10-29-2015

Portland Needs a Higher Minimum Wage

City Club of Portland (Portland, Or.)

Portland Needs a Higher Minimum Wage

City Club of Portland Bulletin, Vol. 96, No. 10, October 29, 2015

City Club members will vote on this report between Friday, November 6, 2015 and Monday, November 9, 2015. Until the membership votes, City Club of Portland does not have an official position on this report. The outcome of the vote will be reported in the City Club of Portland Bulletin Vol. 96, No. 11, dated November 10, 2015, and online at pdxcityclub.org.

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Executive Summary

Our committee was asked to address two questions: 1) Should individual municipalities in Oregon be allowed to set unique minimum wage rates that are higher than the state-set minimum? And, 2) Should Portland specifically set a higher minimum wage than the state-set rate? The simple answer to both of these questions is yes.

We heard testimony from every side of the minimum wage debate, and included business interests, politicians, economists, activists, employers, and interest group representatives. We examined a large body of research targeted at the general public and academics alike, while following the unfolding political story of the minimum wage in other cities.

Our research found that the need for a higher minimum wage is significant, especially in Portland. As wealth inequality continues to grow in our state, about 40 percent of working Oregonians and 35 percent of the Portland metro workforce continue to make less than $15 per hour. Increasingly those earning the minimum wage are not teenagers, but middle-aged workers, and the current minimum wage does not cover the basic cost of living by most measures, especially for workers with children or dependents.

Existing research on the economic impact of increasing the minimum is extensive, and an enormous amount of data about wages is available. Unfortunately, analyses about the impacts of specific minimum wage policy choices are scarce, especially on the local level. While there is no consensus among economists or activists, we were persuaded that a city should base its ideal minimum wage on two factors: median wage and the cost of living. Our committee believes these two factors are the most practical and informative benchmarks as Portland and Oregon determine the ideal minimum wage.

These benchmarks tell us that Portland clearly needs a higher minimum wage.

A single minimum wage does not accommodate the enormous economic diversity across Oregon. The cost of living varies widely across Oregon's geographic and economic regions. Many different tools can be used to calculate and compare the cost of living; however, all models agree that in Oregon the cost of living is significantly higher in Portland than in rural areas and the state average. Most models place the cost of living in Portland at 50-80 percent higher than in rural parts of the state. Due to this variation, Oregon needs a system that allows the minimum wage to vary by city and by region.

Achieving a varied wage system in Oregon is not a straightforward matter. Oregon minimum wage laws differ in two key ways from Washington and California. First, Oregon's voters - not the state legislature - established the current statewide minimum wage. In 2002, voters approved Measure 25, which raised the minimum wage to $6.90 and set it to adjust annually based on the Consumer Price Index. The rate is currently $9.25 per hour, the second highest state minimum wage in the United States.

Second, an Oregon law passed in 2001 prohibits localities from setting their own minimum wages that are different from the state minimum. Fifteen other states have enacted a similar restriction. This law prevents Portland from establishing its own minimum wage as has been done in Seattle and Los Angeles, and means that state action will be necessary in some form to allow any change to the current policy. While it is technically possible that the state could arrange a system of regionally differentiated minimum wages, both the committee and multiple witnesses felt this solution would be impractical and difficult for the legislature to achieve. Local ownership of minimum wage policy increases the likelihood that minimum wages will respond to Oregon's significant economic diversity.

Conclusions and Recommendations

The minimum wage is a contentious issue that exposes deep ideological differences within contemporary American politics. Oregon follows this pattern. To make matters worse, the minimum wage has become a partisan litmus test. Neither policymakers, nor a group of concerned citizens such as the members of our committee, is going to reconcile this conflict by simply weighing the arguments and choosing sides. Both proponents and opponents of raising the minimum wage can make credible, persuasive, cogent, and data-driven claims on their own behalf. Both sides understand that poverty, income inequality, the cost of living, and diminished economic opportunity are genuine problems. They disagree profoundly about the minimum wage's potential to solve them.

Our committee can contribute to this discussion by focusing on the policy-making process, and the research questions in our initial charge reflect that spirit. We see the challenge in these terms: how can policy makers and voters navigate this contentious issue in a way that follows from experience, and establishes an approach that makes practical sense to those on both sides of the debate? The minimum wage has been with us for a long time, but the idea of local minimum wages is new, and our experience with local minimum wages is lacking. Policy makers need to create the conditions where we can see a local minimum wage's real effects over time.

Conclusions

1. The cost of living around Oregon varies significantly, and is much higher in Portland than other parts of the state. For this reason, it does not make sense to insist on a single minimum wage for the entire state.
2. The cost burden of an increased minimum wage is not evenly distributed among employers and business owners.
3. Preemption impedes minimum wage policies that reflect variations in the cost of living across the state.
4. Preemption undercuts the governing principle that underlies home rule, and prevents the kind of useful and informative policy innovation that home rule is meant to encourage. The home rule principle is that the state should defer policy choices such as the minimum wage to local governments, unless there is compelling evidence to the contrary.
5. The current preemption law was supported primarily by groups seeking to slow the growth of the average minimum wage across Oregon. While proponents of preemption argue that a single statewide wage has economic benefits, we saw no convincing empirical evidence that supports this claim. Preemption is a policy position that is linked to nationwide efforts to reduce the minimum wage.
6. Even if preemption goes away, local governments in Oregon face incentives to avoid an unworkable patchwork of minimum wage regimes.
7. Two factors should determine the optimal minimum wage in U.S. urban areas like Portland: the median wage and the cost of living.
8. Research on the effects of the minimum wage is extensive but focuses primarily on federal and state effects. There is a substantial amount of publicly available data, but the analysis to support decisions facing local policy makers is incomplete.
9. Empirical research on the minimum wage, and the impact it has on jobs and poverty, is deeply polarized. Nationwide, most contemporary academic research finds little or no impact on the number of jobs, and that poverty reduction is meaningful. However, both sides of the debate have produced credible and persuasive claims, which are very difficult to arbitrate.
10. Most employers in the Portland area would adapt to a modest increased minimum wage, and could do so without compromising the economic health of the Portland metropolitan area.
11. The minimum wage is an expression of equality, dignity, and belief in the fundamental right of Portland’s workers to expect meaningful compensation for their labor.

Recommendations

1. The Oregon State Legislature should remove the statute that enables preemption in the 2016 legislative session.

2. The Portland City Council should establish a minimum wage that is higher than the state minimum of $9.25 per hour.

3. The Portland City Council should immediately establish a deliberative process that brings together business, labor, political and citizen groups to recommend a minimum wage for Portland, along with a complete implementation plan.

4. To support its policy design, the Portland City Council should commission immediately a minimum wage study for Portland.

Composition of the committee

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Acknowledgements

The committee wishes to express their appreciation to the following City Club members and staff for their help and support:

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Introduction

Scope of the Study

The City Club of Portland Board of Governors charged our committee with addressing two questions:

- Should individual municipalities be allowed to set unique minimum wage rates that are higher than the state-set minimum?
- Should Portland specifically set a higher minimum wage than the state-set rate?

Throughout this report, we refer to the policy of a state-set minimum wage as *preemption.*

Study process

Your study committee, composed of nine members, began its work in April 2015 and met every week for five months. We heard testimony from every side of the minimum wage debate, including business interests, politicians, economists, activists, employers, and interest group representatives. We examined a large body of research targeted at the public and academics alike. We followed the unfolding political story of the minimum wage in other cities. A complete list of witnesses and works cited in this report is at the end of the document.

Background and Discussion

Raising the Minimum Wage in Portland

America's experience with the minimum wage is closely linked to 20th century labor history, and Oregon's experience is no exception.

Although the contention over minimum wages has never disappeared, the debate over the minimum wage has gained prominence since the economic crisis that began in 2008. The recent political momentum for raising the minimum wage emerged from growing concern about income inequality, and although it is not the only consideration, both sides of the debate tend to focus their arguments on it.

Since the 1980s, most Americans reside in places where the minimum wage is determined by their state legislatures, and not the baseline level set by the federal government. In a few places around the country, including other large west coast cities of Seattle, San Francisco, and Los Angeles, municipal governments have enacted local minimum wage regimes that exceed their own states' minimums.

Oregon's minimum wage laws differ in two important ways from the other west coast states. First, Oregon's statewide minimum wage has been set in recent years by a voter initiative, and not the legislature. In 2002, Oregon voters passed Measure 25, which raised the minimum wage to $6.90 and indexed it to the Consumer Price Index. The state legislature can pass a higher minimum, but for now, Measure 25 determines the rate, which currently stands at $9.25 per hour and is the second highest state minimum in the U.S.

At the same time, Oregon's preemptive wage law forbids local governments from enacting their own minimum wage for most private employers. As noted below, this kind of law is unusual for a Democratic leaning state like Oregon, and it means that the Portland City Council cannot independently adopt the kind of significantly higher minimum wages that we have seen recently in Seattle and Los Angeles. The preemption law was passed in 2001, with Governor Kitzhaber's approval, to keep minimum wages consistent across the state, and to ensure that large municipal governments like Portland's do not determine the *de facto* minimum wage everywhere else. For opponents of raising the minimum wage, state control over the minimum wage keeps control over minimum wage policy in friendlier political territory. Regardless of its policy merits, and the willingness of a Democratic governor to approve it, support for state control aligns closely with partisanship. Proponents of higher minimum wages wanted to end state control over minimum wage policy as part of their bundle of legislative proposals in the 2015 session.

For these reasons, the minimum wage debate in Oregon differs from the other west coast states. The committee's two-part charter reflects these differences.

State Control of Oregon's Minimum Wage: The 2001 Preemption Statute

With regard to preemption, our inquiry boiled down to one question: *is state control simply a tactical means of reducing Oregon's average minimum wage, or does it have tangible policy benefits that are independent of minimum wage amount?*

We explored the possibility that the Portland metropolitan area could be granted a higher minimum wage relative to the status quo and the rest of the state, even if state control is maintained. We also examined the possibility that the political momentum to raise the minimum wage statewide could produce a result that effectively gives supporters in Portland everything they want, without changing preemption.

The History of Oregon's Minimum Wage Preemption Statute

The word "preemption" refers to a state government's authority to deny local governments the ability to regulate a particular domain of public policy. Oregon's state government can preempt in particular policy domains, even if local governments enjoy, by default, extensive autonomy granted to them through a practice known as *home rule*. The term "home rule" refers to the authority given to local governments, including counties and cities, to govern themselves.

