TAXATION WITHOUT REPRESENTATION?
THE POLITICAL ECONOMY OF STATE MINIMUM WAGE LEVELS

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Abstract

In this essay we review the influential variables and effect sizes associated with the existing body of empirical research on minimum wages/state minimum wage policy (mostly from the US). We have also replicated the cross-sectional and panel studies seeking to explain variations in state minimum wage levels, legislative consideration of wage boosts, and enactment of minimum wage hikes. The net effects of moderate increases in wage floors appear to be small; statutory wage minimums appear to work like taxes on labor, with their proceeds paid directly to low-wage workers and their costs shifted forward to consumers; variations in state minimums appear to be driven by a combination of partisan political control and opportunities for burden shifting to nonresidents. These findings are consistent with the view that the effects of minimum wage hikes are largely, albeit not entirely, symbolic.

Minimum wage • Tax shifting • Incidence • CBO • Partisan Control • Ideology
D78 • H22 • H70 • J38 • J88 • L38
THE POLITICAL ECONOMY OF STATE MINIMUM WAGES

Minimum wages are getting a lot of play right now. Connecticut just enacted an increase in its minimum, taking it to $10.10 per hour in 2017; Massachusetts is to slated to raise its wage floor to $11; Governor Inslee of Washington State has called for an increase in its minimum, already the highest in the US and indexed to inflation, to $15.

Our neighbor, Washington state, has played an especially prominent role in the recent evolution of this issue, starting when the small town of SeaTac, home of the international airport serving Seattle, raised its minimum wage to $15 an hour for hospitality and transportation workers. Subsequently, Seattle successfully extended the $15 minimum to the entire metropolitan area, although not fully until 2017. Everybody now seems to want in on the act, at least that’s how it seems here in the NW corner of these United States.

Why and why now? Is it President Obama’s call for a 25 percent increase in the national standard? Is it the growing concern about increased income inequality? Or, is it simply a matter of time: it has been nearly eight years, since the enactment of the last nationwide minimum-wage boost?

We figured that we could take advantage of the variation in state minimum wages – half of America’s workers live in states where the minimum wage is equal to the federal minimum, $7.25; a fourth live in states where it’s $8 or higher; and a fourth live in states where it’s somewhere in between – and the timing of state adoptions of minimum wage increases, to address this question and suss out the drivers of policy change. Initially, we were flummoxed.

WHERE WE STARTED?

We started with economic variables: wage growth, the cost of living, income inequality, a high proportion of minimum-wage earners in the workforce, etc. That these things ought to matter seems intuitively right. For example, Governing magazine categorically asserts that state minimum wage increases are driven primarily by growth in the relative cost of living, especially where gentrification and amenity-based tourism amplify inequalities of income and wealth (Maciag, 2014). But, when we subjected such claims to rigorous empirical testing no relationships were found. State adoptions of minimum wage higher than the national standard are apparently not driven by absolute or relative economic hardship or, absent interaction with political variables, economic conditions generally.

Actually, this finding should not have surprised us. It is has been consistently reported in the literature: political variables beat economic variables at explaining state minimum-wage levels/hikes (Whitaker, et al., 2012; Ford, Minor and Owens, 2012; Warren, 2008; Waltman and Pittman, 2002). Replicating this research, strengthens several prior observations: minimum-wage hikes are more likely where minimums are already higher than the national standard, in the even-numbered years between presidential elections – so-called mid-term election years), and in states that are under Democratic Party control (although not all states that are controlled by Democrats have higher minimums and neither the size of Democratic majorities nor shifts from Republican to Democratic
control appear to be correlated with increases in state minimums, but in no instance by very much (Besley and Case, 1995 & 2003; Leigh, 2008).

TOWARD A MORE GRANULAR UNDERSTANDING OF THE EFFECTS OF MINIMUM WAGES

To make sense of these results we returned to the literature – presuming that if we better understood what minimum wages do, we would better understand what drives this issue. What we learned is that this issue is a molehill that pretends to be a mountain. Doubling or tripling the national standard to $15 or $22.50 might matter, perhaps a lot. We don’t know. Such an increase would be absolutely unprecedented. What we do know is that minimum-wage hikes of 20-30 percent don’t matter very much; they do little or no harm, but (one major consideration aside) not much net good either.

