

Minimum wage study: FAQs



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What is the scope of the minimum wage study?

The purpose of the study was to examine the impacts of a minimum wage increase in the City of Minneapolis, and separately the impacts of a minimum wage increase in Hennepin and Ramsey County, with the intention of evaluating the effects and implications of both a \$12 and a \$15 minimum wage phased in over five years. The study also analyzes the effects of a minimum wage in Minneapolis, and separately in Hennepin and Ramsey County, once indexed to inflation.

What methodology did the study use?

The Roy Wilkins Center at the University of Minnesota reviewed existing peer reviewed literature on minimum wage changes and replicated techniques prevalent in other studies to simulate the relative impact of a minimum wage increase in Minneapolis and in Hennepin/Ramsey County. The Center's simulations included many models that are similar but have slight differences in methodology.

Who would be affected by a minimum wage increase?

- Of the city's 311,000 workers, 46,000 (14.8%) would benefit from an increase to \$12 an hour and 71,000 (22.8%) would benefit from an increase to \$15 an hour.
- Workers of color would disproportionately benefit from a minimum wage increase. Even though two-thirds of the total workforce is white, only half of the workforce affected by a \$15 minimum wage is white. Latino and black workers are more likely to benefit.
- The largest share of workers who would be affected by a minimum wage increase are aged 25 to 39, and more than half work full-time jobs. Most of these workers have also received some college education.
- The industries with the largest share of workers likely to be affected by the change in minimum wage are food service, retail, non-hospital residential care, hospice care and child care workers.

What did the study conclude?

- There is clear consensus among the literature that a change in the minimum wage results in increased employee earnings. The increase in the hourly wage rate does not, on average, result in a reduction in total hours worked.
- It is inconclusive whether an increase in the minimum wage would lead to any measurable change in employment; however, the range of estimates suggest that any such change would likely be small. The existing models discuss workforce participation, and it is possible that an increase in the minimum wage changes either the total number of persons employed or the number of persons looking for work within a single industry. What's more, it is possible that changes in employment are realized as changes in turnover or attrition, rather than changes in hiring and firing.
- Out of the three kinds of models that were simulated, only one model consistently predicted a measurable reduction in employment for a given business category. This model is also least sensitive to Minneapolis' metro area. Two out of the three models found that, after a change in the minimum wage, the changes in workforce participation were immeasurable.
- The market in Minneapolis' metropolitan area may be more capable of absorbing the changes in labor costs resulting from a minimum wage increase than other parts of the country. One explanation for this is that Minneapolis' relatively high median wage implies that fewer households are reliant on the minimum wage than many regions of the U.S.
- Currently, the statewide minimum wage is \$9.50 per hour for large firms, as defined by gross sales over \$500,000, and \$7.75 per hour for small businesses with gross sales under \$500,000. Therefore, a \$12 or \$15 minimum wage will be a larger change in payroll for these smaller firms.
- Restaurants and other industries might pass on the increased cost of labor to consumers, but changes in prices are expected to be small — averaging less than 5 percent at restaurants, an industry where a change in the minimum wage is likely to have the greatest impact on operating costs.

Would businesses relocate as a result of an increase in the minimum wage?

The research team does not believe it is possible to determine whether businesses would relocate outside of Minneapolis.

What would be the differences in raising the wage in Minneapolis versus Hennepin/Ramsey counties?

After applying the local workforce demographics to the available economic forecast models, the study did not find significant employment losses projected due to the proposed minimum wage increases, either in Minneapolis, or in Hennepin and Ramsey County. The models either showed a slight decrease in employment, or no statistically significant change. The difference in estimations for the effect of a minimum wage is largely due to the fact that each model makes different assumptions on the best way to test for these effects.

SIMULATED RESULTS IN 2021 SHOWING IMPACT OF WAGE INCREASE

Industry	Minneapolis				Hennepin/Ramsey			
	\$12		\$15		\$12		\$15	
	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper
Restaurants								
Total employment	--1.85%	0%*	--3.35%	0%*	--1.85%	1.88%	--3.35%	3.44%
Total employee earnings	0%*	14.58%	0%*	27.72%	0%*	16.24%	0%*	31.03%
Retail								
Total employment	--1.24%	0%*	--2.4%	0%*	--1.24%	1.25%	--2.24%	2.28%
Total employee earnings	0%	7.16%	0%*	13.31%	0%*	13.47%	0%*	25.51%
Health								
Total employment	0%*	0%*	0%*	0%*	0%*	0%*	0%*	0%*
Total employee earnings	0%*	7.66%*	0%*	14.26%	0%	19.32%	0%*	37.21%

* An expected rate of 0% suggests there was no statistically significant response to the proposed minimum wage.