

Long Since Due: An Increase in New Hampshire's Minimum Wage

Nearly five years after the end of the national recession, low-wage workers in New Hampshire continue to struggle to make ends meet. Since 2009, wages for the lowest-paid fifth of New Hampshire workers have fallen by 5.6 percent after adjusting for inflation. At the same time, the state's poverty rate – 10 percent in 2012 – remains considerably higher than what it was at the start of the downturn – 7.1 percent in 2007.

One of the factors that has likely contributed to such economic insecurity is the neglect of New Hampshire's minimum wage. At \$7.25 per hour, it is currently the lowest in New England and has lost substantial purchasing power over the past several decades.

A measure now before the New Hampshire legislature seeks to strengthen the minimum wage and to begin to build an economy that works for everyone in the Granite State. More specifically, HB 1403 would raise New Hampshire's minimum wage in two steps: from \$7.25 to \$8.25 per hour on January 1, 2015 and to \$9.00 per hour on January 1, 2016. The measure would also require automatic annual cost of living adjustments, based on the Consumer Price Index, beginning in 2017.

This paper examines the proposed increase, beginning with a brief review of New Hampshire's current minimum wage and then exploring how that wage compares to historical minimum wage levels, key standards of need, and other states' wage floors. It next provides estimates of the number of New Hampshire workers who would be affected by the proposal and discusses some of its broader economic consequences. It concludes that raising New Hampshire's minimum wage could help working families, local businesses, and the New Hampshire economy as a whole.

IN BRIEF

- New Hampshire's minimum wage has lost over 23 percent of its purchasing power in the last 35 years and is well below what workers need to make ends meet.
- New Hampshire's minimum wage is the lowest in New England and will fall even further behind in the years ahead.
- Raising the minimum wage to \$9.00 per hour would directly or indirectly increase the wages of 75,800 workers - or 12 percent of New Hampshire's workforce.
- Most of the workers who would be affected are women, adults, and employed at least half time.
- A \$9.00 minimum wage would produce an average wage increase of \$870 per year for affected workers and generate \$64 million in additional wages statewide.
- A higher minimum wage could have benefits for the New Hampshire economy: greater consumer demand, reduced turnover, and higher productivity.

Background on the Minimum Wage in New Hampshire

At present, New Hampshire’s minimum wage is \$7.25 per hour. Due to legislation enacted in 2011, the state no longer has its own, separate wage standard; rather, New Hampshire’s minimum wage is now determined by federal law in the form of the Fair Labor Standards Act (FLSA). While most employment in New Hampshire must pay at least the minimum wage, workers who regularly receive more than \$30 per month in tips can be paid a “tipped” minimum wage equal to 45 percent of the normal minimum wage – or \$3.27 per hour.

Minimum Wage Increases Increasingly Rare

New Hampshire minimum wage levels, 1979-present

Date of Increase	Hourly Rate	Source of Increase
1.1.79	\$2.90	Federal
1.1.80	\$3.10	Federal
1.1.81	\$3.35	Federal
1.1.87	\$3.45	State
1.1.88	\$3.55	State
1.1.89	\$3.65	State
1.1.90	\$3.75	State
4.1.90	\$3.80	Federal
1.1.91	\$3.85	State
4.1.91	\$4.25	Federal
10.1.96	\$4.75	Federal
9.1.97	\$5.15	Federal
7.24.07	\$5.85	Federal
9.1.07	\$6.50	State
7.24.08	\$6.55	Federal
9.1.08	\$7.25	State
7.24.09	\$7.25	Federal

As the figure at right makes clear, increases in the minimum wage used to be a relatively common occurrence in the Granite State. In the last seventeen years, New Hampshire’s minimum wage has risen just four times – twice in 2007 and twice in 2008 – the result of similarly-timed state

Sources: NH RSAs; US Department of Labor

and federal changes. Contrast that with the period between 1980 and 1997, when the state’s minimum wage climbed on 10 separate occasions.

