Raising and Indexing Connecticut’s Minimum Wage: Making Work Pay for All, for Good

Matt Santacroce
Wade Gibson, J.D.

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In Connecticut, it is an article of faith that if you work hard, you should earn enough to be middle class, or at least enough to pull your family into the middle class. Yet today, over 100,000 Connecticut workers make so little at or near minimum wage that they could not even pull a family of four out of poverty if they worked full time, 52 weeks/year. At $8.25/hour, the minimum wage buys less now than it did 50 years ago.

Meanwhile, the next rung on the ladder has grown farther out of reach. While minimum wage workers’ earnings have declined, everyone else’s have risen. Gone are the days when you could start out sweeping the factory floor – and end up managing it. Today you’ll need education outside the workplace to move up, and so will your children. Of course, education costs money and time, which minimum wage earners have in short supply. For them to have a shot at the middle class, we must increase the minimum wage.

Moreover, if we increased the wage to what it was worth 40 years ago (about $9.75) and indexed it to inflation so it does not erode again, we would put money in the hands of those most likely to spend it, spurring demand for goods and services and helping local businesses hire. We would give employers predictability over future wages, and we would ensure decent pay for workers in the state’s fastest growing job sectors, which are also among those most likely to pay minimum wage.

**The Current Minimum Wage Does Not Make Work Pay**

Consider a family with a single father and three children. If our father works 40 hours/week, 52 weeks/year at minimum wage, his earned income, before taxes and transfers, will amount to $17,160. This falls well short of the federal poverty threshold for a family of four, which stood at $22,891 in 2011. In order just to lift his family out of poverty, our father would have to work another 17 weeks at the current minimum wage.

**Figure 1**
Minimum Wage Earners Left Behind

Over the past three decades, the Connecticut minimum wage has increased 17 times – each increase the result of legislative action. In nominal dollars, the wage increased 184 percent, from $2.91 in 1979 to $8.25 today. However, after adjusting for inflation, the minimum wage has decreased 9 percent. In real dollars, the minimum wage was worth more in 1979: $2.91/hour then would amount to $9.02/hour today. Had it kept pace with the rising cost of living, our family of four would have realized an additional $1,600 in earned income.

While minimum wage workers have seen their real wages decline since 1979, most other workers in Connecticut have enjoyed a rise in real wages. Adjusted for inflation, the state’s median wage has increased 21 percent over the past three decades. At the same time, those in the top 10 percent of wage-earners enjoyed a 46 percent increase in real dollars – more than a 50 percentage-point rise over those at the low end of the pay scale.

In sum, the state’s minimum wage – although raised repeatedly since 1979 – has declined relative to the middle and upper tiers of the wage scale, and to the cost of living in Connecticut. Not only do minimum wage earners have farther to climb to reach the middle class, they are poorer in the meantime.

Figure 2

Who Are Connecticut’s Low-Wage Workers?

Overwhelmingly, those who earn at or near minimum wage work in three industries: retail, education and health, and leisure and hospitality employ over 70 percent of the low-wage workforce. About 32 percent are employed in retail – the largest single employer of near-minimum wage workers. In addition, 21 percent are employed in the education and health sector, with another 20 percent employed in leisure and hospitality.5

According to a recent analysis by the Economic Policy Institute (EPI) in Washington, D.C., increasing the minimum wage to $9.75/hour in two 75-cent increments would boost the incomes of some 226,000 workers in Connecticut.6 Nearly 151,000 would see a direct pay increase as a result of minimum wage increases, since the new rate would exceed their currently hourly pay. An additional 75,000 workers earning within a dollar of $9.75 would see larger paychecks as pay scales adjust upward to reflect the new minimum wage.7 Altogether, those who would be both directly and indirectly affected by the two-step increase represent one in seven Connecticut workers.

Moreover, Connecticut’s ranks of minimum wage earners are likely to grow over the course of this decade. The state Department of Labor projects that the three occupations with the most job openings between 2008 and 2018 – cashiers, waiters and waitresses, and retail salespersons – are also those most likely to pay at or near minimum wage.8 As figure 3 below illustrates, there are 10 large occupations in which at least a quarter of workers earn wages below $9.75/hour, a list dominated by retail, foodservice, personal care, and janitorial positions. These occupations account for 33.7 percent of the state’s workforce, and many are among the fastest-growing job sectors in Connecticut.9

