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Still Working Well: Washington's Minimum Wage and the Beginnings of Economic Recovery

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Fast Facts

- Washington's 2004 minimum wage is \$7.16.
- The federal minimum wage of \$5.15 has not increased since 1997, and has lost about \$1.00 in buying power.
- 8 of the 11 states that had a minimum wage above the federal level in 2003 did better at job creation than the United States as a whole – including Washington.
- Between June 1998 and November 2003, Washington lost 85,000 jobs in durable goods manufacturing – mostly high wage jobs.
- Restaurant jobs in Washington fell in 2002 as a result of the recession, but grew in 2003 and are now above pre-recession levels.
- Other sectors of the economy with large numbers of minimum wage jobs, including retail trade, accommodations, and nursing and residential care facilities, also showed job growth in 2003.

Summary

In 1998, Washington voters overwhelmingly approved an initiative to increase the minimum wage and to make annual cost of living increases automatic beginning in 2001. While the lowest wage earners in much of the rest of the nation have suffered a steady erosion of income, with no increase since 1997, low wage workers in Washington have been able to maintain their purchasing power. Minimum wage workers in Washington earn \$7.16 an hour in 2004, or an annual income of \$14,893 for full time workers. Although this level of income is inadequate to meet basic family expenses in any community in Washington, it is well above the \$5.15 an hour and \$10,712 in annual income earned by workers in the 38 states that rely on the federal minimum wage.

Critics of Washington's pathbreaking minimum wage law have repeatedly pointed to our state's relatively high minimum wage as a cause of our higher than average unemployment rate. However, the data do not support a causal connection. The United States as a whole and Washington state have continued to lose jobs since the official end of the recession in November 2001, but Washington has lost jobs at a lower rate than the national average. In fact, 8 of the 11 states that had a minimum wage above the federal level in 2003 are doing better at job creation than the United States as a whole. The jobs Washington has lost have been concentrated in high wage sectors, especially manufacturing. Low wage sectors of our state economy have done relatively well, and are even experiencing some job growth. At the same time, Washington's working age population is estimated to be growing at a faster pace than the national average.

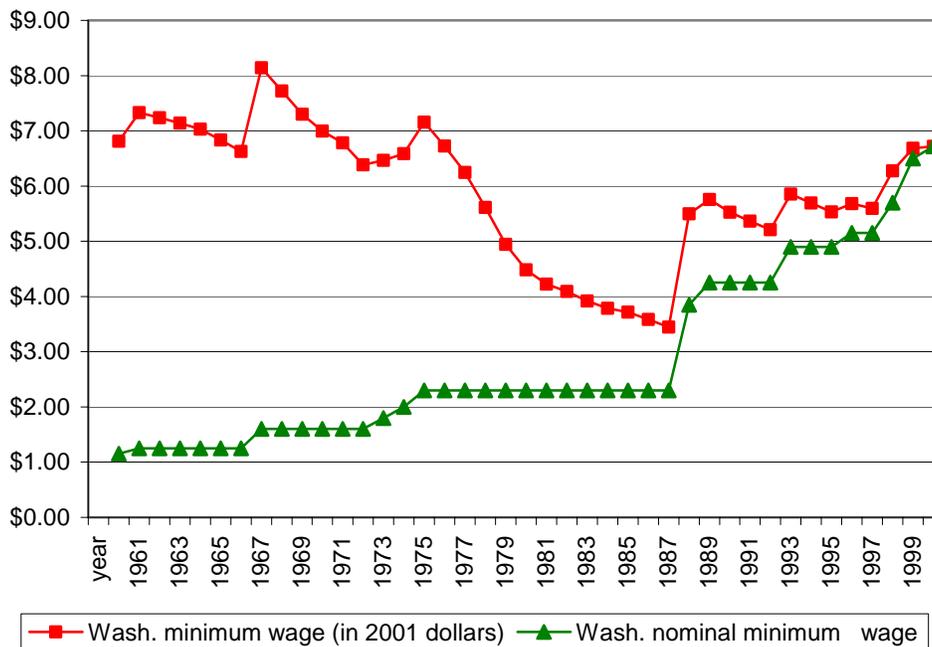
Washington's unemployment rate has been consistently above the national average for decades, including during periods when the state minimum wage matched the federal level. Since 1970, Washington's annual unemployment rate has fallen below the national rate in only 3 years – 1990, 1991, and 1997.¹

Washington's minimum wage COLAs have contributed to the economic security of our state's hard working low income earners, even when high unemployment has meant they had little power to bargain with their employers. Our state's minimum wage law is certainly not the cause of our state's high unemployment.