Oregon is one of 16 states that have enacted statutory preemption of local government authority to determine minimum wages (see Table 1).[i] The statute was enacted in 2001, when Republicans controlled both chambers of the state legislature. That year, Oregon became the third home rule state to adopt minimum wage preemption and covers nearly all private employers in Oregon, but excludes public employers.[1] The Oregon Restaurant Association (ORA), now called the Oregon Restaurant and Lodging Association, led the effort to pass the enabling legislation, and Governor Kitzhaber's spokesman Bob Applegate stated, "We believe that establishing a uniform minimum wage is a compelling statewide interest."[2] Despite the Governor's willingness to sign the bill, nearly all House Democrats opposed the measure, while only one Republican opposed it.[3]

The success of the 2001 preemption bill came at a time when the self-described "living wage" movement was gaining political momentum in Oregon's largest cities. In those years, the current interest in higher minimum wages had not yet taken hold. Nationwide, opponents of higher minimum wages recognized that their political objective of constraining minimum wages was more likely to succeed in state legislatures. When Oregon's preemption statute was passed, ORA executive director Michael McCallum acknowledged that he wanted to head off any local effort to increase the minimum wage.[4] For many years, The American Legislative Exchange Council (ALEC), a conservative state legislative action research organization, has encouraged Republicans to push for preemption and has posted a template for preemption legislation on its website that has been widely adopted in the states that have enacted preemption.[5]

Table 1: States that have enacted statutes preempting local authority to set minimum wages.[6]

State	Year Adopted
Colorado	1999
Florida	2013
Georgia	2004
Indiana	2011
Louisiana	2012
Michigan	2015
Mississippi	2013
Missouri	1998
New Mexico	2009
Oklahoma	2014
Oregon	2001
Pennsylvania	2006
Rhode Island	2014
Tennessee	2013
Utah	2005
Wisconsin	2009

[i] Note that states without strong home rule provisions could challenge a local minimum wage ordinance without a preemption statute. Oregon, by contrast, has a very strong constitutional bias that supports home rule.

In researching the case for preemption, four arguments emerged:

1) **A single minimum wage regime helps prevent a costly patchwork of ad-hoc minimum wage regulations in different parts of the state.**

2) **Preemption ensures that a single municipality will not define a *de facto* minimum wage for an entire metropolitan area, or the state itself.**

3) **Compared to municipal and county governments, the state is better equipped to define minimum wage policy with less political pressure and greater enforcement capability.**

4) **Preemption is likely to reduce the minimum wage across the state. If a lower minimum wage is a desirable goal, preemption complements it.**

All of the testimony that the committee heard from business owners and the representatives from business organizations addressed preemption. Almost all of these witnesses, including representatives from the Oregon Restaurant and Lodging Association, the Oregon Farm Bureau, and the Portland Business Alliance, expressed a strong conviction that multiple minimum wages in different parts of the state and different municipalities within the Portland metro area would generate costly administrative challenges and a significant regulatory burden.

The politics of minimum wage preemption in Oregon are complicated in several ways, but it is useful to distill the debate about preemption into two questions:

- **Does the state have a legitimate reason for unifying, or at least coordinating, minimum wage policy around the state? Without it, what kind of regulatory chaos could we realistically expect, and would local control inhibit businesses and generate large indirect costs?**

- **Given Oregon's relatively high state minimum wage, and given this higher minimum wage's constitutional status owing to Measure 25, does preemption have any practical impact on the goals of minimum wage advocates?**

Our conclusions offer a response to these questions, but in the course of investigating the topic, we discovered the following facts, and these considerations challenge arguments that support preemption.

First, the committee heard no empirical research to quantify the costs that preemption could save. In other words, neither side can point to any body of empirical investigation that offers a measurable cost versus benefit comparison of preemption's impact. The cost concerns of preemption supporters may be well founded and a legitimate source of concern. Unfortunately, the lack of data made it difficult for the committee to estimate the magnitude of these costs. The logic of the preemption argument is clear, but the size of its potential effect is not.

Second, Oregon is one of the earliest states to adopt home rule, and has very strong provisions in its constitution that favor home rule for the cities that use it. Unless the costs and the risks of local control are compelling and generally understood, local control gets the benefit of the doubt.[7] The principle of home rule deserves particular attention in this debate. The goals of local accountability, citizen proximity to decision makers, potential for observable policy innovation, and sensitivity to the local policy environment, are lost when local control is denied. The reasons for abandoning home rule in any policy area must be compelling. Nationwide, minimum wage policy has effectively moved away from the federal level to the states, and we see no inherent reason why the states, in turn, are the most logical place to determine proper minimum wage levels for cities and localities.

Third, local governments have a stake in the benefits of coordinated minimum wage policy, even without preemption. We emphasize this does not mean that cities will, necessarily, avoid producing a patchwork of varying minimum wages. The experience of the San Francisco Bay Area, which now sustains more than a dozen separate minimum wage regimes, demonstrates the concern. Nonetheless, cities are capable of recognizing, on their own, the need to avoid patchwork wage regulation within their metropolitan areas. For example, former Seattle City Council President Sally Clark noted in testimony to our committee that, before raising Seattle's minimum wage, city officials resisted adjustments for many years, because of concerns about job losses to other local cities.

Throughout our investigation, we have tried to understand how the case for preemption differs from the more general case against a higher minimum wage. In the latest wave of minimum wage proposals, Oregon legislators who are sympathetic to the goal of higher minimum wages have consistently sought to repeal preemption.

We cannot avoid the conclusion that minimum wage opponents endorsed preemption primarily to reduce the likelihood of large minimum wage increases. In 2001, before Measure 25 was passed, opponents hoped to shift the minimum wage debate to a state legislature that was more receptive to arguments against raising the minimum wage, while constraining city governments with politically homogeneous constituencies and an inclination to raise minimum wages on their own.

Does preemption preclude a higher local minimum wage?

Under preemption, the state could still accommodate multiple minimum wages. The state could manage a schedule of region-specific minimums that conform to Measure 25, and it could respond to Portland's cost-of-living issues with a different minimum wage schedule that coordinates policy among different jurisdictions in the metro area.

This type of scenario is not unprecedented. Presently, Oregon's Bureau of Labor and Industry (BOLI) establishes region-specific prevailing wage rates for public works projects.[8]

In addition, a case can be made that preemption creates political pressure to maintain a higher state minimum wage that ensures that regions in the state with weaker economies are not left behind.

Advocates for a higher minimum expressed confidence that support for the state minimum wage would remain strong throughout the state, even if preemption goes away and places like Portland choose to set higher minimums. There is no obvious way to prove this expectation, but it is plausible that if Measure 25 and inflation indexing are in force, a reasonably high minimum wage baseline will persist.

At the same time, we found no evidence that local governments will necessarily respond with an unwieldy patchwork of divergent policies if preemption goes away. We also found no evidence to support the claims that eliminating preemption would create a significant administrative cost burden on businesses operating in multiple locations. It is possible that eliminating preemption could lead to competing efforts for local minimum wage initiatives, but local governments already face strong incentives to coordinate minimum wage policy and avoid widespread variation that preemption supporters fear.

Creating a state-generated minimum wage policy that accommodates more than one minimum wage for different regions would be very difficult. This does not mean that state management of two or more minimum wage schedules is impossible. In theory, the state could assign a unique minimum wage schedule for Portland and other Oregon cities where the need is most pressing. We recognize that preemption will be difficult to overturn, and a creative and responsive solution at the state level would be better than nothing. If the state legislature is willing to consider solutions that respond to the need for multiple minimum wages, and if preemption is unavoidable, then they should try to implement the best solution available to them.

However, we think that eliminating preemption altogether is the best solution. In the long run, important advantages of local policy ownership are lost under preemption. Professor Paul Diller of Willamette University Law School has argued that preemption inhibits policy innovation, begging the question: why would it not serve the interests of minimum wage opponents to demonstrate the effectiveness of lower minimum wages by applying it in specific places?

Professor Diller argues that local government policy ownership promotes innovation. He writes:

> ...an argument can be made that a higher minimum wage externalizes costs on to surrounding communities. According to free market doctrine, a higher minimum wage may increase unemployment. …To the extent that the standard critiques of the minimum wage have any validity, however, they seem to indicate that the bulk of the harm caused by a local minimum wage increase will be borne by the wage-raising city itself in the form of increased unemployment and the loss of local tax revenue. Thus, a city that raises its minimum wage is largely bearing the costs of its own policy experiment, even if there may be some incidental and speculative impact on surrounding communities.

> Thus, a local minimum wage increase can be fairly characterized as a good-faith policy experiment.

The case for preemption must overcome a burden of proof that the minimum wage justifies an exception to the principle of home rule. As a practical matter, preemption has meant that minimum wage policy is unresponsive to the significant economic variations around the state. Consequently, both sides of the minimum wage debate are denied the opportunity to demonstrate their case by applying the power of local variation.

The case against preemption is made effectively by the Heritage Foundation in a recent article on Right to Work (RTW) legislation. The authors make the case for local control of economic policy:

> There is a good argument to be made that cities, counties, and other political subdivisions of states can pass their own RTW ordinances. In states where RTW laws are unlikely to pass the legislature, counties and cities can and should experiment with their own laws. Such local ordinances would allow residents to enjoy the benefits of RTW despite the absence of statewide legislation. They would protect the personal freedom of local residents to decide for themselves whether to support a union. … Local RTW ordinances would also make cities and counties magnets for employers within their state. Businesses that plan to locate in Ohio or Kentucky anyway would have strong incentives to locate in RTW counties.[9]

Summary

The committee has concluded that local control of minimum wages is the best policy scenario, and preemption stands in its way. Preemption is the status quo, and for this reason, removing preemption is a daunting political proposition. Conceivably, some benefits of local control could be achieved without rescinding preemption. Nevertheless, local control would improve the chances of achieving many important minimum wage policy goals. Local control would provide Oregon with the greatest likelihood of minimum wages that reflect Oregon's geographic diversity. Cities have an incentive to respond to this opportunity with awareness of the behavior of the other cities around them. The committee believes that preemption supporters have made credible arguments to support the reasoning behind preemption. However, the size of these risks has not been demonstrated, and without that, our committee cannot conclude that the benefits of preemption outweigh the costs of sacrificing local control.