Figure 3

<table>
<thead>
<tr>
<th>Occupation</th>
<th># of Jobs</th>
<th>25th Percentile Wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Preparation and Serving Related Occupations</td>
<td>122,370</td>
<td>$8.80</td>
</tr>
<tr>
<td>Food Preparation Workers</td>
<td>13,460</td>
<td>$9.33</td>
</tr>
<tr>
<td>Combined Food Preparation and Serving Workers Including Fast Food</td>
<td>21,760</td>
<td>$8.69</td>
</tr>
<tr>
<td>Waiters and Waitresses</td>
<td>26,110</td>
<td>$8.50</td>
</tr>
<tr>
<td>Janitors and Cleaners Except Maids and Housekeeping Cleaners</td>
<td>30,040</td>
<td>$9.63</td>
</tr>
<tr>
<td>Personal Care and Service Occupations</td>
<td>52,760</td>
<td>$9.16</td>
</tr>
<tr>
<td>Sales and Related Occupations</td>
<td>161,680</td>
<td>$9.39</td>
</tr>
<tr>
<td>Cashiers</td>
<td>40,770</td>
<td>$8.79</td>
</tr>
<tr>
<td>Retail Salespersons</td>
<td>49,670</td>
<td>$9.08</td>
</tr>
<tr>
<td>Stock Clerks and Order Fillers</td>
<td>19,820</td>
<td>$9.12</td>
</tr>
</tbody>
</table>

Total for These 10 Occupations: 538,440
Total for All Occupations in CT: 1,598,640

Note: Large occupations are those in which at least 10,000 people are employed.

Snapshot: The Retail Industry and Minimum Wage in Three Charts

An increase in Connecticut’s minimum wage would benefit retail workers especially. The retail sector is by far the largest employer of those earning less than $9.75/hour, employing nearly a third of the workers who would benefit directly from a minimum wage increase.\(^\text{10}\) Overwhelmingly, Connecticut retail is dominated by small to mid-size establishments: businesses employing between one and 499 people make up 96 percent of retail firms in the state (see figure 4 below).\(^\text{11}\)

However, large retail employers – those with 500 or more employees, large chains particularly – are responsible for more than 57 percent of retail employees (see figure 5 below).\(^\text{12}\) And on average, these businesses pay their employees 34 percent less than do small and mid-size retail firms: in 2007, the average employee at a big retail establishment took home over $11,000 less than her counterpart at a smaller store (see figure 6 below).\(^\text{13}\) Connecticut’s largest retail employers are not pulling their weight. On average, they’re paying lower wages than smaller companies in the industry. A higher minimum wage would ensure that these large companies do more to support their workers and communities.

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**Figure 4**

**How many Connecticut retail firms are there?**

- 8,618 Firms with 1-499 Employees
- 375 Firms with 500+ Employees

**Figure 5**

**Where do Connecticut retail employees work?**

- 111,582 Firms with 1-499 Employees
- 83,453 Firms with 500+ Employees
Importantly, a higher minimum wage would not disproportionately benefit teenagers working part-time jobs. In Connecticut, over 82 percent of the workers affected are aged 20 or older, and 74% work at least 20 hours/week. A minimum wage increase, however, would benefit women, as figure 7 below shows. Although women comprise only 49 percent of the overall workforce, they make up more than 56 percent of those who would gain from a minimum wage increase.

### Table 1: Who Would Benefit from a Minimum Wage Increase?

<table>
<thead>
<tr>
<th>Group</th>
<th>Count</th>
<th>% of Total Affected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>127,083</td>
<td>56.1</td>
</tr>
<tr>
<td>Male</td>
<td>99,315</td>
<td>43.9</td>
</tr>
<tr>
<td>Under 20</td>
<td>40,474</td>
<td>17.9</td>
</tr>
<tr>
<td>20 and Above</td>
<td>185,924</td>
<td>82.1</td>
</tr>
<tr>
<td>White</td>
<td>152,132</td>
<td>67.2</td>
</tr>
<tr>
<td>Black</td>
<td>24,400</td>
<td>10.8</td>
</tr>
<tr>
<td>Hispanic</td>
<td>38,649</td>
<td>17.1</td>
</tr>
<tr>
<td>Married parents</td>
<td>27,981</td>
<td>12.4</td>
</tr>
<tr>
<td>Single parents</td>
<td>19,508</td>
<td>8.6</td>
</tr>
<tr>
<td>Total Single</td>
<td>167,471</td>
<td>74.0</td>
</tr>
<tr>
<td>Total Married</td>
<td>58,927</td>
<td>26.0</td>
</tr>
<tr>
<td>Part time (&lt;19 hours/wk)</td>
<td>58,954</td>
<td>26.0</td>
</tr>
<tr>
<td>Mid time (20-34 hours)</td>
<td>79,274</td>
<td>35.0</td>
</tr>
<tr>
<td>Full time (35+ hours)</td>
<td>88,171</td>
<td>39.0</td>
</tr>
</tbody>
</table>

Raising and Indexing the Minimum Wage: A Common Sense Solution

Connecticut must ensure its minimum wage keeps up with the cost of living and an increasingly stratified labor market. As a first matter, the state should raise the minimum wage, in two 75-cent steps, to $9.75/hour by 2013. This would restore the wage to its levels of 40 years ago and improve opportunity and security for more than 226,000 workers and their families.\(^\text{16}\) Such an increase would not even begin to catch up for 40 years of growth on the rest of the wage scale, but it would be a major improvement nonetheless.