Coming Up Short: New Hampshire’s Minimum Wage in Context

At \$7.25 per hour, New Hampshire’s minimum wage comes up short in a number of ways. As the sections below detail, New Hampshire’s minimum wage offers far less purchasing power than it did in the past; it is well below the level workers need to secure basic necessities; and it is lower than any other minimum wage in the region.

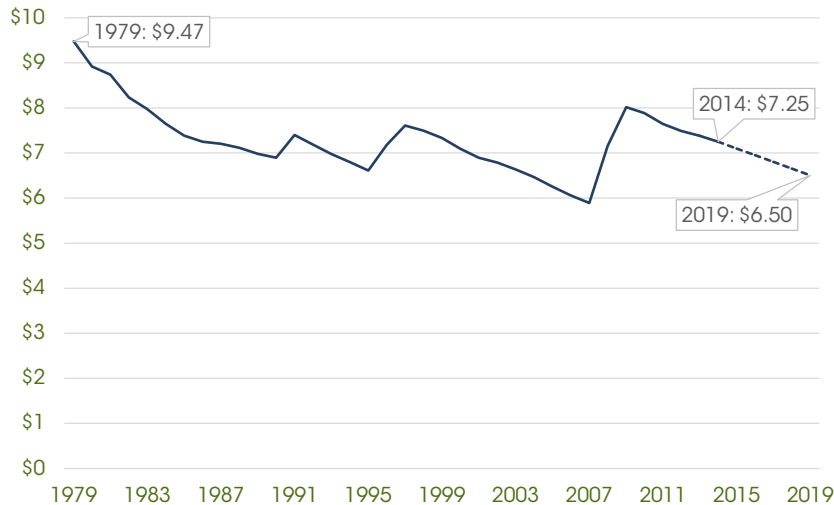
New Hampshire’s Minimum Wage Has Lost Substantial Purchasing Power

Due to the lack of regular increases and the corrosive power of inflation, New Hampshire’s minimum wage has lost substantial purchasing power over the last thirty-five years. After adjusting for inflation, someone working at the minimum wage for one

hour in 1979 would have been able to buy \$9.47 worth of goods in today's dollars.ⁱ Someone working at the minimum wage for one hour now would only be able to purchase \$7.25 worth of goods, a decline of over 23 percent or more than \$2 per hour.

Real Value of Minimum Wage Low and Falling

New Hampshire minimum wage, constant 2014 dollars, 1979-2019



Source: NHFPI calculations based on data from US Bureau of Labor Statistics, US Congressional Budget Office

Stated somewhat differently, someone working at the minimum wage today would have to work an hour and eighteen minutes just to have the same purchasing power as someone working one hour in 1979.

Worse still, in the absence of changes to New Hampshire's minimum wage, the deterioration of its real value will only continue. Based on projections from the Congressional Budget Office of the

Consumer Price Index for All Urban Consumers (CPI-U), the minimum wage will only be worth \$6.50 per hour (in constant 2014 dollars) by 2019. In other words, unless Congress or the New Hampshire legislature acts, by the close of the decade, New Hampshire's minimum wage will be worth nearly \$3 less per hour than it was at the end of the 1970s.

New Hampshire's Minimum Wage Leaves Workers Struggling to Make Ends Meet

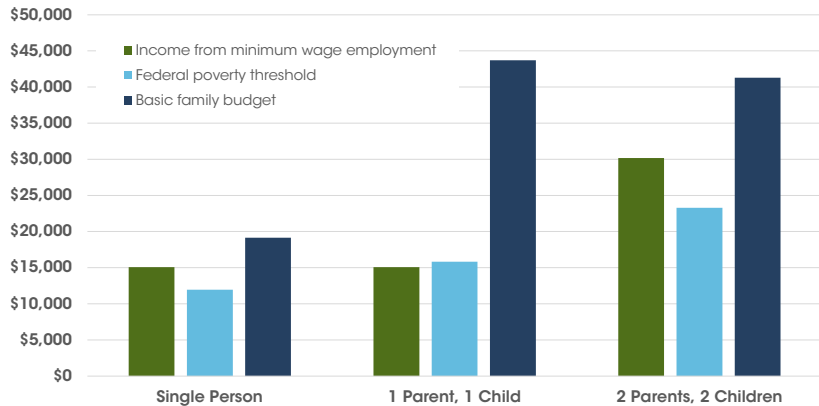
Someone working full-time in New Hampshire at today's minimum wage earns the equivalent of \$15,080 per year or less than \$300 per week. As the figure below illustrates, while that income might put some families above the official federal poverty threshold, it still leaves workers unable to secure basic necessities for themselves or their families. For instance, in 2012, the federal poverty threshold for a single worker under age 65 was \$11,945; full-time employment at the minimum wage would thus place him or her above the federal poverty line.