Because preemption changes the venue to the state legislature in the short run, preemption gives a political advantage to minimum wage opponents. This political advantage is not, by itself, a sufficient reason the end preemption. If preemption supporters could demonstrate that preemption does not, by itself, artificially suppress the overall level of the minimum wage over time, the concerns about it would be reduced. However, Oregonians should recognize that variation of minimum wages around the state would give both sides of the minimum wage debate, new opportunities to demonstrate their cases, while encouraging and rewarding policy innovation.

History of the Minimum Wage

Minimum wage laws have been around for more than 100 years, and a minimum wage of some kind has been a fixture of federal law since the late 1930s. The history of the minimum wage closely follows the story of American labor history in the 20th century.[10]

Policy makers and informed observers should recognize the following four points from minimum wage history:

1. **The history of the minimum wage dates back to the late 19th century, and its constitutional basis had to be established by Supreme Court rulings. The original and underlying dispute about its constitutionality lurks beneath the surface of the minimum wage debate to this day.**

2. **Effective authority over the minimum wage has largely devolved to the states, despite the visibility of the minimum wage in federal politics.**

3. **From the 1970s to the 1990s, there was widespread consensus that the minimum wage reduced the availability of jobs by a significant amount. This consensus had a serious impact on the political support for raising and protecting the minimum wage.**

4. **The negative jobs consensus was shattered in the 1990s by a new wave of research, motivated by a newly emerged variation in minimum wage policies in different states. This research supported the conclusion that raising the minimum wage did not significantly reduce the number of jobs, and set the stage for renewed political energy behind the minimum wage.**

History Overview

The concept of a minimum wage emerged in Western Europe and the British Commonwealth in the late 19th century, as a response to certain forms of significant labor exploitation, such as child labor. In the U.S., support for the minimum wage was linked to the early 20th century Progressive Movement. In its initial forms, the minimum wage was tied to the regulation of specific industries and was deployed in the U.S at the state level.[11]

Gradually, legislation emerged that covered workers across all industries, and eventually found its way to the federal stage. Minimum wage legislation triggered the most important transition of the interpretation of U.S. property rights in the 20th century.

Minimum wage legislation is arguably the best demonstration of the Supreme Court's newfound willingness in the late 1930s to uphold laws designed to protect labor rights. Federal minimum wage standards were then enshrined in the Fair Labor Standards Act of 1938.
In the ensuing years, the amount of the federal minimum wages, adjusted for inflation, was highest in 1968, and has since flattened out over a period coincident with the increase in income

inequality. Over time, most of the effort to increase the minimum wage has taken place at the state level. Now, more than 61 percent of the U.S. Population lives in states with their own minimum wage that are higher than the federal amount.

State variation plays an important part in the modern research on the effect of the minimum wage. At one time, researchers generally agreed that the minimum wage significantly reduced the overall number of jobs, largely as a result of a report from the exhaustive, federally funded Minimum Wage Study Commission in 1977. For this reason, minimum wage research slowed throughout the 1980s. This consensus was shaken in the early 1990s.

The New Minimum Wage Research

Traditionally, critics have argued that job losses, which are easy to predict from the traditional interpretation of basic labor economics, are the primary effect of the minimum wage. Would-be hirers find ways to avoid hiring, prices are elevated, and the supply of workers overwhelms the job market. In other words, the response to the minimum wage by employers is to avoid hiring.

However, new research provides competing theoretical explanations that make predictions about the effect of the minimum wage and changes to it. These explanations challenge the traditional story of job losses based on the premise of a perfectly competitive labor market. [12] Starting in the early 1990s, increased variation of minimum wages from state to state created new opportunities to research employment effects. The first breakthrough in this effort was the study published by economists David Card and Alan Krueger (1994) comparing differences in the minimum wages of fast food workers in New Jersey and Pennsylvania.[13]

This research demonstrated the potential effect of a research design known as *border discontinuity.* The idea is that economic conditions in adjoining jurisdictions often share many similarities, which makes it possible to isolate the effect of minimum wage differences. Card and Krueger concluded that the significant minimum wage differences between the two bordering states in the same job market had no measurable effect on fast-food restaurant employment. Since then, research has divided between competing sets of findings on the minimum wage's effects on employment, as well as its role in poverty reduction, human capital development, workforce composition, and overall economic performance. As Neumark and Wascher (2008) write, "Minimum wage employment is one of the most researched topics in economics probably in part because no consensus has been achieved, and the pace has accelerated since 1991."[14] Indeed, both the amount of research and the level of academic polarization have increased.

The committee also heard testimony supporting a more straightforward economic claim: a higher minimum wage puts more money in workers' pockets and has stimulated consumer spending. This suggestion is supported by Aaronson (2013), and reflects the fact that lower-income workers spend a greater share of their income, compared to high-income workers.[15]

State and Local Minimum Wage legislation

As noted above, 61 percent of all Americans live in a state with a minimum wage higher than the federal amount of $7.25/hr. According to Ken Jacobs of the University of California, Berkeley, 21 cities have generated local minimum wages that exceed their state's minimum. The average minimum in these cities is about 34 percent higher than the federal minimum, and ranges between 12 and 72 percent more than what the federal government requires.

As shown in Figure 1, this number includes Oregonians, whose state currently has the second highest statewide minimum wage of $9.25. As the map in Figure 2 shows, states without a higher minimum are concentrated in the south, with a few exceptions. Washington, Oregon, and California comprise three of the five highest state minimum wages.

It is important to keep in mind the large impact of state minimum wages when we hear claims such as this one, found in the Oregonian in August of 2015: "only 3.9% of jobs in 2014 paid the *federal* minimum wage"[16] (emphasis added). This claim understates the real percentage of minimum wage workers. During the first quarter of 2014, nearly six percent of all jobs in Oregon paid the state minimum wage.

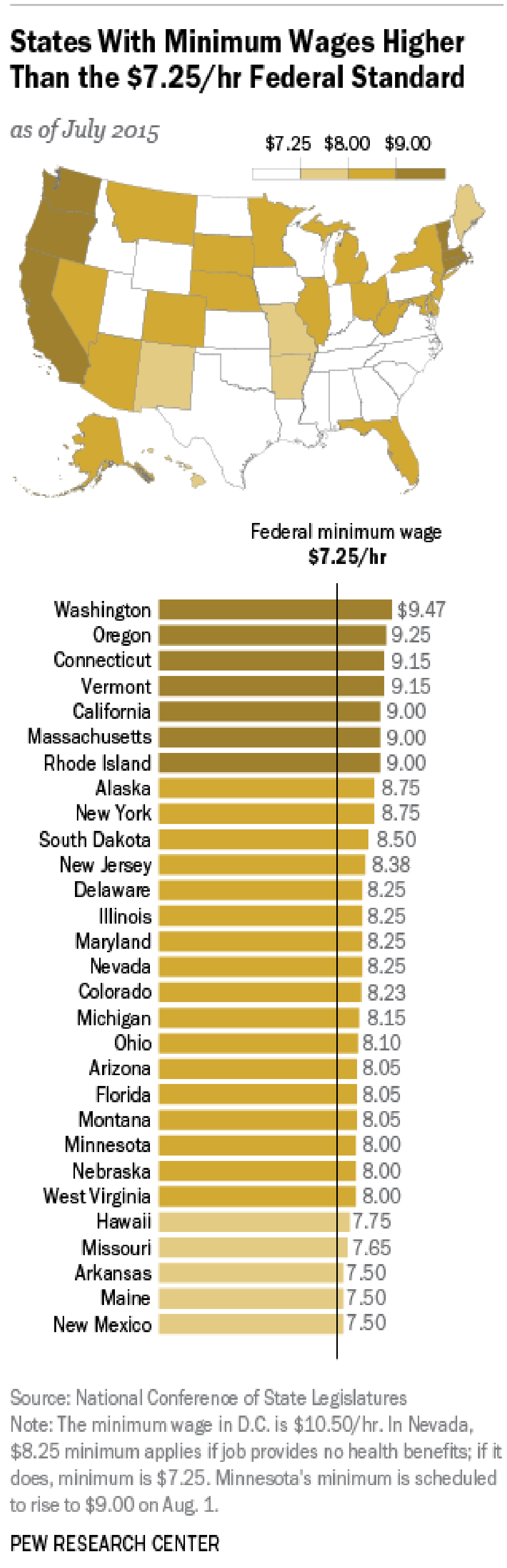


Figure 1: State minimum wages compared to the federal level.

Important Background Points

The Nature of Minimum Wage Increases

Local governments that have adopted minimum wage increases have typically implemented them in steps. According to Reich, Jacobs, and Bernhardt (2014), "Across the localities, the average per-step minimum wage increase was 16.7 percent, compared to overall increases of 41.4%."[17] This reflects a larger point about minimum wage increases. Slowing the pace not only gives employers time to adjust, it also gives the community a chance to study the effects, and provides an opportunity to change course if the economic environment changes for the worse.

