly targeted toward the real folks who most need them. There is not a single study that does not favor the Earned Income Tax Credit (EITC) to better target employed poor people (see below).

IV. Length of Time Earning the Minimum Wage

There is a short literature that concludes that most minimum wage workers do not earn the minimum wage very long.³⁷ For example, Ralph Smith and Bruce Vavrichek found that 63 percent of minimum wage workers in their sample were employed at higher-than-minimum-wage jobs one year later.³⁸ Bradley R. Schiller, using the ten year National Longitudinal Survey of Youth of the Department of Labor, found that only 15 percent of 1980 labor force entrants still had any (minimum wage) experience after three years, “which suggests that long-term minimum wage experience is rare.”³⁹ And Carrington and Fallick (2001) concluded that even by the eighth year of their career, roughly 14 percent of the sampled workers in the 1979 National Longitudinal Survey of Youth had jobs paying less than the minimum wage plus \$1.00.⁴⁰

The approximate 15 percent of workers still working at or near the minimum wage at least five years after joining the labor force corresponds fairly closely to the 17 percent of workers in poor families who earn the minimum wage in the studies reviewed above. The authors indicate that there are disproportionate numbers of women and African Americans continuing to earn the minimum wage, but cannot account for periods when these workers are out of the labor force, and what influence these absences have on the final results.

³⁶ Jeffrey Cornwall, “The Entrepreneurial Mind,” January 5, 2005. Online at www.forum.belmont.edu/cornwall/archives/2005/01/minimum_wages_g.html

³⁷ Most of this literature is summarized in William J. Carrington and Bruce C. Fallick, “Do some workers have minimum wage careers?” *Monthly Labor Review*, May, 2001, pp. 17-27.

³⁸ Ralph E. Smith and Bruce Vavrichek, “The Wage Mobility of Minimum Wage Workers.” *Industrial and Labor Relations Review*, October, 1992, pp. 82-88. The authors obtained similar results using Census’ Survey of Income and Program Participation (SIPP) Data.

³⁹ Bradley R. Schiller, “Moving Up: The Training and Wage Gains of Minimum Wage Entrants.” *Social Science Quarterly*, September, 1994, pp. 622-636.

⁴⁰ Carrington and Fallick, op. cit., pg 21.

V. The Earned Income Tax Credit Plus the Minimum Wage: Perhaps the Best Solution

The federal Earned Income Tax Credit (EITC) began in 1975 as a cash refund to help the working poor compensate for the burden of the Social Security payroll tax.⁴¹ Low wage workers with children—such as a single parent who works full-time at the minimum wage—can receive (in current dollars) up to \$4,026 in tax refunds—even if they owe no tax. The EITC limits were increased slightly by the tax act signed by President Bush in 2001. In most cases, the extra income is sufficient to lift the minimum wage worker and dependents above the federal poverty line.⁴²

Since 1993, 17 states and the District of Columbia have built on the federal framework by enacting their own versions of the EITC. The majority of those states have adopted a refundable model, including CO, DC, IL, IN, KS, MA, MI, NJ, NY OK, VT and WI. Four other states—IA, ME, OR, and VA—have a credit that offsets state taxes. Uniquely, Maryland and Rhode Island offer taxpayers a choice of a refundable or non-refundable credit. In addition to the states, Denver, Colorado and Montgomery County Maryland offer additional assistance from county funds.⁴³

Without any formal analysis, it would seem that targeting federal refundable tax credits, supplemented by state refundable tax credits, might negate the need for further minimum wage increases by reaching the precise low wage audience for whom the credits are intended. There has been little academic research in this area, but a 2000 evaluation study by the Joint Center for Poverty Research at the University of Chicago found that the federal EITC has increased employment among single mothers by 4-7 percentage points.⁴⁴ And an earlier 1994 paper by Burkhauser and Glenn concluded that the EITC is a far more efficient mechanism for targeting low-income workers “than are increases in the minimum wage.”⁴⁵

⁴¹ Tax Policy and the Working Poor: The Earned Income Tax Credit.” *Focus*, Institute for Research on Poverty, University of Wisconsin, Madison, (15) 3, Winter 1993-1994, pp1-13.