However, there is a well-established consensus that the federal poverty threshold does not accurately reflect the incomes individuals and families actually need to make ends meet.ⁱⁱ Long-standing shortcomings in calculating the threshold, such as a failure to account for geographic differences in prices or for changes in household consumption patterns, have prompted numerous analysts and experts to construct alternative measures of need. The figure below includes one such alternative,

developed by Amy K. Glasmeier and others at the Massachusetts Institute of Technology. By their estimates, a single person living in Concord, NH would need to earn \$19,157 per year to be able to afford basic necessities such as food, housing, or medical care. A married couple with two children would need to earn \$41,291

Current Minimum Wage Puts Basic Necessities Out of Reach

Minimum wage income and standards of need for various family types in Concord, 2012



Sources: US Census Bureau, MIT Living Wage Calculator

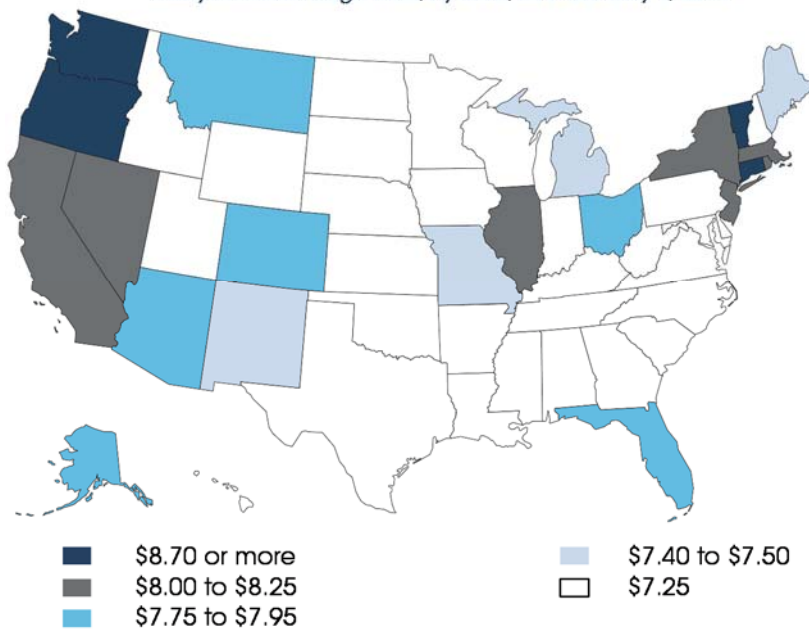
annually to do the same. Needless to say, even in a two-earner household, full-time minimum wage work falls well short of this standard.

New Hampshire's Minimum Wage Is the Lowest in New England

As the figure below suggests, New Hampshire's minimum wage is the lowest in New England, as every other state in the region has a minimum wage that exceeds the federal level. Vermont is currently the highest (at \$8.73 per hour), followed by Connecticut (\$8.70), Massachusetts (\$8.00), Rhode Island (\$8.00), and Maine (\$7.50).