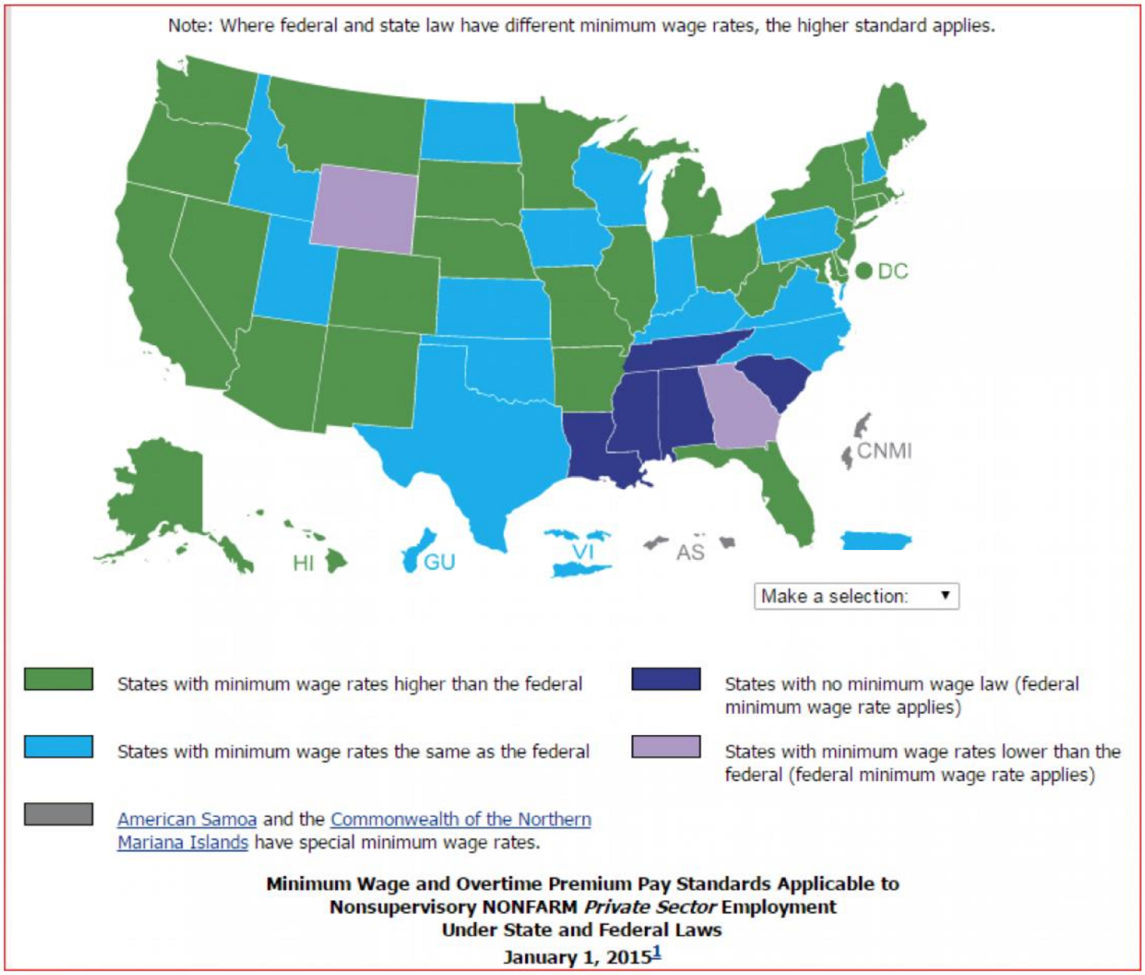


Figure 2: Map of states with minimum wages above the federal level, as of January 1, 2015[18]

The Need for More Locally Focused Research

Following the well-publicized successes in raising minimum wages in San Francisco, Santa Fe, and SeaTac, Washington between 2010 and 2013, momentum grew to raise Seattle's minimum wage to $15 per hour. This was the highest proposed minimum for any major U.S. city, and was propelled by the election of supportive council members and a new mayor in 2013.

After taking office in January 2014, Seattle Mayor Ed Murray organized the twenty-four member Income Inequality Advisory Committee. The committee was comprised of business representatives, council members, and labor advocates. The deliberation process was often contentious, and it proceeded with some uncertainty about whether an agreement would be achieved. By May 2014, the committee negotiated an agreement, which included a more gradual implementation schedule for small businesses, while achieving proponents' ultimate goal of a $15 minimum wage by 2018.[19]

Seattle's process revealed that research used to support local decision making on minimum wage policy needs more development. Given the volume of data and research on minimum wages, this outcome is surprising; however, the focus of minimum wage data analysis tends to target state and national questions. Local ownership of minimum wage policy is a relatively recent development.

In most cities, useful work has been published on poverty, the cost of living, and employment. However, this work does not answer questions a prospective minimum wage increase requires. In Portland, we do not know the age distribution of workers by wage group, industry, type of employment, household characteristics, or the relationship between these factors and workers' places of residence. The analysis exists at the state level, and data is available from the American Community Survey, but analysis at the local level of the impacts of a minimum wage increase is lacking.

Recognizing these problems during their deliberations, the Seattle city council commissioned a report from the Evans School of Public Policy at the University of Washington.[20] This report, which will be published in 2020, will provide some comparisons between Portland and other west coast cities that will be useful to a potential Portland research project.[21]

The Problem with Exceptions and Carve-outs

One potential mechanism to achieve compromise is to define exceptions and carve-outs for large classes of workers or businesses. One well-known example is the proposal of a "training wage" that would exempt young workers and might better target heads of low-income households. Other possibilities include exempting certain businesses based on size, as Seattle did for small businesses, or employee groups as SeaTac did for unionized employees. Los Angeles considered similar exceptions in its recent deliberations. Oregon's minimum wage preemption law includes exemptions for government employees and private businesses with more than ten employees that receive tax abatements, which means that cities can set higher minimum wages for these employee categories.

Despite their appeal for tailoring minimum wage policy, we heard two concerns in testimony from union representatives and economists. First, any exception can add complexity to the implementation and enforcement of the policy. Second, exceptions can create incentives that lead to new kinds of problems or frustrate the goals of the minimum wage policy itself. For example, training wages incentivize employers to hire young workers, including those from wealthier households, and could threaten the goal of helping heads of low-income households.

The Arguments For and Against Raising the Minimum Wage

We compiled a list of prominent arguments for and against raising the minimum wage, based on the committee's research and witness testimony. In the description offered here, we do not intend to evaluate the merits of these arguments, and not all of them generated findings that are significant to our recommendations. The number and the complexity of claims and counterclaims about the minimum wage shows the difficulty of designing policy in this area.

Arguments for raising the minimum wage:

1. Excessively low wages are simply unfair, irrespective of their economic impact. People who work for a living should not remain in poverty, but rather should be able to afford the very basic requirements of an ordinary economic life, particularly housing.
2. The minimum wage makes a significant contribution to overall reduction of poverty without the negative consequences of providing direct benefits.
3. A flat minimum wage contributes to wage stagnation and growing income inequality.
4. A higher minimum wage will increase compensation for the workers affected by it, even when we account for possible reduction of government benefits.
5. The minimum wage protects the bargaining power of low-income workers in an economic relationship that is otherwise dominated by employers.
6. The minimum wage sets a baseline that recalibrates other wages. The effect of the minimum wage is visible throughout the lower end of the wage spectrum, not just for those who earn the minimum wage.
7. Excessively low minimums allow employers to keep wages very low, in an environment where low-wage workers will receive public assistance. A low minimum wage is a kind of subsidy to employers of low-income workers.
8. A prevailing body of research shows no evidence of significant job loss when the minimum wage rises.
9. Under the right conditions, increasing the minimum wage can *increase* employment. This is especially true when employers have a significant information advantage in the labor marketplace, and can hire employees for less than the market rate because it is difficult for employees to find and take better jobs.
10. A higher minimum wage stimulates consumer spending.
11. The minimum wage correlates to increased productivity and reduced turnover in some labor markets.
12. Employers in regions with high costs of living can absorb and manage increased minimum wages relatively easily.

Arguments against raising the minimum wage:

1. The minimum wage violates a fundamental liberty: the right to negotiate a contract. We should respect this liberty, regardless of its economic merits. The minimum wage denies workers the ability to best navigate and engineer their own working lives in ways that they alone can recognize.
2. The minimum wage does not effectively target poverty. Its beneficiaries live in households with a surprisingly high median income, and are not typically heads of households. Means-tested programs such as Earned Income Tax Credit (EITC) are much more effective instruments in fighting poverty.
3. Like any price control, a minimum wage creates a serious drag on overall performance of the economy. Employers roll back the number of jobs they would otherwise offer, and make substitutions in ways that deny access to the workforce and inhibit production.
4. The minimum wage is a protectionist policy that unfairly protects the existing workforce at the expense of newer workers entering the market.
5. Until recently, the weight of empirical evidence supported the claim that the minimum wage reduced the number of jobs. Newer research that contradicts this finding has serious methodological problems.
6. The minimum wage affects only a small percentage of the total workforce.
7. Minimum wage workers are not typically head-of-household, middle-aged breadwinners. They are primarily: first time workers, workers who quickly rise from the minimum wage after acquiring some on-the-job experience, or workers who are marginally employable and would otherwise fall out of the labor market entirely.
8. The minimum wage increases labor costs to the point that threatens the viability of small businesses.
9. Workers who receive a higher minimum wage will see other public benefits threatened, to the point where their overall income stays flat or drops. This effect is sometimes called the Benefits Cliff.
10. Workers lose valuable training opportunities from entry-level employment when the minimum wage rises. Low wage jobs are helpful as gateways into the workforce, and teach basic skills that are relevant to any job.
11. Employers face greater incentives to dodge a higher minimum wage, which creates a greater challenge to enforce it.
12. The logic of raising the minimum wage ignores growth in other kinds of compensation, such as health care, sick leave, incentives, and tip compensation.

13. Businesses recognize the advantages of paying higher wages without the regulatory burden of a higher minimum wage.
14. The minimum wage suppresses job growth over time, even if these effects are not visible in the short run.
15. Increasing the minimum wage will raise prices in a highly regressive fashion.
16. The costs associated with the minimum wage are higher than they seem, because the minimum wage raises all wages at the lower end of the wage spectrum.
17. Certain industries are disproportionately affected when the minimum wage is raised, either because of the size of the affected workforce, or because they cannot respond by raising prices. Examples include non-profit organizations, and companies with a significant offshore revenue base.
18. The long-term profitability of all private employers will be diminished, even if their viability is not threatened by higher minimum wages.

Findings

1) **Recent research tends to support the "no job impact" claim, but neither unanimously nor conclusively.**

Since the rise of the New Minimum Wage Research in the 1990s, there has been no consensus about the effect of the minimum wage on overall levels of employment. The New Minimum Wage Research dislodged a consensus about the negative relationship between the minimum wage and the number of jobs. Ever since, a battle has waged in two polarized schools of thought that, to a lay observer, seems to grow more entrenched and self-ratifying.