⁴² “Earned Income Tax Credit Can Mean a Fat Refund for Washington Workers.” Washington Work First, March, 2004. Available on-line at www.workfirst.wa.gov/eitc/childcredit.htm

⁴³ Democratic Leadership Council, “Helping ensure no full-time worker lives below the poverty line,” July 7, 2005. Online at www.dlc.org/ndol_ci.cfm?contentid=3670&kaid=139&subid=277.

⁴⁴ “Policy Brief,” Joint Center for Poverty Research, X(10), University of Chicago. Online at www.jcpr.org/policybriefs/vol3_num1.html.

⁴⁵ Center for Policy Research, Syracuse University, Income Security Policy paper No. 8, “Public Policies for the Working Poor: The Earned Income Tax Credit Versus Minimum Wage Legislation.” February, 1994.

VI. Summary and Implications

- 1. Minimum wage workers are likely to be young, part-time entry-level workers under 25 years of age. They are also more likely to be female. Only about 15-20 percent of these workers are likely to be single wage earners with children.**
- 2. When the minimum wage rate increases, relatively affluent young folks, dual earner couples and teenagers in middle income and upper income households are the largest beneficiaries.**
- 3. Minimum wage workers are concentrated in the leisure and hospitality sectors, which employ almost two-thirds of them; many of these workers are employed in restaurants and drinking places. Such workers are also employed in the retail trade and health care sectors, but in smaller proportions.**
- 4. Minimum wage increases hurt small business owners in two ways—both direct and indirect. Many of the direct employment effects occur in those sectors most likely to employ them. The literature indicates employment losses of 2 percent-6 percent, especially in restaurants, for each 10 percent increase in the minimum wage.**
- 5. To cope with minimum wage increases, in addition to job cuts, small business owners reduce hours, leave jobs vacant, reduce wage increases, increase prices where feasible, and take hits in the bottom line.**
- 6. In states with the highest minimum wage rates in the nation, job vacancies are currently at record levels in sectors such as leisure services, hospitality services and healthcare. Apparently small firm owners cannot or will not hire workers at these rates.**
- 7. Most minimum wage jobs are not career jobs. About two-thirds of minimum wage workers earned more than the minimum wage one year later. In the best longitudinal panel study of entry level workers, only 14 percent earned less than \$1.00 above the minimum eight years later.**
- 8. Small business owners in leisure and hospitality services remain the big losers and face continuing competitive disadvantages from further minimum wage increases: costs cannot often be passed on to final consumers and businesses. The latter varies with the rate of inflation, stage of the business cycle, and price sensitivity to the particular product or service.**
- 9. A combination of the federal earned income tax credit (EITC) along with supplements provided by various states best target the single earners with dependents who need assistance. A combination of the two refundable tax credits has been shown in the literature to lift such persons out of poverty, and eliminate the need for further minimum wage increases.**
- 10. On a pragmatic basis, many state officials and legislators seem to be questioning the need for teen-aged based minimum wage increases. The governors of two states—New York and California—states among those that are the most expensive in which to do business—have recently vetoed minimum wage bills passed by their respective legislatures. On the other**

hand, the governor of New Jersey recently signed a bill to increase the minimum wage.

11. It is likely that the 2006 legislative session will see a resurgence of many attempts to increase the minimum wage. Small business advocates need to be vigilant in opposing such increases because they target the wrong population and increase the likelihood that mote small firms will go out of business.
12. Funds spent on minimum wage increases would be better used to increase the education and training opportunities of workers who most need it and cannot afford it. Many underutilized training grants are available at both the federal and state levels. Our community colleges need to be better utilized to increase the skill levels of the 15 percent of minimum wage workers who need assistance and probably do not know how to get it because of the complex ways in which many programs are administered.