

Evaluation of a Minimum Wage Increase in Minneapolis and Hennepin/Ramsey County

Technical Report

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KEY FINDINGS

The Roy Wilkins Center replicated the techniques used in prevalent economic literature to simulate the relative impact of a local minimum wage increase in the city of Minneapolis and in Hennepin/Ramsey County. These simulated minimum wage changes are at the \$12 and \$15 per hour levels. The research team finds the following:

Simulated Results in 2021 (After Full Implementation of Minimum Wage)

Industry	Minneapolis				Hennepin/Ramsey			
	\$12		\$15		\$12		\$15	
	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper
Restaurants								
Total Employment	-1.85%	0% *	-3.35%	0% *	-1.85%	1.88%	-3.35%	3.44%
Total Employee Earnings	0% *	-14.58%	0% *	-27.72%	0% *	-16.24%	0% *	-31.03%
Retail								
Total Employment	-1.24%	0% *	-2.24%	0% *	-1.24%	1.25%	-2.24%	2.28%
Total Employee Earnings	0.00%	7.16%	0% *	-13.31%	0% *	-13.47%	0% *	-25.51%
Health								
Total Employment	0% *	0% *	0% *	0% *	0% *	0% *	0% *	0% *
Total Employee Earnings	0% *	-7.66%	0% *	-14.26%	0% *	-19.32%	0% *	-37.21%

Total Employee earnings reflect geographic area's change in employee earnings

Total Employment reflects geographic area's change in total employed persons

*A rate of 0% suggests there is no statistically significant response to the proposed minimum wage

See Table 43–47 for more detailed summary of results

- The industries with the largest number of persons likely to be affected by the change in minimum wage are food service, retail, non-hospital health, and administrative support
 - The administrative support sector is larger than the other sectors. While a larger number of administrative support workers are likely to be affected by a change in the minimum wage, the percentage who are likely to be affected is comparatively small to the other industries
 - This does not reflect that this sector is more likely to pay minimum wages
 - Because administrative support workers are not as *proportionally* likely to be affected by the simulated minimum wage increase, analysis is more detailed for the other three industries. Therefore, a separate model was not created

- Minimum wage earners in Minneapolis often
 - Have at least some college education
 - Are not currently in school
 - Work at least 35 hours per week
 - Are over age 25
- Firms that currently pay the \$9.50 minimum wage in Minneapolis often
 - Are eligible to pay the current lower minimum wage of \$7.75 as a small business
 - Will increase prices of food by less than 5% to cover labor costs of a \$12/\$15 minimum wage
 - Face lower employee turnover after an increase in the minimum wage
- Current literature on the minimum wage suggests
 - Increases in average employee monthly earnings vary by industry
 - Average employee monthly earnings in the Minneapolis metropolitan area are more sensitive to the minimum wage than the country as a whole
 - Most estimates of the change in workforce participation find no statistically significant change after a minimum wage increase
- Households with minimum wage earners in Minneapolis
 - Are currently less likely than the general public to meet their food needs
 - Are likely to spend \$27 more a week to meet their food needs after the proposed increase in the minimum wage
 - Would face food insecurity 4-7% less often under the proposed policy
- Immigrant workers earning the minimum wage in Minneapolis
 - Are slightly more responsive to an increase in the minimum wage than the general population
 - Are especially more responsive to an increase in the minimum wage if they are recent immigrants in a low skill job
- Nonwhite employees are more likely to be affected by an increase in the minimum wage than white workers, when controlling for the number of workers in each group
 - Minority Owned Business Enterprises are, however, likely to face smaller changes in payroll costs after a change in the minimum wage, as fewer minority owned enterprises qualify to pay their workers a reduced minimum wage
- Firms within industries with relatively few minimum wage workers are not very likely to see a large change in their operating costs as a result of the proposed minimum wage
- Firms within industries with relatively many minimum wage workers may see an increase in their operating costs, however, if employee earnings increase by a smaller rate than we simulate, the change in labor cost would be smaller as well

- Many firms, notably in the restaurant industry, may pass on the increased labor cost of a minimum wage increase to consumers by charging higher prices for their goods. Because this cost can be spread out over all consumers, the change in prices is relatively small, averaging less than 5% increase in restaurant prices
- Much of the existing literature on the minimum wage relies on either national estimates, or large regional estimates
 - Because this report simulates a citywide minimum wage, which is much smaller in terms of population, the expected change in earnings or employment resulting from a change in the minimum wage is more difficult to determine, and the range of likely outcomes is wider
 - Many estimates of the range of likely outcomes are so wide, that they include the possibility of a 0% change in employment levels or in employee earnings. This variability could also imply that changes in earnings and employment are likely to result from factors other than the minimum wage.

Clarifications

- A change in employment levels do not necessarily translate to a change in the number of new hires, but the number of positions filled
 - Firms may choose to cease filling vacancies rather than fire employees
 - Employment levels in these studies reflect the total number of employed persons, and do not reflect the employment rate, or people who are looking for work
 - This analysis does not simulate the effects of a change in the minimum wage for persons who are not in the workforce
 - If a model simulates a change in an industry's employment level, it is possible that the change indicates people leaving/entering one industry while continuing to work in another industry
 - The Roy Wilkins Center estimates the change in the number of persons employed in an industry, this does NOT imply that EACH worker faces the same job responsibilities that they had before
 - Likewise, one laborer might be replaced with another laborer
- A change in employee income reflects a change in pre-tax earnings, often for three month increments
 - Earnings in this case would equal the hourly wage rate, multiplied by the number of hours worked in a week, multiplied by the number of weeks worked in three months
 - There is no way to clarify if a change in employee earnings results from a change in the hourly wage, the number of hours worked in a week, or the number of weeks worked, or a combination of the three

- The Roy Wilkins Center estimates the average change in earned income, this does NOT imply that EACH worker sees an increase in earnings after a change in the minimum wage
- A change in employee turnover reflects the change in the number of employees who leave or join a firm where they were not previously employed
 - It is also possible that a change in turnover in an industry might be a result of more/fewer new workers hired, more/fewer workers separated from the firm, or a combination of the two
- Because employment data is collected from the employee, there is no way to measure if a firm relocates with this data, or if they are replaced with another firm