Despite this stalemate, the no "disemployment effect" side has the upper hand, at least for state and federal minimum wage increases. As one study reports:

> The best studies make comparisons to nearby states or counties to control for regional economic trends. These studies also find no statistically significant negative effects on employment or hours at an aggregate level or for low-wage industries such as restaurants and retail stores, or for specific groups of workers such as teens. These studies also do not find substitution effects (such as shifts in hiring away from black and Latino teens).[22]

There have been a handful of meta-studies of the entire body of recent research. These studies aggregate findings across multiple studies, to show how many studies show job losses, and how many do not. The most recent of these attempts comes from Belman and Wolfson (2014) who examined estimates of elasticity, which describes the responsiveness of hiring decisions to changes in the minimum wage.[23] Negative elasticity means that employers reduce hiring in the face of a higher minimum wage. The result of Belman and Wolfson's study are shown in Figure 3:

The results show a slightly heavier incidence of negative elasticity, but the overall average is close to zero. They find that "if negative effects on employment are present, they are too small to be statistically detectable." Schmitt (2011) conducted a meta-study with similar results.[24]

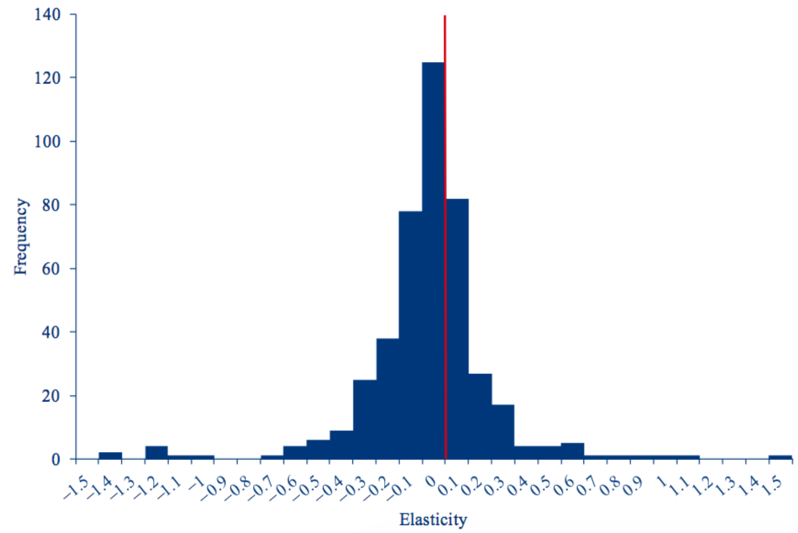


Figure 3: Distribution of Employment and Hours Elasticities from the Belman and Wolfson (2014) meta-study.

On the other hand, Neumark and Wascher (2008) report that 80 percent of the studies they examined report a statistically significant negative elasticity.[25] However, we found convincing evidence that the disemployment effects found in the work of Neumark and Wascher (2007) reflect regional effects that have nothing to do with the minimum wage.[26] Consider the fact that employment has been relatively high in the upper Midwest for reasons that have little to do with minimum wage but correlate to it. When the model controls for region, the effect disappears.[27] Fruits (2015) finds an elasticity of -0.11 in his analysis of Portland, and assuming the state minimum wage increases to $12, projects job losses of 52,500, or 1.1 percent.[28] This finding is consistent with the direction of research from Oregon's Legislative Revenue Office, which projects a 2,900 job loss statewide from a $2 raise of the minimum wage.

> The first year impact on employment is a statewide reduction of roughly 2,900 jobs. This impact increases through about 2025, when the long-term reduction in jobs roughly stabilizes at around 20,000, or 0.65 percent of total employment. In contrast, the impact on personal income is positive through 2020. The first year increase is $900 million but as job losses increase over time, that increase declines each year. By 2021, the annual income change turns negative. In the long-term, personal income is projected to fall by roughly 0.5 percent.[29]

Some noteworthy finding show indirect economic benefits from minimum wage increases from reduced employee turnover and the effects of price increases:

- Ken Jacobs of the University of California, Berkeley testified that somewhere around 15-20 percent of the cost of a minimum wage increase is absorbed by savings on employee turnover. This claim corresponds to research in Reich et al. (2014): "As a result, raising the minimum wages can reduce turnover and increase job stability. The associated reduction in employers' recruitment and retention costs offsets about 20 to 25 percent of the costs of minimum wage increases."[30]

- Increase in price is another way that cost gets absorbed. For every 10 percent increase in the minimum wage, we see 0.7 percent increase in prices.[31]

2) **The range of politically feasible minimum wages in Oregon is relatively narrow.**

Only one witness proposed reducing the minimum wage from its current state-mandated level, and we did not hear any suggestion to raise it beyond $15 per hour. At the same time, most participants in the debate consider the values in this to range to be a compromise. For proponents, the ideal is a wage that assures full-time workers that their salary will exceed a household poverty line, a figure that exceeds $15/hour for most households. For much of the opposition, the ideal minimum wage is zero.[ii]

In reality, it is difficult to imagine a minimum wage below the current state level set by Measure 25, or the high-end proposal of $15, a figure that would still leave single-earner households with children below the poverty line in Portland.

3) **Not all employers are equally able to absorb the cost burden of a higher minimum wage.**

This observation came from several representatives of employers. Some of this testimony came from employers who were opposed to raising the minimum wage in principle. The problem could extend to non-retail, low-wage employers of all sorts, in addition to employers who cannot raise their prices easily. Nonprofit employers are particularly vulnerable, since their revenue streams often rely on inflexible contracts with government agencies.

Business owners and business group representatives emphasized that the hardship of increased labor costs tied to minimum wage is not equally distributed. The markets for some employers can accommodate increased labor costs with higher prices. Many others operate in retail markets with no price flexibility, and others generate revenue primarily through fixed contracts and other means that cannot offer relief. Uncertainty about the mix of affected employers is another reason the City needs to better analyze the impact of any potential minimum wage policy.

4) **A large number of full-time workers live in households below the poverty line.**

From a report published by the Institute of Portland Metropolitan Studies at Portland State, Reddy (2014) writes, “The litany of struggles of working poor appears throughout the state. Workers at the bottom of the wage scale consume a significant share of the state’s public assistance burden, even if the percentage of these workers using public assistance isn’t necessarily high.”

[ii] The case for eliminating the minimum wage is demonstrated by Stanford economist David Henderson who notes that, in 1987, the New York Times argued that the “minimum wage is an idea whose time has passed.” See bibliography entry for Henderson (2006).

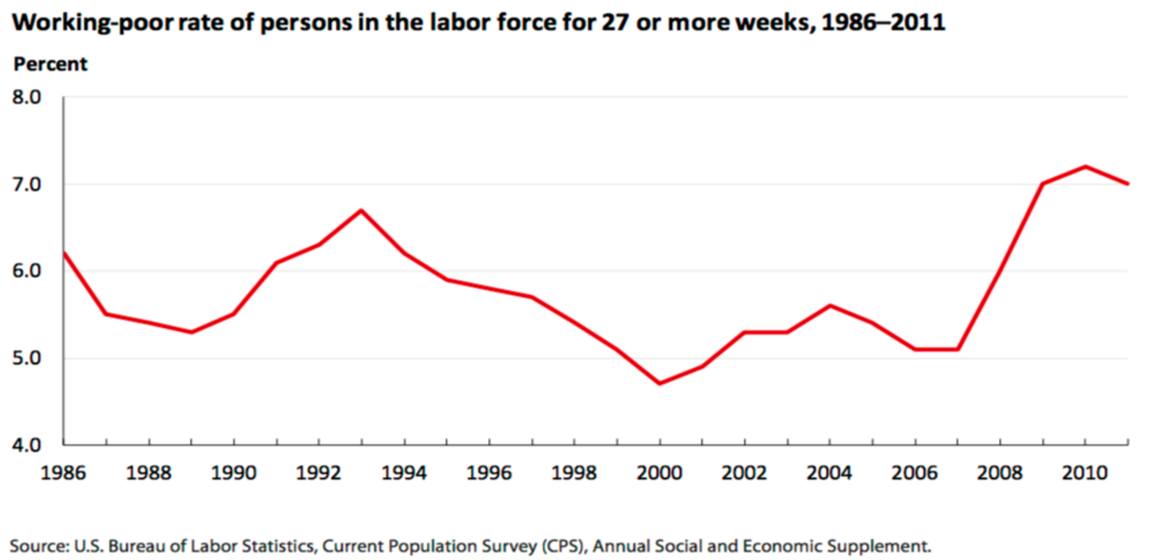


Figure 4: Percentage of U.S. Labor Force Employed for 27 weeks or more.[32]

As Reddy et al. (2014) note:

> [A]mong the adults receiving SNAP, 196,681 (40 percent) had worked for some time in 2013. Adults receiving SNAP averaged $11,248 in wages in 2013 – clearly not enough to raise a family. Their average wages were $12.36/hour, but their average number of work hours was 910—less than half of full-time employment. About one-quarter of the part-time workers in Oregon today are classified as 'involuntary part-time workers.' These workers would rather have full-time work but cannot find it, or have had their hours cut.[33]

This finding suggests that hourly wage statistics do not account for total income, which can be significantly lower than an hourly wage implies when for part time workers.

5) **About 40 percent of workers in Oregon earn less than $15/hour. A large percentage of the total workforce in Oregon earns an hourly wage close to the minimum wage.**

According to the Oregon Blue Book, "roughly 17 percent of Oregon jobs have an average wage of less than $10 per hour, and another 26 percent are between $10 and $15 per hour."[34]

The State of Oregon Employment Division reports the following distribution of earnings percentiles, by year, as seen in Table 2.

Table 2: Earnings Percentiles by year in Oregon, from the State Employment Division.[35]

Wage Level by Earnings Percentile for Oregon, 1990-2013 Four-Quarter Employees (2013 Dollars)				
	Worker Earnings Percentile			
Year	**20th**	**50th**	**90th**	**99th**
1990	$16,962	$34,846	$75,220	$175,980
1995	$16,717	$34,100	$76,947	$192,555
2000	$18,066	$35,430	$81,873	$220,372
2005	$18,413	$36,188	$86,474	$229,008
2010	$18,072	$35,970	$90,018	$239,078
2013	$17,873	$35,159	$90,192	$236,415

A significant number of jobs in the Portland metro area are low wage jobs, although the proportion is smaller than other parts of the state. Figure 5 from the Bureau of Labor Statistics shows mean wages, which can be significantly higher than median wages. The report gives some indication which employment sectors are most relevant to the minimum wage discussion. [36]

In Oregon, during the first quarter of 2014, 103,500 jobs, or "nearly 6 percent" of all jobs in the state, earned the then-minimum wage of $9.10