Nearly Half the States Have Minimum Wages Over \$7.25

Hourly minimum wage rates, by state, as of January 1, 2014



Source: US Department of Labor

However, due to recent legislative changes, Connecticut will see its minimum jump to \$9.00 per hour on January 1, 2015. Vermont's will continue to climb, as it is adjusted each year to account for inflation; it will likely reach \$9.10 per hour by 2016. What's more, this past summer, Maine legislators came within seven votes of overriding Governor Paul LePage's veto of a measure that would have taken that state's minimum to \$9.00 per hour, while a ballot initiative has been filed in Massachusetts that

would both make the Bay State’s minimum wage the highest in the nation – at \$10.50 per hour – and peg it to inflation.ⁱⁱⁱ In short, within the next few years, it appears possible that most New England states will have minimum wages of at least \$9.00, if not higher.

Of course, as the figure above suggests, many states outside New England have minimum wages of more than \$7.25 per hour. All told, 21 states and the District of Columbia had minimum wages above the federal level as of January 1, 2014. Washington, which adjusts its minimum wage annually to account for changes in the cost of living, currently has the highest minimum wage in the nation, at \$9.32 per hour. However, due to legislation enacted in 2013, California will ultimately claim the top spot, as it will have a \$10 per hour minimum effective January 1, 2016. In fact, annual cost of living adjustments and scheduled changes in law mean that at least half a dozen states – California, Connecticut, New York, Oregon, Vermont, and Washington – will have minimum wages of at least \$9.00 per hour in 2016.^{iv}

An Increase in the Minimum Wage Would Improve Economic Security for Thousands

Legislation now before the New Hampshire House of Representatives seeks to restore and to strengthen the state’s minimum wage and to remedy the shortcomings just described. More specifically, HB 1403 would reinstate a separate minimum wage for New Hampshire and raise it in two steps: from \$7.25 to \$8.25 per hour on January 1, 2015 and to \$9.00 per hour on January 1, 2016. The measure would also require automatic annual cost of living adjustments, based on the Consumer Price Index for All Urban Consumers (CPI-U), beginning in 2017.

If New Hampshire had a \$9.00 per hour minimum wage, 47,500 workers would see a *direct* increase in their wages, according to an analysis of the US Census Bureau’s 2013 Current Population Survey conducted by the Economic Policy Institute (EPI), a non-partisan research organization based in Washington, DC. In addition, both history and economic research suggest that workers currently earning just above the new minimum wage of \$9.00 per hour would

Raising the Minimum Wage Would Improve Economic Security for Thousands of Granite Staters

Projected impact of an increase in New Hampshire’s minimum wage to \$9.00 per hour by January 1, 2016

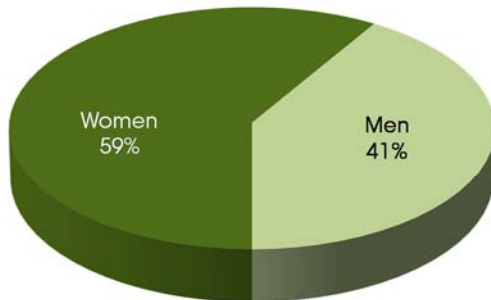
Direct Impact	
Number of workers directly affected	47,500
Directly affected as share of total workforce	7.6%
Number of parents directly affected	6,100
Number of children with directly affected parent	11,700
Average annual pay increase	\$1,200
Indirect Impact	
Number of workers indirectly affected	28,200
Indirectly affected as share of total workforce	4.5%
Number of parents indirectly affected	4,600
Number of children with indirectly affected parent	9,300
Average annual pay increase	\$300
Overall Impact	
Number of workers affected	75,800
Affected as share of total workforce	12.1%
Number of parents affected	10,800
Number of children with affected parent	21,100
Average annual pay increase	\$870
Aggregate wage increase	\$64.2 million

Source: Economic Policy Institute analysis of Current Population Survey data

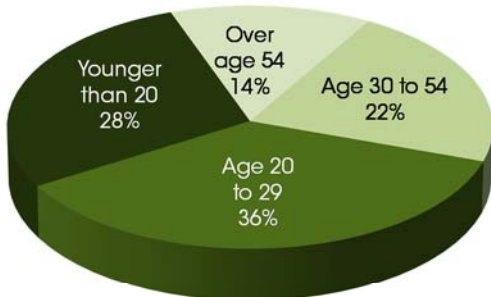
Minimum Wage Increase Would Principally Benefit Women, Adults, Individuals Working at least Half Time