The literature on minimum wages

There are several questions about the effects of minimum wage hikes that must be answered to understand their material significance:

1. How much do they increase the earnings of lower-wage (<$20 per hour) workers and for how long?
2. What is their effect on low-wage employment?
3. If they cost jobs, who is hurt? Men, the young, the less-skilled, poor families, middle-income families?
4. Do they enhance productivity and, if so, how much?
5. Someone pays. Who? How much of the burden of the minimum wage is shifted back to employers and how much is shifted forward to consumers?
6. Do employers reduce employer benefits or the quality of working conditions when minimums are increased?
7. What effect do these shifts have on the net distributional effects of minimum wages? Who are the net winners, who are the net losers, and by how much?

While there is a logical order to these questions, the list also reflects the strength of the evidence and precision of the answers. Ninety percent of all the relevant research on the topic has been directed at the second question. Because it is necessary to answer the first question, to give a good answer to the second, the best studies also answer the first question. The reason we say that the answers to the first question are stronger than the answers to the second is that they are much more consistent – moderate minimum-wage hikes increase the wages of those earning minimum wages and those just above the minimum, but not much and not for long.

To answer the third question, we’d like to compare the demographic characteristics of low-wage workers before and after significant hikes to minimum wages, ideally contrasted with before and after controls, perhaps located across a state border. There are no such studies. But we have a handful of pretty good studies on the effects of increasing minimum wages on a handful of groups that are presumed to be at high risk of job losses: teenagers, black males, single moms, etc.

Most claims regarding the productivity effects of increasing minimum wages are linear extrapolations of the effects that occur where low-wage employers increase pay relative to their competitors. Clearly, that won’t do. Fortunately, there are dozens of studies of the productivity effects of exogenous changes to work life, including 3-4 that address the
question at hand directly. Moreover, recent work on the job search/wage-bargaining process, done in the spirit of Nobel Laureates Dale Mortensen’s and Chris Pissarides’ matching theory of frictional unemployment, suggests that minimum wages could have a positive effect on efficiency from a societal point of view and big effect on the distribution of income and employment.

Sarah Lemos (2008) in her survey of the literature reports that there are fewer than 20 serious analyses of the effects of minimum wages on prices, none with satisfactory controls, and none on profitability. Besides, looking for broad price effects from minimum-wage increases is much like looking for a needle in a haystack. As for their distributional consequences, the best one can do is draw parallels to things that are likely to have analogous consequences such as sales taxes.

Answers to the penultimate question rely entirely on survey data. Answers to the last question depend on the answers to the previous questions and are entirely ambiguous. That may necessarily be the case, given the likely magnitudes of the net effects in question.

Returning to the second question, the best evidence shows that the effects of increasing minimum wages on low-wage employment are very small (Neumark and Wascher, 2006; Dube, Lester, and Reich, 2010, Congressional Budget Office, 2014). The funnel graph below, which is taken from Hristos, Doucouliagos’ and Tom D. Stanley’s 2009 meta-regression analysis (MRA) of 1,400 minimum-wage studies, plots point estimates of the job effect (horizontal axis) against 1/standard errors (1/se) of the estimate (the vertical axis). Observations higher on the graph are more “precise,” as measured by the standard error of the estimate.
Doucouliagos and Stanley (2009) report two sets of MRA results, a ‘best-set’ and an ‘all-set. Their best-set wage-job elasticity estimates range from -0.002 to -0.024, none of which is statistically significant. Their all-set elasticity estimate is statistically significant, but very small (-0.01). If true, the effect of a 10 percent increase in the minimum wage would be .1 percent decrease in employment.

**Thinking about winners and losers**

Of course, this is not the whole story – arguably not even the most important story. That minimum-wage hikes cost few if any jobs does not necessarily mean that they are ‘good.’ There is also the question of who pays and who benefits and how much? Obviously, the people who purchase low-wage work, either directly as employers (through reduced profits) or indirectly as consumers (by paying higher prices for the stuff made using low-wage labor), bear the costs; its proceeds are transferred directly to low-wage workers. From this standpoint, it’s easy to identify the winners: all workers making less than the minimum (and many making a little more) see higher earnings from a minimum-wage hike. It is somewhat harder to say who low-wage workers are, although we have a pretty good idea: according to the CBO (2014) about 18.8 percent of minimum-wage benefits go to poor families (which is to say that >80 percent goes to non-poor families, although heavily weighted to families with incomes of less than $75 thousand per year.

The losers are harder to identify, because the incidence of the minimum-wage burden is equivocal and because researchers haven’t given the issue the attention it deserves. Indeed, for a long time, economists believed that they didn’t need to address this issue head on. They assumed that information on wage-job elasticities addressed the issue satisfactorily. Evidence that minimum wage hikes cause a lot of low-wage job cuts would show that employers pay, which means that on average their incidence is progressive, i.e., they transfer income from richer to poorer folks — the top 10 percent of households by income pay roughly 75 percent of the all costs that are shifted to employers. In contrast, if the evidence is that they cause little or no effect on low-wage employment, customers pay, which means that their incidence is generally regressive.