Washington's Minimum Wage

In 1968, Washington's minimum wage was \$1.80. If our minimum wage had risen annually with the rate of inflation since then, it would be about \$8.40 today. Instead, the contentious political process allowed only occasional increases, with years of eroding value in between. In 1998, Washington voters passed Initiative 688 with majorities in every county in the state. The new law increased the minimum wage in two steps from \$5.15 to \$6.50, and made annual cost of living increases automatic beginning in 2001. On January 1, 2004, Washington's minimum wage increased from \$7.01 to \$7.16 an hour. While Washington's minimum wage is now the highest in the nation by 1 cent, our state's lowest paid workers still have less buying power today than they did in the late 1960s and 1970s.

**Affects of Inflation on Washington's Minimum Wage:
Minimum Wage in Nominal and 2001 Dollars**



The federal minimum wage of \$5.15 has not increased since 1997. Because of inflation, workers in the 38 states earning the federal minimum wage have lost about \$1.00 per hour in buying power over the past 6 years. Ten other states now have established minimum wages above the federal level, ranging from \$6.15 to \$7.15 an hour. Oregon has joined Washington in providing annual cost of living increases for minimum wage earners.²

A full time minimum wage worker in Washington can expect to earn \$14,893 in 2004. That income is just below the poverty threshold for a family of three, and well below the level of income necessary to support a family in any community in the state.³ However, it is considerably above the \$10,712 earned by workers laboring under the federal minimum wage.

Most workers who are affected by minimum wage are adults, many have family responsibilities, and a significant number spend a good portion of their work life in low wage occupations. Among workers earning within \$1 of minimum wage, 75% are over 20, nearly half work full time, and about one-third have children.⁴

In Washington, 3.5% of all jobs pay minimum wage, but 8.6% of workers earn within \$1.00 of minimum wage.⁵ Economists William Carrington and Bruce Fallick concluded in a 2001 study that “a nontrivial fraction of workers... spend substantial portions of their post-school career on minimum or near-minimum wage jobs,” particularly women, minorities, and the less-educated, and that for these workers, the minimum wage has a significant effect on lifetime income.⁶

Economists and policy advocates have debated whether increases in the minimum wage reduce the number of jobs, thereby potentially hurting the very low wage workers the policy is intended to benefit. However, studies of the effect of minimum wage increases on young and low income workers show no long term impact on employment.⁷ At the same time, increases in the minimum wage do raise the incomes of low wage workers and their families.

Job Losses and Gains in Washington

Although the most recent recession officially began and ended in 2001, employment in Washington, as in the nation as a whole, continued to fall through most of 2003. The job losses have been uneven and have been partially offset by gains in some sectors of the economy, including those areas with high concentrations of minimum wage jobs.

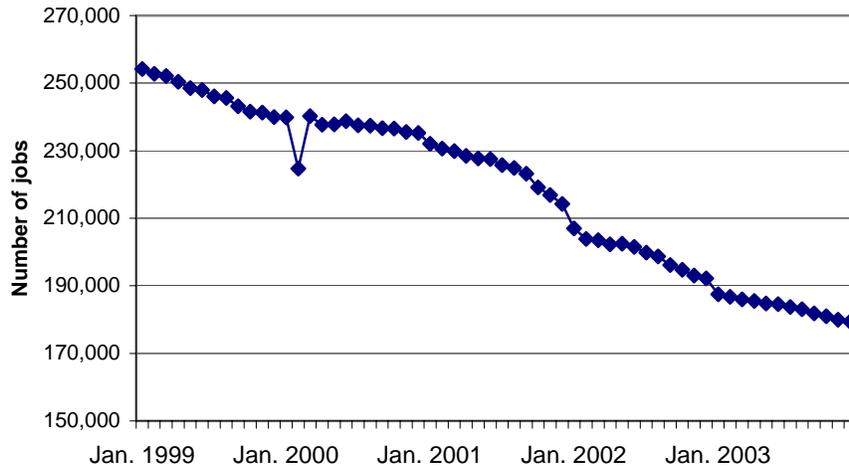
Washington State Wage and Salary Employment, 1999-2003