Composition of Workers Directly or Indirectly
Affected by an Increase to \$9.00 / hour by 2016

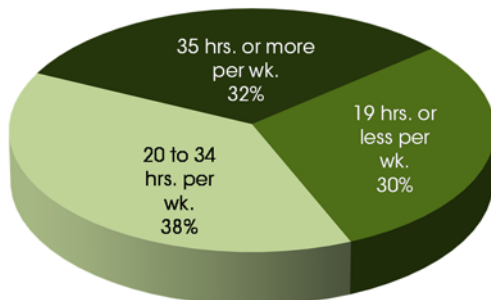
Gender



Age



Hours Worked Per Week



Source: Economic Policy Institute analysis of Current Population Survey data

experience an *indirect* increase in their wages, as employers adjust their internal wage schedules.⁷ EPI estimates that some 28,200 New Hampshire workers fall in this category. All told then, 75,800 workers – or roughly 12 percent of the state’s workforce – would benefit from a \$9.00 per hour minimum wage.

Perhaps just as important as the *number* of workers who would be affected by an increase in New Hampshire’s minimum wage to \$9.00 per hour are the *characteristics* of those workers. Contrary to popular stereotypes, of those workers who would be affected in some fashion by such an increase, the vast majority are adults, women, and have a substantial attachment to the workforce. Nearly three out of every four affected workers are adults aged 20 and older, while more than one out of three are aged 30 or older. Close to three out of five are women. Roughly seven out of ten work at least half-time each week, with about one of three working full-time. What’s more, EPI’s analysis finds that 10,800 of the workers affected by an increase in the minimum wage are parents, so that 21,100 New Hampshire children would be more economically secure. In short, raising the minimum wage would improve the economic well-being of thousands of hard-working but low-earning Granite Staters and their families.

An Increase in the Minimum Wage Could Benefit the New Hampshire Economy as a Whole

While a higher minimum wage would help to reduce the economic insecurity experienced by individual workers and their families, the benefits of such a policy change would likely extend to local businesses as well.

Most notably, raising the minimum wage would likely increase demand for the goods and services sold by businesses operating in the Granite State. Low-wage workers, out of necessity, typically spend every dollar that they earn. As a result, the increased wages they will

earn from a higher minimum wage will almost certainly be spent – and most likely be spent quickly – in the communities in which they live and work. That, in turn, will mean more money flowing into cash registers at supermarkets, gas stations, and other businesses across New Hampshire. Indeed, a 2011 study conducted by researchers from the Federal Reserve Bank of Chicago looking back over a 23 year period concluded that, for every dollar minimum wages had climbed in the past, consumer spending among affected low-wage households grew by \$700 in the quarters immediately following the increase.^{vi} In New Hampshire’s case, if its minimum wage were increased to \$9.00 per hour by 2016, an additional \$64 million in aggregate wages would be paid out over the next two years, thus helping to foster demand.

THE IMPORTANCE OF INDEXING

In view of the historical record, with inflation dramatically eroding the real value of the minimum wage over time, any increase in New Hampshire’s minimum wage should be accompanied by a change in law that provides for annual cost-of-living adjustments.

Eleven states, including Vermont, now follow this practice, known as “inflation indexing,” so that their minimum wages retain their purchasing power over time. In most cases, these states use national measures of inflation – either the Consumer Price Index for All Urban Consumers (CPI-U) or the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) – and make their adjustments effective January 1 of each year.

