

NEW HAMPSHIRE'S MINIMUM WAGE

POTENTIAL ECONOMIC IMPACT OF THE INCREASE

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In May 2007, Governor John Lynch signed into law the first increase of New Hampshire's minimum wage in ten years. Prior to this legislation, New Hampshire had been the only state in New England where the minimum wage was set at the federal level of \$5.15. The state bill, which passed overwhelmingly in both the State Senate and the House of Representatives, mandated an increase in the state minimum wage to \$6.50 in September 2007 and to \$7.25 in September 2008.



Photograph courtesy of the New Hampshire State House

The New Legislation

This recent movement on the minimum wage issue in the Granite State came, perhaps not coincidentally, at a time when a similar increase was being considered at the federal level. In January 2007, the U.S. House of Representatives passed the Fair Minimum Wage Act of 2007, proposing to increase the federal minimum wage to \$7.25 over a period of two years. One month later, the Senate passed an amended version of the bill aiming to alleviate some of the burden on employers through tax relief provisions for small businesses. The bill was subsequently combined with a war funding bill and passed by a large margin in both the House and the Senate. President Bush signed it into law in May 2007, which means that the final federal minimum wage increase to \$7.25 will take place in the summer of 2009.

The new federal minimum wage legislation ended the longest period without an increase since the first minimum wage was enacted in 1938. Because the minimum wage is not indexed to inflation, its value had eroded by 20 percent over the past 10 years and, in real terms, was the lowest it had been in 50 years. For a full-time worker who earns \$5.15 per hour,

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Table 1. Workers likely to be affected by the minimum wage increase

	New Hampshire	United States
Number of workers directly affected	26,108	5,918,000
Affected workers as percentage of total employment	3.7%	4.1%
Distribution of affected workers		
Gender		
Male	38%	41%
Female	62%	59%
Age		
16 to 19	47%	25%
20 to 44	33%	52%
45 and older	20%	22%
Median age (years)	20 years	25 years
Work hours		
Hours vary	8%	13%
1 to 19 hours	38%	16%
20 to 34 hours	29%	27%
Full-time (35 or more hours)	24%	44%
Student status		
Full-time students	43%	23%
Part-time students	1%	2%
Industry		
Retail trade	34%	23%
Food services	22%	23%
Arts, entertainment, and recreation	7%	3%
Family status		
Parents	13%	24%
Single parents	2%	9%
Married workers	24%	30%
Average share of weekly family earnings contributed by affected worker	33%	43%
Share of workers earning 100% of weekly family earnings	21%	26%

Source: New England Public Policy Center calculations using the 2006 CPS Merged Outgoing Rotation Group Files.

this represents a loss of more than \$2,500 per year.¹ Increasing it to \$7.25 per hour by 2009 would eventually bring its real value back to where it was in the early 1980s. (See Figure 1 on page 25.)

Currently at \$6.50 per hour, New Hampshire's minimum wage is still the lowest in the region. State minimum wage levels in Connecticut, Vermont, Massachusetts, and Rhode Island all rank among the top seven in the nation, with hourly rates of \$7.65, \$7.53, \$7.50, and \$7.40, respectively; Maine ranks 16th with a minimum wage of \$6.75. The Massachusetts minimum wage is set to increase to \$8 in 2008,

which—barring any future minimum wage increase legislation by other states—will make it among the highest in the nation, along with California, whose minimum wage will also increase to \$8 in 2008, and possibly Washington and Oregon, where minimum wages are tied to inflation and are currently set at \$7.93 and \$7.80, respectively.

Who the Law Affects

Using data from the 2006 Current Population Survey, a July 2007 New England Public Policy discussion paper estimates that increasing the minimum wage in New

Hampshire would directly raise the wages of 26,000 workers earning between \$5.15 and \$7.25 per hour.² Nine thousand of the affected workers were estimated to have received an immediate raise in their hourly wage to \$6.50 in September 2007, during the first stage of the increase. In September 2008, all workers who received a raise and remained employed after the first increase—as well as all 17,000 workers who earned between \$6.50 and \$7.25 all along—will receive raises to the new state minimum.

In general, it appears that the 26,000 affected workers in New Hampshire are younger and less likely to be married or have children than the workers who would be affected by the federal minimum wage increase in the nation as a whole. They are also more likely to be enrolled as full-time students, to work fewer hours, and to contribute a smaller share of their families' earnings. Two-thirds of the affected workers in both New Hampshire and the United States are women. As is generally true nationwide, half of the affected New Hampshire workers have jobs in either the retail trade or the food services industries. (See Table 1.)

Potential Economic Impact

The discussion paper also evaluated what impact raising the state minimum wage in New Hampshire might have on employment and wages.

Employment

The impact on employment largely depends on how sensitive the demand for labor is to changes in wages. Sensitivity is measured by the elasticity of demand for labor, defined as the percent change in employment that occurs in response to a percent change in the wage rate. For example, if wages increase by 10 percent and as a result employment falls by 4 percent, the elasticity of demand for labor in that case is -0.4. The more sensitive the demand for labor to changes in the wage

rate (the larger the elasticity of demand), the greater the reduction in employment following a minimum wage increase.

