

The Effects of New York's 2005 Increase in the Minimum Wage: A Preliminary Assessment

After the legislature overrode a veto by Governor Pataki, the first phase of a three-stage increase in the minimum wage went into effect on January 1, 2005 in New York State, increasing the state minimum wage from \$5.15 an hour to \$6.00 an hour. On January 1, 2006 the state minimum wage will increase again to \$6.75 an hour.¹ New York is now one of sixteen states² and the District of Columbia that has adopted a higher-than-federal state minimum wage.

This increase benefited thousands of low-wage New York workers. And, contrary to the warnings of opponents of the minimum wage hike, employment in industries employing large numbers of low-wage workers grew significantly.

The increase in the minimum wage did not lead to lower levels of employment

Minimum-wage-increase opponents often argue that such increases will cause businesses to reduce employment of low-wage workers, hurting the very people the legislation is intended to help. We found that just the opposite happened following the January 1, 2005 increase. The largest concentrations of minimum-wage workers are in the retail trade and food service sectors of the economy. The following table shows employment levels for the whole economy and for retail and food services for New York, the four neighboring states, and the nation, for the first six months of 2004 and the first six months of 2005.

Employment in New York, four neighboring states, and the U.S. Before and after January, 2005, New York minimum wage change				
	Employment (000s)			
	First half of 2004	First half of 2005		
New York State				
All non-farm	8,383	8,463		1.0%
Retail trade	849	864		1.8%
Food service	441	453		2.7%
Four neighboring states (NJ, PA, MA, CT)				
All non-farm	14,365	14,532		1.2%
Retail trade	1,655	1,679		1.5%
Food service	841	863		2.7%
United States				
All non-farm	130,518	132,708		1.7%
Retail trade	14,866	14,998		0.9%
Food service	8,741	8,993		2.9%

Note: Retail trade and food services are the largest employers of minimum-wage workers.

Source: Bureau of Labor Statistics

¹ On January 1, 2007, the New York minimum will go to \$7.15.

² The fifteen other states are AK, CA, CT, DE, FL, HI, IL, ME, MA, MN, OR, RI, VT, WA and WI.

As discussed in previous sections of this report, overall job growth in New York State has been lagging the nation during this recovery. However, from the first half of 2004 to the first half of 2005, retail trade employment in New York went up 1.8%, at least as fast as it did in the four-state region (+1.5%), and considerably faster than in the nation (+0.9%). For food service, the increase in New York (2.7%) was equal to the four-state region, and only marginally below the increase in the nation (2.9%). Given this job growth picture, it is difficult to argue that the minimum wage increase reduced employment in New York.

Theoretically, employers who had to increase wages when the new minimum took effect may have tried to keep their costs down by reducing employees' hours of work, thus keeping employees' weekly income about the same, and not improving their standard of living. But, in reality, the opposite occurred. During this period of generally slow economic growth, hours worked for those in the lowest decile of the wage distribution actually increased in the first half of 2005 compared to the first half of 2004.