What’s more, a higher minimum wage may, in effect, help to lower certain employer costs, either by bolstering worker productivity or by reducing turnover. As John Schmitt, in his 2013 review of the economic literature on the minimum wage observes, “Because many low-wage workers are constrained by scheduling responsibilities ... transportation limitations ... and only partial information about available [job] vacancies ... employers paying the ‘going wage’ often face significant recruitment costs in the form of unfilled vacancies, rapid turnover, and related screening and training expenses.”^{vii} Schmitt, in turn, cites case studies in Los Angeles and San Francisco, as well as national studies, that find lower turnover rates in the wake of minimum wage hikes. In particular, a 2012 national study by the

economists Arin Dube, T. William Lester, and Michael Reich offers “striking evidence that separations, new hires, and turnover rates for teens and restaurant workers fall substantially following a minimum wage increase – with most of the reductions coming within the first three quarters of the increase.”^{viii}

Finally, in keeping with traditional criticisms, some maintain that raising New Hampshire’s minimum wage will reduce employment. However, the most recent, high quality studies on the relationship between state minimum wages and employment levels find little evidence to suggest that raising New Hampshire’s minimum wage will produce job losses. For instance, a 2010 study, also conducted by Dube, Lester, and Reich, examined state minimum wage increases during the period from 1990 to 2006 using data from nearly 300 bordering counties that had differentials in their minimum wages. It concludes that: “[our] estimates suggest no detectable employment losses from the kind of minimum wage increases we have seen in the United States...”^{ix} Another study by a similar set of authors was published in 2011 and focused more narrowly on teen employment. It determined that: “... minimum wage increases – in the range that have been implemented in the United States – do not reduce employment among teens.”^x

Conclusion

Due to legislative inaction and the corrosive effects of inflation, New Hampshire's current minimum wage comes up short in a number of ways. It trails behind the rest of New England, stands below prior levels in terms of real purchasing power, and leaves workers struggling to get by. Accordingly, raising the minimum wage and ensuring it is adjusted for the cost of living in future years would help families make ends meet, boost sales at local businesses, and put New Hampshire on a path towards an economy that works for everyone.

ⁱ NHFPI calculations based on data from the US Bureau of Labor Statistics and US Department of Labor

ⁱⁱ See, for instance, Kurtzleben, Danielle, "50 Years Later, a War Over the Poverty Rate," *US News & World Report*, January 6, 2014.

ⁱⁱⁱ "Senators Elizabeth Warren, Dick Durbin call for minimum wage increase," *Springfield Republican*, February 10, 2014; "Override bids leave most LePage vetoes standing," *Portland Press Herald*, July 10, 2013

^{iv} See National Conference of Legislatures (NCSL), *State Minimum Wages*, at <http://www.ncsl.org/research/labor-and-employment/state-minimum-wage-chart.aspx> for more details.

^v Under EPI's analysis, indirectly affected workers have a wage rate just above the new minimum wage (between the new minimum wage and the new minimum wage plus the dollar amount of the increase in the previous year's minimum wage). For more on EPI's methodology, see Shierholz, Heidi. 2009. *Fix It and Forget It: Index the Minimum Wage to Growth in Average Wages*. Economic Policy Institute, Briefing Paper #251.

^{vi} Aaronson, Daniel, Sumit Agarwal, and Eric French, *The Spending and Debt Responses to Minimum Wage Increases*, Federal Reserve Bank of Chicago, February 2011

^{vii} Schmitt, John, *Why Does the Minimum Wage Have No Discernible Effect on Employment?*, Center for Economic Policy Research, February 2013, p. 21.

^{viii} Dube, Arindrajit, T. William Lester, and Michael Reich, "Minimum Wage Shocks, Employment Flows and Labor Market Frictions," Institute for Research on Labor and Employment, University of California Berkeley, April 6, 2012, p. 2

^{ix} Dube, Arindrajit, T. William Lester, and Michael Reich, "Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties," *The Review of Economics and Statistics*, November 2010, p. 945-964.

^x Allegretto, Sylvia, Arindrajit Dube, and Michael Reich, "Do Minimum Wages Really Reduce Teen Employment? Accounting for Heterogeneity and Selectivity in State Panel Data," *Industrial Relations*, Vol. 50, No. 2, April 2011.