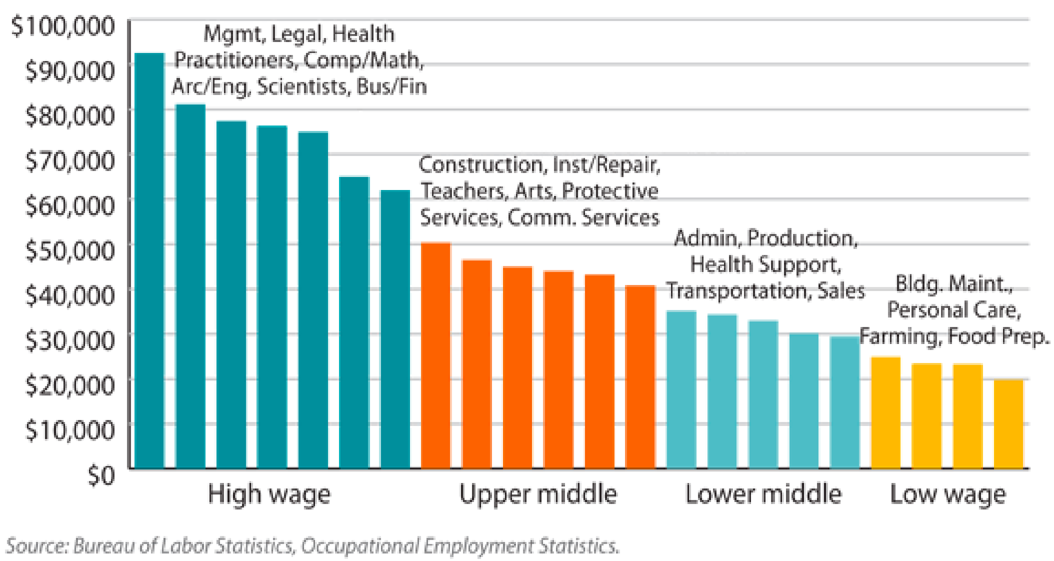


Figure 5: Middle Income Wage Scale by Profession Category for Portland[37]

6) **Geographic variance of the cost of living within Oregon is significant.**

The difference in the cost of living in Oregon's most expensive locales, compared to the rest of the state, is enormous. The cost of living is highest in the Portland metro area. Variation of the cost of living around Oregon can be shown using data based on the Self Sufficiency Standard, developed

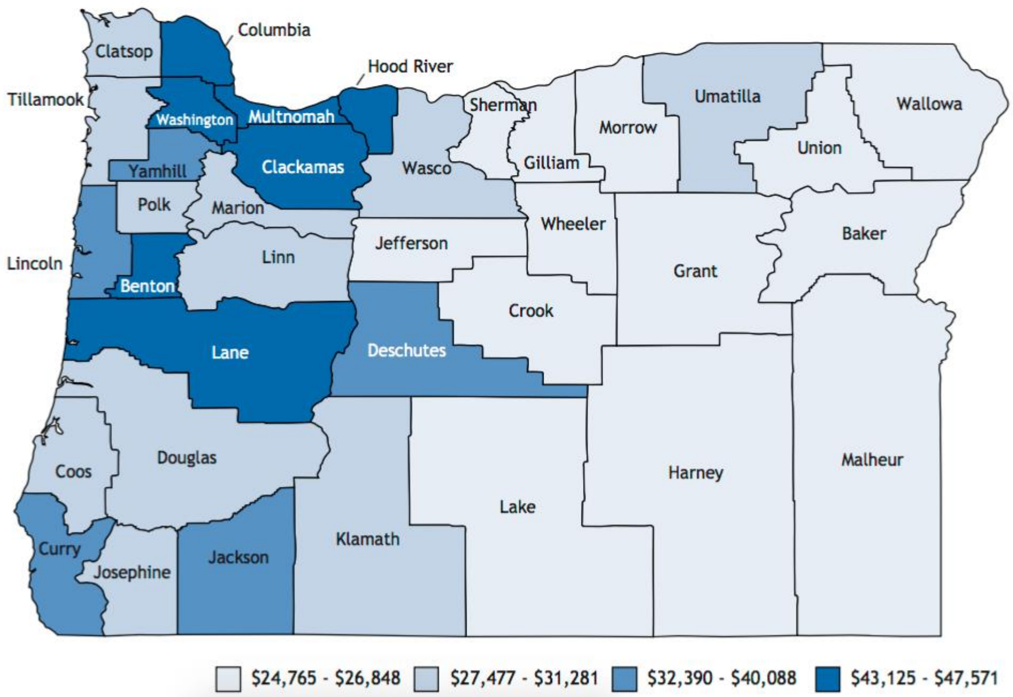


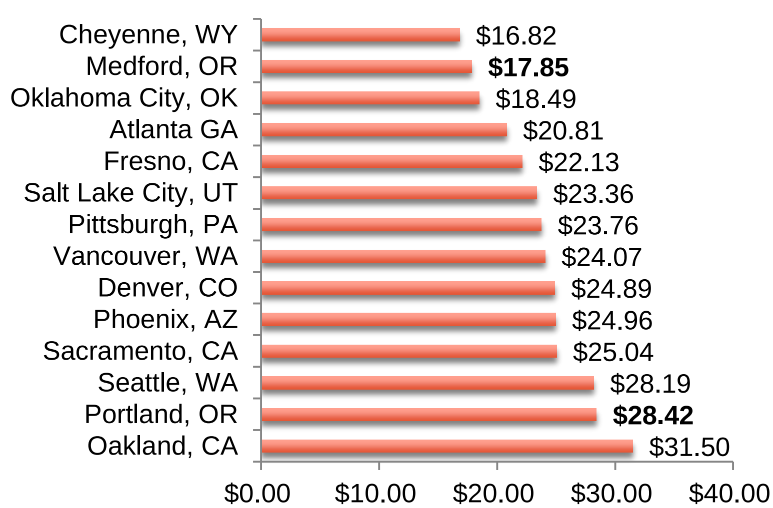
Figure 6: Map of Counties by Annual Self Sufficiency Wage[38]

by researchers at the Center for Women's Welfare of the University of Washington School of Social Work. The Self Sufficiency Standard uses a more extensive set of household expenses than the better-known Federal Poverty Level. The UW School of Social Work prepared an extensive report on Oregon's cost of living in 2014.[39]

This map from the report (shown as Figure 6) shows the range of different costs of living for households with one adult and one preschooler by Oregon county. For Multnomah County, this figure is $47,037. The state median is Linn County, at $29,415. For these households, the cost of living in Multnomah County is 60% greater than Linn County. The self-sufficiency standard of the three counties in the Portland metro area (Washington, Multnomah, and Clackamas) is 52% greater than the average of Oregon's remaining 33 counties.

Figure 7: Self-Sufficiency Wage for Portland and Medford, OR Compared to other U.S. Cities, 2014.[40]

This figure reflects the wages needed for one adult, one preschool child, and one school aged child). The self-sufficiency costs for Portland are comparable to other U.S. metro areas, and are 60% greater than Medford



7) **Minimum wages are, increasingly, more likely to cover workers who are 25 years of age, or older.**

Nationwide, nearly 50 percent of minimum wage earners are 35 years of age or older.[41] Table 3 from Schmitt and Jones (2012) shows changes in age categories between 1979 and 2011:

Age	1979	2011
16-19	26.0	12.0
20-24	21.1	23.7
25-34	17.5	22.1
35-64	30.8	38.1
65	4.6	4.2

Table 3: Characteristics of Low Wage Workers in the U.S., 1979 and 2011 expressed as percentages.[42]

This table defines low-wage workers as earning less than $10/hour in 2011 dollars. Nationwide, workers are more likely to be older and better educated in the last generation. These nationwide data on age are consistent with the reports on Seattle from the Evans Center.[43]

Dube (2014) writes:

> Recent evidence suggests that workers earning close to the minimum wage are increasingly those who rely on their earnings to support necessary household consumption, as opposed to those who are dependents of workers with higher earnings. For example, between 1979 and 2011, the share of low-wage workers— defined as those with hourly wages of $10.00 or less in 2011 dollars—who are younger than twenty-five fell from 47.1 percent to 35.7 percent.[44]

Another example from a comparable urban area comes from Seattle, where one quarter of workers aged 25-44 earned $15 or less in 2013.[45]

8) **A substantial amount of research suggests that less-skilled workers and workers of color lose jobs when the minimum wage increases, even if overall employment remains constant.**

Neumark and Wascher (2007) explain this possibility:

> [M]inimum wages may affect the acquisition of skills and hence earnings for workers who do not experience disemployment effects, as well as for those who do experience these effects. And because the effects on skill acquisition are likely to be manifested over the longer term, they likely continue to influence earnings beyond the typical age ranges (sixteen to twenty-four) for which economists have studied the employment effects of minimum wages.[46]

They also find, “minimum wages reduce employment opportunities for less-skilled workers, especially those who are most directly affected by the minimum wage.”[47] They argue that employment opportunities for less-skilled workers decline even if aggregate employment seems unaffected. In other words, minimum wages do a better job of protecting the existing workforce than helping new workers.

9) **Despite an enormous amount of scholarship, and the large number of datasets, analysis of the relevant minimum wage policy choices is scarce, particularly for decision making at the local level.**

Descriptive research on the minimum wage focuses on federal and state data. The observation is consistent with the testimony we heard from Seattle representatives and a Portland employer group. While there is substantial research that addresses some important policy questions, no comprehensive analysis exists that speaks directly to all of the effects that Portland decision makers will want to consider. In general, research to support decision making on the minimum wage has not been well developed at the local level, even though raw datasets exist that could start the process.

For example, it would be useful to know, for every occupational and income category, the numbers of workers in the City of Portland, broken down by age and residence (within Portland, the metropolitan area, or outside). It would be helpful to have the detailed hourly wages for part-time and full-time workers, with confidence intervals and adjustments for missing data.

Answers to the following questions would also help:

- Would the minimum wage target workers who are heads of low-income households, as opposed to younger workers who belong to wealthier households?

- For every relevant category, how many workers actually live in Portland and how many do not? Conversely, how many low-income workers live in Portland but work elsewhere?

10) **Some low-wage workers will directly benefit from a wage increase, but researchers disagree about the number.**

Advocates concede that the minimum wage is not a perfect instrument, but argue that it has an enormous impact on poverty. There are significant amounts of research on both sides of this claim.

Critics such as MaCurdy (2015) write:

> Unlike most public income support programs, increased earnings from the minimum wage are taxable. Over 25 percent of the increased earnings are collected back as income and payroll taxes, including the net effect of [the Earned Income Tax Credit], which subsidizes low-earning families. Even after taxes, 27.6 percent of increased earnings go to families in the top 40 percent of the income distribution.[48]

Sabia and Burkhauser (2010) add:

> Using data drawn from the March Current Population Survey, we find that state and federal minimum wage increases between 2003 and 2007 had no effect on state poverty rates. When we then simulate the effects of a proposed federal minimum wage increase from $7.25 to $9.50 per hour, we find that such an increase will be even more poorly targeted to the working poor than was the last federal increase from $5.15 to $7.25 per hour. Assuming no negative employment effects, only 11.3 percent of workers who will gain live in poor households, compared to 15.8 percent from the last increase. When we allow for negative employment effects, we find that the working poor face a disproportionate share of the job losses. Our results suggest that raising the federal minimum wage continues to be an inadequate way to help the working poor.[49]

Other research argues that a great deal of the expense associated with the minimum wage will miss its mark. The Beacon Economics (2015) report from Los Angeles estimates that "the vast majority of economists, however, hold views that are more moderate overall."[50] They expect the minimum wage will further accelerate the cost of housing, along with the fact that many low-wage workers in Los Angeles live outside the city limits.