**The bottom line**

The recent CBO study estimates that employers would pay about three-fourths of the cost of increasing federal minimums to $10.10 ($31 billion altogether) and consumers about one-fourth, and that the increase would also cost about 500 thousand jobs – about three percent of all low-wage jobs (this implies a dead weight loss of about 12 percent or $3 billion). The CBO further concludes that families earning less than $150 thousand will see a net gain of about $20 billion, with more than $18 billion of that going to families earning less than $75 thousand, while families with incomes greater than $150 thousand will see net losses of no more than $17 billion (all in constant dollars).\(^1\)

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\(^1\)The CBO predicts net benefits in the first year of the minimum-wage increase of about $3 billion despite deadweight losses of $3-5 billion. This implies a fiscal multiplier greater than 1.2, which is not entirely unrealistic, although we are somewhat skeptical. It is in the nature of transfer programs, no matter how they are financed, to take away more than they hand out. Economists call this difference ‘the leaky-bucket ratio.’ The CBO report implicitly argues that, where higher minimum wages are concerned, the leak is negative, at least under circumstances of less than full employment – that, right now, owing to macroeconomic fairy dust, it costs $.90 to transfer a dollar to a low-wage worker via the minimum wage.
Note that the CBO study finds that a minimum-wage hike would produce meaningful distributional gains to low income families and measurable low-wage job losses, about three percent of all low-wage jobs. Both of these results follow from the CBO’s assumption that most of the burden of the increase will be shifted back to employers.

Frankly, we don’t believe it. There is simply no way that the CBO’s conclusions about the burden of minimum-wage hikes can be reconciled with the best evidence on the employment effects of wage hikes. Indeed, the evidence strongly suggests that most of their costs are shifted forward to consumers, not backwards to employers (Lemos, 2008). (Our best guess is that is that up to 90 percent of the cost of moderate increases in wage floors are shifted forward, with the rest covered by increased employee productivity –

More precisely, ‘no credible way.’ If employers have monopsony power as buyers of labor and are able to set wages, they can keep pay below its competitive rate. In that case, wage floors can boost both employment and pay. However, Zavodny’s research (1996) has pretty much put paid to the notion that employers have sufficient monopsony power to keep wages below competitive levels.
due not only to lower turnover, lower absenteeism, better selection, higher motivation, etc., but also to reduced search and matching costs and, thereby, reduced frictional unemployment [Robin and Postel-Vinay, 2002; Teilings, 2003; Stevens. 2004; Gautier, Teilings, and Van Vuuren, 2010]). Surveys of businesses following previous minimum-wage hikes report are entirely consistent with such a result, including few if any reported layoffs (Levin-Waldman, 2001).

If we are right, higher prices will offset more of the gains to lower-middle and low-income families than the CBO allows, reducing the net gain of families in the lowest income quintile from $6 billion to $2-3 billion; and more than offset the wage gains to upper-middle and higher income families (although leaving the richest ten percent of households notably better off than under the CBO estimates).

**Do higher minimum wages lead to higher prices?**

Once the incidence issue is brought to the fore, the effect of higher minimums on price must be addressed directly, but it is not easy to do so (we are talking about looking for a $31 billion effect in a $17 trillion economy) and almost nobody has tried. Those who have, have looked at restaurant prices. As Josh Lerner explains (2014), the retail and leisure and hospitality industries account for 67 percent of minimum-wage workers nationwide. However, payroll is a tiny proportion of sales (about 3 percent) in retail stores, while it is 25 percent at take-out restaurants (26 percent in Oregon) and 33 percent at sit-down restaurants (35 percent in Oregon). Moreover, most restaurant employees are low-wage workers – the national median wage for food preparation and service workers is only $9.10 per hour (in Oregon, with the third highest minimum wage in the country – more than twenty percent higher than the national standard –, the median wage for restaurant workers is 5.5 percent higher at $9.60 [Lerner, 2014]). If higher prices could be seen anywhere, they would be seen in this sector.