Using three different elasticities of demand from the minimum wage literature, the discussion paper estimates the potential employment impact of increasing the minimum wage in New Hampshire for each of the two consecutive stages stipulated in the legislation. The combined employment impact of the two increases is estimated to

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be small and negative, ranging from 300 to 1,500 jobs, which is between 1.2 percent and 5.8 percent of workers directly affect-

ed by the law. At the midpoint, employment would be expected to decrease by an estimated 646 jobs, or 2.5 percent of affected workers. This amounts to less than one-tenth of 1 percent (-0.09 percent) of total employment in New Hampshire, which was roughly 711,500 in 2006.

Additional labor costs associated with increasing the minimum wage may not entirely translate into employment losses, however. Rather, some portion of these costs may be either absorbed by employers through lower profits or passed on to consumers in the form of higher prices. Indeed, few studies in the empirical literature find an employment effect for such small wage increases.

Wages

The impact of the state minimum wage increase on aggregate statewide wages and wages per employed worker was also evaluated. The positive wage gains that result from any minimum wage increase are partially offset by the lost wages of the laid-off workers. In calculating the net wage impact

of a minimum wage increase, these lost wages need to be subtracted from the gross annual statewide wage increase.

In this case, although raising the minimum wage would lead to a gross annual wage increase of \$22 million, the lost wages of the 646 laid-off workers would bring the net annual statewide wage increase to about \$17.4 million. That translates into an increase of about \$682 per year for each worker who remains employed. Furthermore, using the lower estimate of the employment impact yields a higher net statewide wage increase of \$19.9 million, while using the upper one projects a net annual wage increase of \$10.9 million.

Increasing the minimum wage may also cause some employers to reduce the hours of their workers. Workers who remain employed but with reduced hours may experience other adverse consequences that are hard to measure: For example, they may now work part-time instead of full-time and lose employer-sponsored benefits, such as health insurance or pension benefits. Alternatively, employers may reduce the amount spent on employee benefits, such as contributions to health insurance premiums. If companies respond to the minimum wage increase by reducing the hours of their workers or curtailing their nonpecuniary benefits, the net gain in aggregate wages may be diminished.

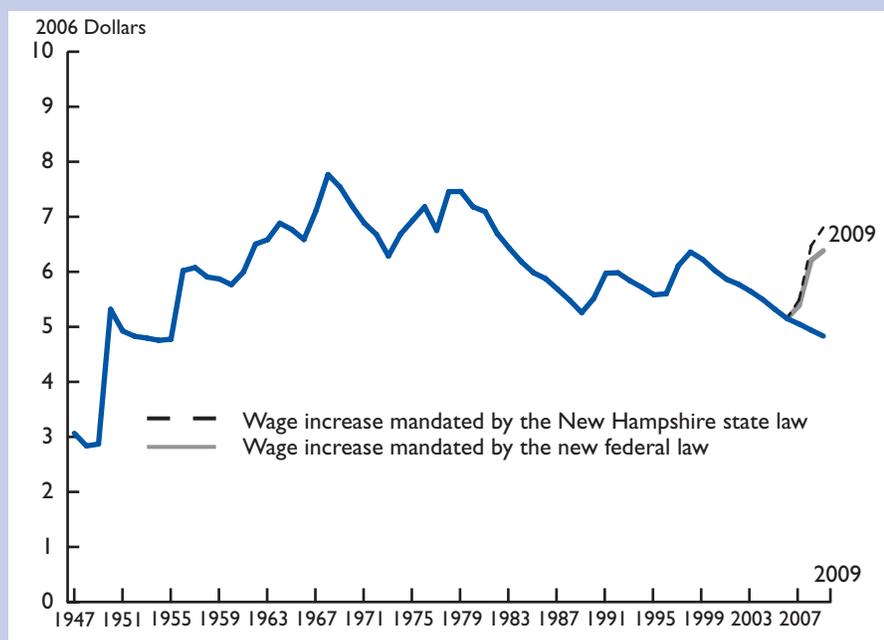
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Endnotes

¹ Jared Bernstein, "Tax Incentives for Businesses in Response to a Minimum Wage Increase" (Washington DC: Economic Policy Institute, January 2007), http://www.epi.org/content.cfm/webfeatures_viewpoints_minwage_tax_incentives_testimony_01102007.

² Antoniya Owens, "The Potential Economic Impact of Increasing the Minimum Wage in New Hampshire" (New England Public Policy Center Discussion Paper No. 07-2, Federal Reserve Bank of Boston, July 2007), <http://www.bos.frb.org/economic/neppc/dp/2007/neppcdp0702.pdf>.

Figure 1: Real value of the minimum wage, 1947-2009



Note: The minimum wage value in years in which the wage changed midyear is the weighted average wage for the whole year.
Source: Calculation based on data from the Bureau of Labor Statistics;
Calculations for 2007-2009 use inflation projections from the Congressional Budget Office.