We found a great deal of high quality research that pointed to opposing conclusions on both sides of this question. Some competing findings include the following:

- "Estimates of a raise in the federal minimum wage to $10.10 per hour indicate that the average age of the impacted worker would be thirty-five, and that the majority (51 percent) of those impacted by a wage increase would be aged thirty or older, while only 13 percent would be aged twenty years or younger."[51]

- "An increase in the minimum wage to $15.00 per hour is simulated to reduce poverty from 13.6% to 11.1% if employment and hours did not change. More than 80% of this decline would be achieved by raising the minimum wage to $12.12 per hour, with the poverty rate falling from 13.6% to 11.5%"[52]

- "Researchers consistently find that minimum wage laws raise pay for workers at the bottom rungs of the labor market. These increases include both directly affected workers (those earning between the old and the new minimum wage) as well as those indirectly affected (those earning above, but near, the new minimum wage)."[53]

Other research casts doubt on the poverty fighting effects of the Earned Income Tax Credit (EITC). Dube (2014) writes:

> It is important to point out, however, that as currently structured, the EITC provides only minimal assistance to adults without children, and may hurt some childless adults through a negative incidence on wages. Because the EITC increases the labor supply, 27 cents of every dollar of EITC spending accrue to employers as lower wages (Rothstein 2010; Lee and

> Saez 2012). Moreover, raising funds for the EITC by taxing higher-income individuals also entails efficiency costs, which suggests an additional rationale for raising pretax earnings for low-wage workers (Hendren 2014). For these reasons, it makes sense to combine programs like the EITC with a minimum wage increase.[54]

Reich et al. (2014) add:

> Dube's estimates predict that the... proposal [to raise the federal minimum wage from $7.25 to $10.10 an hour] would reduce the number of people living in poverty in the U.S. by 4.6 million. These Americans constitute about a fifth of the working poor. Other recent studies, using less sophisticated statistical methods, also show that raising the minimum wage reduces poverty. The Council of Economic Advisers (2014) predicts that the proposal would raise incomes for an estimated 12 million now in poverty, lifting 2 million of them out of poverty. The Congressional Budget Office (2014) estimates that the Harkin-Miller proposal would lift 900,000 people out of poverty.[55]

They also note, "In aggregate, 58 percent of the benefits from the minimum wage increase were received by households in the bottom 40 percent of the family income distribution."[56]

11) **Some research finds the minimum wage generates economic benefits to employers, such as increased worker productivity and reduced turnover.**

Supporters of a higher minimum wage point to evidence that employers see economic benefits.

The Reich, Jacobs, and Bernhardt 2014 study for the City of Seattle describes several findings of these positive effects at the firm level:

> In a small case study of quick service restaurants in Georgia and Alabama, Hirsch, Kaufman and Zelenska (2011) suggest how firms adjust to higher wage mandates. These authors analyzed detailed payroll data and also surveyed managers and employees about human resource practices. The authors found no negative effect from the minimum wage increase on employment or hours worked. Managers reported they could offset 23 percent of the labor cost increase through operational efficiencies. Ninety percent of the employers reported they had or would increase performance standards, including requiring better attendance, requiring more proficient and faster performance of job duties, having workers take on additional tasks, and more quickly terminating workers who were not performing. Managers reported economizing on non-labor inputs, including water, electricity, and food wastage.[57]
>
> Reich, Hall and Jacobs (2005) surveyed employers and employees at the San Francisco International Airport following the implementation of higher mandated compensation standards. Employers reported improvements in overall work performance (35%), employee morale (47%), absenteeism (29%), reductions in

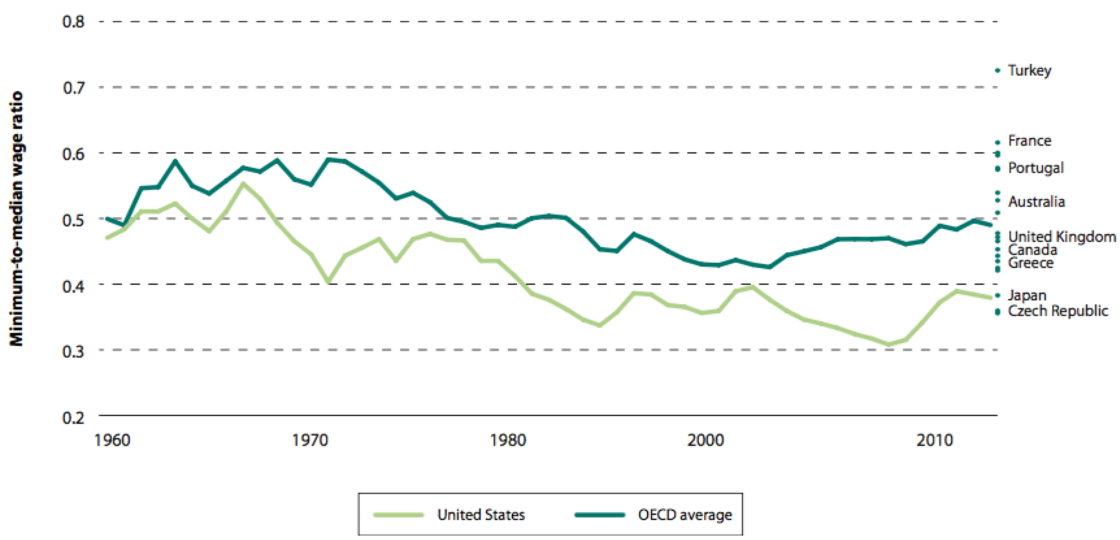
grievances (45%), reductions in disciplinary issues (44%), improvements in equipment maintenance (29%), reductions in equipment damage (24%), and improvements in customer service (45%). Employees reported that more skills were required of them (50%), that they were working harder on the job (44%), that they were experiencing greater stress on the job (43%) and that the pace of work had increased (37%).[58]

Dube, Naidu and Reich (2007) did not detect any decrease in the provision of health benefits in restaurants in San Francisco. Belman and Wolfson's (2014) detailed survey of minimum wage research found that the evidence was "thin," and that any effect on health insurance provision was concentrated in smaller firms. They find no impact on employer-provided pensions, which is not surprising given that this benefit is rare among low-wage workers. Since the provision of employment-based health benefits are closely correlated with wage, effects could be larger at higher minimum wage rates.[59]

12) **Although there is no agreement on how to define an economically optimal minimum wage, even among supporters, some economists recommend using the median wage in a particular location, in combination with some adjustment for the cost of living.**

One problem with basing the minimum wage exclusively using a poverty metric is that poverty measures are very difficult to define, varying, widely disputed, and potentially presumptuous.

Witnesses were forthcoming about the difficulty of this problem and recognized that a variety of standards could be used. Some mentioned the importance of tying the minimum wage to the poverty line.



Sources: OECD 2013; author's calculations.
Note: Data were not available for the full period between 1960 and 2012 for each country. For that reason, the OECD average for each year is derived using the individual country ratios that were available for that year.

Figure 8: Ratio of Minimum Wage to Median Full time Wage by OECD member, 1960-2012.[60]

Dube has argued that the ideal starting point for establishing the minimum wage is half of the median wage.[61] Based on this principle alone, applied to the state level, Oregon's minimum should be $9.63. However, this level does not account for variation within the state. Estimates of half the median wage in the Portland metro area range between $11.30 and $12.50 per hour, depending on the assumptions about workers paid hourly versus those paid on salary.[62] This amount does not account for factors that raise cost of living in west coast cities, with housing being the most significant. Dube recommends using state median wages and then adjusting proportionately for the cost of living. An adjustment of that magnitude could imply a difference of 30% to 40% relative to the state median, depending on the cost of living computation.

Minimum wages in most Organisation for Economic Co-operation and Development (OECD) countries cluster around 40-50 percent of the median wage. Dube (2014) writes:

> For OECD countries, on average, the minimum wage in 2012 (using the latest data available) was equal to 49 percent of the median wage; averaged over the entire sample between 1960 and 2012, the minimum stood at 48 percent of the median (OECD 2013). In contrast, the U.S. minimum wage now stands at 38 percent of the median wage…[63]

In short, the median wage has many advantages as a minimum wage benchmark. It reflects a local economy's ability to absorb the minimum wage and reflects some of the regional cost of living variation. To be sure, the difficulty of defining of median wage complicates its use as a benchmark. However, it does provide an alternative to a minimum wage based exclusively on the cost of living, and provides more defensible basis than a minimum wage based on purely political considerations.

A possible consequence of using the median wage to determine a minimum wage is that the minimum wage could, indirectly, increase the median. A raise in the minimum wage may influence wages further up the wage scale. This effect could, in turn, push up the median wage. If that happens, we might see a self-perpetuating cycle where the median increases the minimum, then vice versa, on and on. A reasonably modest increase in the minimum wage, to an amount near 50% of the median wage, will not affect the median wage significantly.

13) **Some research shows that the minimum wage increases compensation further up the wage scale, and even increases compensation for workers paid below the minimum wage.**

According to some estimates, the minimum wage can act as a signal to help calibrate all wages closer to the bottom of the wage scale.[64] Dube writes:

> A minimum wage increase ripples up to the 20th percentile of the wage, which would simply not happen if there were no spillovers. Interestingly, a recent study by the Hamilton Project uses spillover estimates from a paper by Neumark et al. (2004) to estimate that a total of 35 million workers would get a raise from increasing the minimum wage to $10.10/hour, many more than number of workers directly affected by the policy.[65]

14) **Some affected workers will experience a loss of public benefits, but it is not clear that the number of affected workers will be significant. This is partly because benefits are underutilized and partly because any loss of benefits is gradual, not total.**

This topic was the focus of a report from the Oregon's Legislative Research Office (LRO), which claimed that the effect of increasing the minimum wage for poor families would be offset by benefit reductions. A January 30 report by the Oregon Center for Public Policy effectively refutes these claims, partly because a significant number of working poor are not, in fact, beneficiaries of the programs that Oregon LRO describes.[66]

15) **Some research finds support for the claim that a higher minimum wage stimulates consumer spending in the short term.**

Aaronson et al. (2013) find that a $1.75 increase in the federal minimum wage would add 0.3 percent to the GDP in the short term, though they do not find it would increase the long term GDP.[67]

16) **The enforcement complexities and cost implications of a Portland-generated minimum wage regime are not well understood.**

Some decision about changes to minimum wage enforcement could be a complicating factor in a decision to administer it locally. The role of the Bureau of Labor and Industries will need to be defined. Regardless of how it is administered, an increased minimum wage could increase the enforcement burden.