Year	Avg. Annual Nonagricultural Employment
1999	2,648,700
2000	2,711,300
2001	2,697,000
2002	2,654,900
2003	2,653,600

Source: Washington Employment Security, Labor Market and Economic Analysis Branch data

High wage jobs have seen the highest rates of layoffs in Washington as elsewhere. High tech employment fell sharply before the recession began, and manufacturing jobs started a steady decline in 1998. The number of jobs in durable goods manufacturing has fallen from a peak of 265,000 in June, 1998 to just 179,400 in December, 2003, a drop of 32%.⁸

Washington Employment in Durable Goods Manufacture

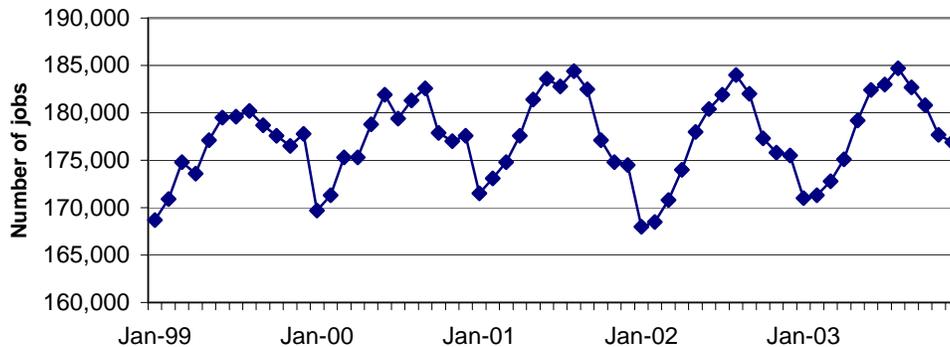


Source: Washington Employment Security, Labor Market and Economic Analysis Branch data

Lower wage jobs have more directly shown the affects of recession and recovery. According to an analysis of 2001 data by Washington's Employment Security Department, 55% of the state's 73,000 minimum wage jobs are concentrated in three categories: accommodation and food services (21,511 full time equivalent jobs), retail sales (15,069 FTE jobs), and health care and social assistance (4,107 FTE jobs).⁹

Food service and drinking places are the single biggest employer of minimum wage workers. According to Employment Security's analysis, two thirds of minimum wage food service workers are employed in fast food restaurants where they do not have access to tips.¹⁰ Employment in food service and drinking places is seasonal, peaking in the summer months and falling in the winter. In 2002, total eating and drinking employment fell below the previous year's level, but in summer 2003 the number of jobs grew above pre-recession levels. Looking back further in time, the number of jobs in eating and drinking places rose significantly in both 1999 and 2000 as Washington's minimum wage increased from \$5.15 to \$6.50. Overall, the August level of employment in food services and drinking places has increased 2.5% from 1999 to 2003.¹¹

Washington Employment in Food Services and Drinking Places, through December 2003



Source: Washington Employment Security, Labor Market and Economic Analysis Branch data