In addition, the state should ensure the minimum wage reflects economic realities into the future by indexing the wage to inflation. Figure 8 shows how not indexing produced a shrinking real minimum wage. Between 1960 and 1980, the average real minimum wage in Connecticut was $8.80/hour. At its peak in 1972, the wage was worth $9.96/hour in today’s dollars. In the 20 years that followed, however, the wage shrunk in real terms: between 1981 and 2000, it was worth an average of $7.14/hour, bottoming out in 1996 at a $6.12/hour. Since then, as a result of legislative action, the rate has held relatively steady: from 2000 onward, the minimum wage has averaged $8.30 in today’s dollars, still below its peak of 40 years ago.\(^\text{17}\)

**Figure 8**

Source: CT Voices analysis of CT Department of Labor and U.S. Bureau of Labor Statistics data.

Indexing the minimum wage to inflation would ensure that as the economy regains momentum, minimum wage workers receive pay increases commensurate with upticks in the economy and corresponding increases in the cost of living. Further, indexing, which ten states already have,\(^\text{18}\) would relieve business owners of the unpredictability of repeated legislative minimum wage increases – the wage was raised by legislative action nine times in the last 11 years.\(^\text{19}\) With indexing, Connecticut’s employers would have a guarantee that the minimum wage would not be subject to spikes that outpace the rate of inflation. Indeed, since 1950 there have been ten statutory minimum wage hikes greater than 10 percent over the previous year, and four that were 15 percent or greater.\(^\text{20}\)
Aside from providing a boost for low-wage workers, raising the minimum wage would also stimulate the state's economy and create jobs. Increasing the take-home pay of thousands of workers would inject millions of dollars into the communities where minimum-wage earners live and work, fueling the day-to-day economic activity that is the lifeblood of local businesses. Accordingly, the EPI analysis projects that a two-stage, $1.50/hour increase would create or support more than 1,500 jobs in Connecticut by boosting demand on Main Street. Highlighting the importance of increasing demand, a recent survey by the Connecticut Business and Industry Association (CBIA) found that over 7 in 10 business owners saw sales or production demand as the most important factor affecting the performance of their company; only 4 percent cited wage costs. In short, raising the minimum wage would drive demand and create jobs.

The Economic Policy Institute model predicts that increasing the minimum wage would create jobs – a finding consistent with a growing body of academic research that refutes the old notion that minimum wage increases lead employers to shed jobs. In 1995, Princeton’s Alan Krueger, now Chairman of the President’s Council of Economic Advisers, put forth a groundbreaking analysis that refuted the old conventional wisdom. More recently, scholars at the University of California-Berkeley, University of Massachusetts, University of North Carolina, and elsewhere have demonstrated that minimum wage increases have little, if any, impact on jobs – this study included five Connecticut counties in its sample, and found no negative cross-county employment impact as a result of the minimum wage. These effects have been shown to hold true even during periods of recession and high unemployment, a finding that is particularly relevant to today’s economic moment. Economists at the University of California examined the impact of minimum wage increases during recessions over the past two decades, and found that even the minimum wage increases that occurred during the Great Recession of 2007-2009 did not worsen unemployment, or slow employer rehiring.

Whatever the impact on jobs, it is clear that the effect on take-home pay for 226,000 workers would be substantial – potentially thousands of dollars per year. Restoring the minimum wage and indexing it to inflation would boost living standards and improve opportunity for hard-working minimum wage earners and their families. It would make minimum wage work pay again, and give truth to the notion that if you work hard, you should earn enough to be middle class, or at least enough to work your way into the middle class. Restoring the value of the minimum wage would allow it to once again act as a stepping stone, rather than quicksand, for hard-working families.
6 Id.
7 Id.
12 Id.
13 Id.
15 Count includes both directly and indirectly affected workers over the course of the two-step increase.
16 Includes both directly and indirectly affected workers over the two-year phase-in. Economic Policy Institute analysis of U.S. Census Bureau Current Population Survey (CPS) data.
18 There are 10 states (AZ, CO, FL, MO, MT, NV, OH, OR, VT, and WA) that have minimum wages linked to a consumer price index. As a result of this linkage, the minimum wages in these states are normally increased each year, generally around January 1st. On January 1, 2012, eight of the ten states increased their respective minimum wages. The two exceptions were Missouri and Nevada. See http://www.dol.gov/whd/minwage/america.htm.
19 Connecticut Voices analysis of Connecticut Department of Labor historical minimum wage data.
20 Id.
21 Economic Policy Institute analysis of U.S. Census Bureau Current Population Survey (CPS) data. GDP and job figures utilize a national model to estimate the GDP impact of workers’ increased earnings. The total state stimulus may be lower than this because workers in each state will not necessarily spend all of their increased earnings in state. However, most of the increased earnings will be spent in state, and thus most of the jobs created will be in state. Jobs numbers assume one new job at full-time employment requires $115,000 in additional GDP.
23 The increased economic activity from these additional wages adds not just jobs but also hours for people who already have jobs (Work hours for people with jobs also dropped in the downturn). Full-time employment accounts for that by taking the number of total hours added (including both hours from new jobs and hours for people who already have jobs) and dividing by 40, to get full-time-equivalent jobs added. Simply counting new payroll jobs misses the added hours for people with jobs.