The 2014 report from Reich et al. discusses the results from San Francisco's local minimum wage ordinance. They note:

> From the beginning of 2004 to mid-2012, OLSE received 616 worker complaints related to the minimum wage and recovered $5.8 million in back wages on behalf of 3,004 workers. In just 2011, [Office of Labor Standards] opened 77 cases and collected $638,171 in back wages. While the amount collected in that year was not necessarily for cases opened in that year, this measure still provides a useful metric to compare to other jurisdictions.[68]

The implication is that the annual caseload associated with the city's enforcement effort is not large.

17) **With a few exceptions, observers now agree that growing income and wealth inequality is a reality, whether or not they believe that a higher minimum wage would have a significant positive impact.**

Since the latest recession, the large majority of observers acknowledge the reality of growing income inequality, including conservatives. This acknowledgement has grown despite disagreement about its consequences, remedies, and the potential benefit of a higher minimum wage.[69]

18) **The minimum wage produces some economic dislocation, even if the net effect on employment is minimal.**

This quote from Belman and Wolfson makes the point succinctly: “The disagreement is not so much whether the minimum wage ever leads to some loss of jobs but whether it always or usually does….The New Minimum Wage Research has yet to come to any widely accepted resolution on this issue….”[70] Labor representatives gave testimony that conceded this point, noting that the minimum wage will affect some workers, despite its overall benefits.

19) **Evidence exists for modest price increases in fast food and restaurant industries in cities that have raised their minimum wage.**

Dube (2014) notes that:

> A higher minimum wage could lead to higher prices, especially for industries that employ high levels of low-wage labor. To date, the clearest evidence on the effects on prices comes from Aaronson, French, and MacDonald (2008), who find that a 10 percent minimum wage increase would raise fast-food prices by around 0.7 percent. On average, my proposal would raise fast-food prices by under 2 percent. While restaurant prices will see likely increases from minimum wage increases, the overall price level (e.g., the CPI) is unlikely to be noticeably affected by minimum wage hikes.[71]

MaCurdy (2015) recently found evidence that significantly higher price effects work their way through the entire economy, and not just the prices in the industries most directly affected by the minimum wage increases.[72]

Conclusions

1. **The cost of living around Oregon varies significantly, and is much higher in Portland than other parts of the state. For this reason, it does not make sense to insist on a single minimum wage for the entire state.**

   Comment: We are persuaded that the best minimum wage should bear a relationship to the cost of living. In other words, whatever positive impact a minimum wage is likely to have, its effect is reduced unless it keeps pace with the cost of living. If the cost of living varies geographically, the minimum wage should also vary.

2. **The cost burden of an increased minimum wage is not evenly distributed among employers and business owners.**

   Comment: Regardless of the overall impact of the minimum wage in Portland and around the state, the impact of raising the minimum wage is disproportionately felt by employers who cannot easily adjust prices, face some other kind of inflexible revenue model, or employ a significant number of low-wage workers. This inconsistency is an important part of the economic variation that should motivate a geographically flexible minimum wage. More importantly, it demands a careful examination of the local impacts of any new minimum wage policy.

3. **Preemption impedes minimum wage policies that reflect variations of Oregon's cost of living across the state.**

   Comment: As we discuss in the report, the state legislature could develop a policy that accommodates more than one minimum wage in different parts of the state, without changing preemption. Despite this possibility, a responsive and geographically sensitive minimum wage policy controlled by the state legislature will be difficult to achieve. The politics and the administrative complexity of organizing a statewide solution, with multiple minimum wages, would pose substantial and awkward negotiation challenges for the legislature.

4. **Preemption undercuts the governing principle that underlies home rule, and prevents the kind of useful and informative policy innovation that home rule is meant to encourage.**

   Comment: In Oregon, with its home rule tradition, preemption carries a burden of proof that the costs of local control are established and significant. The committee has not seen convincing demonstration of the size of these costs, even though the logic of the preemption argument has been articulated.

5. **The current preemption law was supported primarily by groups seeking to slow the growth of the average minimum wage across Oregon. While proponents of preemption argue that a single statewide wage has economic benefits, we saw no convincing empirical evidence that supports this claim. Preemption is a policy position that is linked to nationwide efforts to reduce minimum wage.**

   Comment: From a short-term political perspective, support for preemption is a logical and understandable position for minimum wage opponents. Our observation is that positions on the minimum wage align with positions on preemption. Unfortunately, preemption denies the public and local policy makers the ability to assess alternative approaches and policy innovations from different localities. Sacrificing these opportunities will deny minimum wage opponents and proponents useful ways to demonstrate their case.

6. **Even if preemption goes away, local governments in Oregon face incentives to avoid an unworkable patchwork of minimum wage regimes.**

   Comment: The most important claim by preemption opponents is that a complex network of varying minimum wages will emerge, but there is reason to believe that local governments appreciate the value of minimum wage consistency within their own metropolitan areas. Local governments are incentivized to apply home rule judiciously, even if there is no explicit guarantee this will happen.

7. **Two factors should determine the optimal minimum wage in U.S. urban areas like Portland: the median wage and the cost of living.**

   Comment: The median wage is a sensible and easily understood benchmark for determining the minimum wage. The median wage is an expression of the economic strength in a given area, and using the median wage ties the minimum wage to a realistic and sustainable level. At the same time, the ideal formula should weigh the cost of living more heavily in places where those costs are unusually high.

8. **Research on the effects of the minimum wage is extensive but focuses primarily on federal and state effects. There is a substantial amount of publicly available data, but the analysis to support decisions facing local policy makers is incomplete.**

   Comment: A thorough analysis of the potential impact of the minimum wage requires numerous data components: age, salary, industry, household income, household wealth, residence, work location, and dependents, to name a few. Much of these data are available in raw form, but their application requires careful record selection and interpretation. As discovered in Seattle, organizing and reporting these data demands a professional analytical effort that is accountable to the decision makers and focused on the effects of policy proposals that Portland might actually consider.

9. **Empirical research on the minimum wage and its jobs and poverty impact is deeply polarized. Nationwide, most contemporary academic research finds little or no impact on the number of jobs, and that poverty reduction is meaningful. However, both sides of the debate have produced credible and persuasive claims, which are very difficult to arbitrate.**

   Comment: Economists agree that there is no consensus on basic questions surrounding the minimum wage. The variation of results on the minimum wage job effects is substantial. It is very difficult for an ordinary reader of this literature to assess the research methods and the applicability of the supporting datasets.

10. **Most employers in the Portland area would adapt to a modestly increased minimum wage, and could do so without compromising the economic health of the Portland metropolitan area.**

    Comment: We heard from business owners and lobbyists who testified that certain kinds of industries are less able than others to absorb higher minimum wage costs, especially through price increases. We found evidence to suggest that urban businesses affected by this increase are largely able to adapt through price increases and in the specific cases of San Francisco and Santa Fe, there is no evidence of serious economic dislocation in response to minimum wage increases.

11. **The minimum wage is an expression of equality, dignity, and belief in the fundamental right of Portland's workers to expect meaningful compensation for their labor.**

    Comment: The committee concludes that the minimum wage reflects a fundamental expression of fairness beyond specific economic outcomes. Popular support for raising the minimum wage is based in large part on this understanding.

Recommendations

1. The state legislature should remove the statute that enables preemption.

Comment: Our recommendation is based on the belief that home rule cities should determine whether or not their minimum wage will exceed the state baseline amount. For Portland, the voters of the City of Portland are best situated to determine its minimum wage, not the state legislature or voters statewide.

2. Portland should have a minimum wage that is higher than the state minimum based on the current state minimum wage of $9.25 per hour.

Comment: According to the estimates of annual household income published by Portland Housing Bureau, a minimum wage of $12 per hour would still generate less than half of the Portland median household income for a household of one person. We are not issuing a recommendation on a specific amount, but based on these conservative estimates and our criteria, we can easily recommend that Portland's minimum wage should be higher than the state's current baseline minimum. This outcome is needed, whether it is achieved by the city government, the legislature, or voters.

3. The City of Portland should establish a deliberative process that brings together business, labor, political and citizen groups to recommend a minimum wage for Portland along with a complete implementation plan.

4. To support its policy design, the City of Portland should commission a minimum wage study for Portland as soon as possible.

Comment: The city should provide an analysis of the relevant wage data and demographics in Portland, along with the projected impact of potential minimum wage increases. This research should use the 2014 report published by Evans School of Public Policy study for the City of Seattle as a model. This report should be used as a decision support instrument for the participants in the policy design process described in Recommendation #3. The city should work towards internal consensus of an ideal minimum wage policy for Portland, regardless of the outcome or timing of any decision about preemption.

Signatures

Respectfully submitted:

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Witnesses

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Glossary

ALEC: The American Legislative Exchange Council

Benefits Cliff: The idea that an increase in the minimum wage will increase the income of low-income families making them ineligible for public assistance programs such as SNAP (food stamps).

BOLI: Bureau of Labor and Industry

Border Discontinuity: Economic conditions in adjoining jurisdictions often share many similarities, which makes it possible to isolate the effect of minimum wage differences for research purposes.

Consumer Price Index: Data provided by the Bureau of Labor Statistics that gives the price for a representative market basket of goods and services and tracks the price with inflation.

Dynamic Monopsony: The ability of employers to reduce wages below the expected market amount, due to the difficulty of workers acquiring information about the job market, and the difficulty and risk of changing jobs.

Home Rule: The authority given to local governments including counties and cities, to pass their own legislation. Oregon historically has a strong constitutional bias supporting home rule.

Household Income: The combined incomes of all people sharing a place of residence.

Household Wealth: The combined value of assets between people in a shared residence.

Living Wage: Minimum income necessary to satisfy a person's basic needs.

LRO: Legislative Revenue Office

OECD: Organisation for Economic Cooperation and Development, which consists of 34 countries today.

ORA: Refers to the Oregon Restaurant Association, which has since been renamed the Oregon Restaurant and Lodging Association (ORLA).

Preemption: The policy of a state-set minimum wage.

RTW: Refers to "right-to-work" legislation.

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Endnotes

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