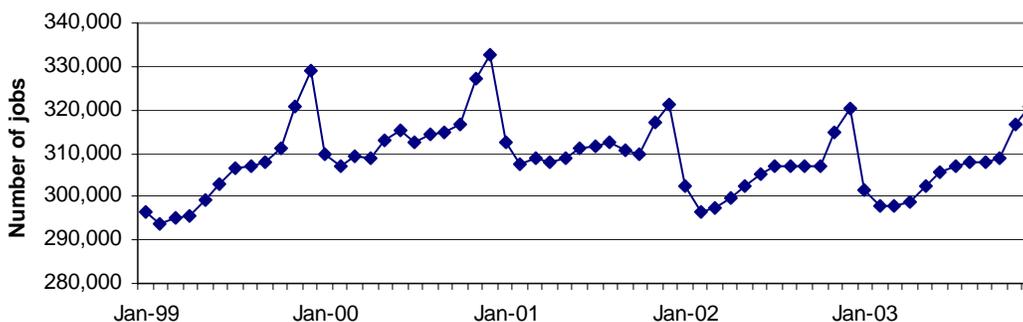
Washington State Employment, Food Services and Drinking Places

Year	Avg. Annual Employment	Employment in August	Employment in January
1997	170,100	175,500	162,100
1998	172,900	180,300	162,800
1999	176,300	180,200	168,700
2000	177,300	181,300	169,700
2001	178,200	184,400	171,500
2002	176,400	184,000	168,000
2003	178,100	184,700	171,000

Source: Washington Employment Security, Labor Market and Economic Analysis Branch data

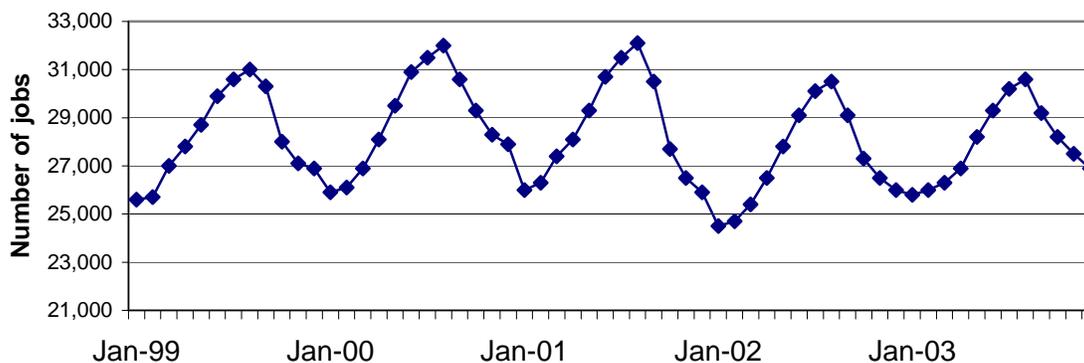
Accommodation and retail trade jobs have not recovered as fully as restaurant jobs from the effects of recession, but employment levels in 2003 were above the 2002 numbers. Washington had 2,000 more retail trade jobs in November 2003 than in November 2002, and 1,000 more accommodation jobs. The preliminary job numbers for December are also somewhat higher in both categories in 2003 than in 2002.¹²

Washington Employment in Retail Trade, through December 2003



Source: Washington Employment Security, Labor Market and Economic Analysis Branch data

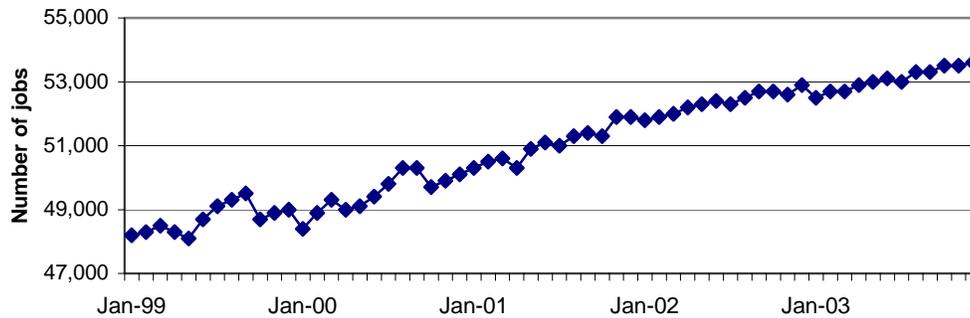
Washington Employment in Accommodations (Hotels and lodgings), through December 2003



Source: Washington Employment Security, Labor Market and Economic Analysis Branch data

In contrast to most other sectors, employment in nursing and residential care facilities has grown steadily, from just over 48,000 jobs in 1999 to over 53,000 jobs in 2003, a 9% increase.

Washington Employment in Nursing & Residential Care Facilities



Source: Washington Employment Security, Labor Market and Economic Analysis Branch data

Washington in National Comparison

Looking at Washington's experience in the national context, it becomes even more clear that Washington's unemployment rate and relatively high minimum wage are not related. An analysis of Bureau of Labor Statistics data conducted by the Economic Policy Institute shows that from the official end of the recession in November 2001 to November 2003 the United States lost 0.6% of its jobs. Overall, 21 states had some growth in total jobs over the past two years, while 29 states experienced losses. Washington state, with total jobs down by 0.1% over the two year period, did a little better than the national average. In fact, of the 11 states that have minimum wages above the federal level, 8 have a better jobs picture than the nation's as a whole, and only 2 have lost jobs at a greater rate than average.¹³

Job Growth or Loss November 2001-November 2003 in States with Minimum Wage Above the Federal Level

	Job Growth or Loss	Working-age population growth
Alaska	4.7%	2.7%
Hawaii	4.3%	2.8%
Rhode Island	1.1%	1.4%
Vermont	0.1%	2.2%
Washington	-0.1%	3.4%
California	-0.3%	2.5%
Maine	-0.3%	1.9%
Delaware	-0.5%	2.3%
Oregon	-0.6%	3.2%
U.S. average	-0.6%	2.5%
Connecticut	-1.8%	1.1%
Massachusetts	-3.1%	1.4%

Source: EPI analysis of BLS seasonally adjusted data and Economy.com population estimates

A big part of job losses nationally has been in manufacturing. The U.S. lost 1.3 million manufacturing jobs between November 2001 and November 2003, a decrease of 8% for the sector. Washington suffered the largest percentage loss in manufacturing jobs of any state, with a drop of 14.2%, or 43,500 jobs.¹⁴

As total jobs have declined over the past 2 years, the working age population of the U.S. has grown by an estimated 2.5%. Washington's working age population grew even faster than the national average, at an estimated 3.4%.¹⁵ This continued strong population growth combined with the sharp drop in high wage manufacturing jobs does provide a compelling explanation for Washington's high unemployment rate.

Conclusion

Minimum wage workers do some of the hardest and most important jobs in our state – picking and preparing our food, caring for our seniors and children, cleaning up. In 1998, 66% of Washington voters concluded that minimum wage workers should have their earnings adjusted for inflation every year, just as Social Security benefits are adjusted. No longer would low wage workers be dependent on the slow and uncertain political process to protect their paychecks from losing value year after year.

Since 1968, average wages in the United States have increased by about 1% more than the rate of inflation every year. As a result, after adjusting for inflation the average worker today makes about 40% more than the average worker did 35 years ago.¹⁶ In contrast, even with the highest minimum wage in the nation, minimum wage workers in Washington make about 15% less today in inflation adjusted dollars than minimum wage workers did in 1968.

Despite the claims of some interest groups, minimum wage COLAs have not hurt Washington's economy. Jobs in low wage sectors of our economy are rapidly recovering from the effects of recession and are growing again. Washington's unemployment rate has been among the highest in the nation because:

- 1) Historically, due to our particular mix of industries, Washington's unemployment rate has almost always been above the nation average, including in 30 of the past 33 years;
- 2) High wage manufacturing jobs have been leaving both Washington and the United States as a whole. Over the past 2 years, Washington has suffered the highest rate of manufacturing job loss in the nation.
- 3) Washington's working age population is continuing to grow at a faster rate than the national average.

Washington's minimum wage law with its automatic annual COLAs has allowed low wage workers in the state to retain their buying power and their ability to support themselves and their families, even during a national economic downturn.

Note: At the time this report was written, December 2003 job numbers reported by Washington State Employment Security were preliminary figures.

For more on Washington's minimum wage, see:

Jason Smith, "Working Well in Washington: An Evaluation of the 1998 Minimum Wage Initiative," Economic Opportunity Institute, January 2003, www.eoionline.org.

(Note that some employment level numbers in this report differ from those reported here due to a change in occupational categories made by the Bureau of Labor Statistics and Washington's Employment Security Department.)

Kirsta Glenn, "Minimum Wage Workers in Washington State," Washington State Employment Security. May 19, 2003, http://www.workforceexplorer.com/admin/uploadedPublications/988_MinimumWageArticle.pdf.

Acknowledgements

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Notes:

¹ Bureau of Labor Statistics, Local Area Unemployment Statistics, February 2003, and Employment status of the civilian noninstitutional population, 1940 to 2002, www.bls.gov.

² The states with higher minimum wages in 2004 are: Alaska - \$7.15, Oregon - \$7.05, Connecticut - \$6.90, California - \$6.75, Massachusetts - \$6.75, Hawaii - \$6.25, Maine - \$6.25, Vermont - \$6.25, Delaware - \$6.15, Rhode Island - \$6.15. In 2003 Illinois approved a \$6.50 minimum wage that will go into effect in 2005. U.S. Department of Labor, "Minimum Wage Laws in the States," <http://www.dol.gov/esa/minwage/america.htm>.

³ Diana Pearce, "The Self-Sufficiency Standard for Washington State," Wider Opportunities for Women, September 2001.

⁴ Economic Policy Institute analysis of Current Population Survey data. See Jason Smith, "Working Well in Washington: An Evaluation of the 1998 Minimum Wage Initiative," Economic Opportunity Institute, January 2003, p. 6, www.eoionline.org; and Jared Bernstein and John Schmitt, "The Impact of the Minimum Wage: Policy lifts wages, maintains floor for low-wage labor market," Economic Policy Institute, June, 2000, p. 7-8, http://www.epinet.org/briefingpapers/minwage-0627/min_wage_bp.pdf.

⁵ Economic Policy Institute analysis of Current Population Survey data; and Kirsta Glenn, "Minimum Wage Workers in Washington State," Washington State Employment Security Department, May 19, 2003, Table 1, http://www.workforceexplorer.com/admin/uploadedPublications/988_MinimumWageArticle.pdf.

⁶ William J. Carrington and Bruce C. Fallick, "Do some workers have minimum wage careers?" *Monthly Labor Review*, May 2001, p. 17-27; <http://www.bls.gov/opub/mlr/2001/05/art2full.pdf>.

⁷ Bernstein and Schmitt, "The Impact of the Minimum Wage," p. 1-2.

⁸ "Nonagricultural Wage and Salary Workers Employed in Washington State," Historical Series, Labor Market and Economic Analysis Branch, Washington Employment Security Department, <http://www.workforceexplorer.com/publication.asp?PUBLICATIONID=1657>.

⁹ Glenn, "Minimum Wage Workers."

¹⁰ Glenn, "Minimum Wage Workers."

¹¹ "Nonagricultural Wage and Salary Workers Employed in Washington State," Historical Series, Labor Market and Economic Analysis Branch, Washington Employment Security Department, <http://www.workforceexplorer.com/publication.asp?PUBLICATIONID=1657>.

¹² Washington State Employment Security, "Washington's Unemployment Rate Declines Slightly to 6.8%," January 20, 2003, http://www.workforceexplorer.com/admin/uploadedPublications/1712_HO_Press_Release121603rev.pdf.

¹³ Economic Policy Institute, Jobwatch.org, www.jobwatch.org/ima/11-jobgrowthcompared-nov650.gif.

¹⁴ Economic Policy Institute, Jobwatch.org, www.jobwatch.org/ima/manufjoblossbystatenov650.gif.

¹⁵ Economic Policy Institute analysis based on Bureau of Labor Statistics jobs data and estimates of population growth made by Economy.com. www.jobwatch.org/ima/11-jobgrowthcompared-nov650.gif.

¹⁶ Social Security Administration, *The 2003 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*, March 2003, p. 93, www.ssa.gov.