One researcher (Aaronson, 2001), who took this issue head on found that restaurant prices do, in fact, increase proportionately with increases in minimum wages and that price responses follow the enactment of minimum-wage legislation. Two of the Card

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3 Matching theories of job search/wage bargaining are superficially like monopsony theories in that they imply that outcomes depend upon the relative bargaining power of the participants, that the actual distribution of bargaining power is often weighted in favor of employers, and that wage floors can offset initial bargaining advantages. The difference is that matching theories are driven by imperfect information, which induces inefficiently high search and bargaining costs and, in extreme cases, missing markets, rather than coercive market power. Wage floors standardize expectations, reducing price-search on the part of both low-wage job seekers and low-wage employers, thereby, increasing productivity and low-end wages without significantly affecting profits. At the same time, floors can be inefficiently high, not just too low. Teilings (2003), for example, argues that wage floors are now inefficiently low – that, indeed, the rise in wage inequality in the lower half of the income distribution in recent times is entirely due to the fall in minimum wages –, but nevertheless acknowledges that there is an optimal level beyond which one wouldn’t want to go.

4 We are, perhaps, overly influenced by a former student, who worked as a business analyst for one of America’s largest low-wage employers, where he was tasked with figuring out how to respond to a hike in the federal minimum wage. Based upon his company’s responses to the 2007-9 federal increases, he predicted that 85-90 percent of the wage increase would be shifted to customers with minimal job losses. Aaronson (Aaronson, Agarwal, and French, 2011) comes at this issue from a different angle in a second paper, looking at the effect of minimum wages on the outlays of poor families, finding that minimum wage hikes caused average income increases of $250 per family and outlay increases of $700. However, “Most
and Krueger studies, the New Jersey/Pennsylvania and the cross-state comparison, include information on fast-food price effects. In both of these cases, prices increased faster in the affected states. The comparison between New Jersey and Pennsylvania concludes that “prices rose 4 percent faster as a result of the minimum-wage increase” (Card and Krueger 1995, p.54). In the cross-state comparisons, the estimates on prices are very imprecise. Still, Card and Krueger find that the relationship between higher wages and prices approximates the labor share of product costs, which is consistent with the majority of the costs being passed on in higher prices.

Consequently, one might infer that the differences in restaurant wages due to a higher minimum wage in Oregon would be reflected in higher restaurant prices of about one percent for take-out out and two percent for sit-down restaurants (versus .15 percent at Wal-Mart or less at Target). This inference follows from Oregon’s wage premium for restaurant workers, 1.055, and the average wage share of sales. In fast food restaurants nationwide the average wage share is 25 percent and in sit-down restaurants, 33 percent. Multiplying each by the wage premium gives 26 and 35 percent respectively. These figures are also identical with the actual wage shares in Oregon. Moreover, prices are, in fact, about one percent higher in Oregon’s limited-service restaurants (fast food and take out) than nationwide, but are actually lower across the board, not higher, in its full-service restaurants (Lerner, 2014). Even in the best of circumstances, finding the effects of wage floors on product prices isn’t easy or straightforward.

Who among the poor is hurt by the minimum wage and who is helped?

Clearly, the direct effect of higher minimum wages makes many low to middle-income families better off, but not all and probably not most. Note here the difference between low-wage workers and low-income families. We think the net cost of transferring a dollar to a low-wage worker via the minimum wage is very low, perhaps even negative (Lee, 1999; Postel-Vinay and Robin, 2002; Teilings, 2003; Stevens. 2004; Gautier, Teilings, and Van Vuuren, 2010). The cost of transferring a dollar to a low-income worker via the minimum wage is more likely to be positive and, given adverse rationing effects (i.e., attracting higher skilled workers into low-wage employment, thereby displacing lower skilled workers, the likelihood of which increases where the kind of processes invoked by Teilings and his colleagues obtain), perhaps substantial. Based upon data from the Household Consumption Survey, it appears that those that would be hardest hit by minimum-wage induced price hikes are families in the lowest income decile, rural families, six-person families, and single-parents who do not depend upon low wage work. In other words, higher minimums partly rob Peter to pay Peter or, more correctly, Jane to pay Jane.

Women head a high proportion of low-income households, rural families, and single-adult households and the vast majority of single-adult families with children. They also hold a lot of low-wage jobs. Well over half of all low-wage workers are women; 45 percent are women over 20 years of age; 30 percent are single women over 20, many with children. As a result, higher minimums help disproportionate numbers of women; of the spending response [was] caused by a small number of households who purchase[d] vehicles … financed through increases in collateralized debt.” This is an interesting finding, but probably one that is not directly relevant to the topic at hand.
but they hurt a disproportionate number as well. In any case, there is evidence that less-educated single mothers are the workers most likely to be adversely affected by minimum wage hikes (Sabia, 2008). It also seems that minimum wage increases are correlated with increased welfare dependence, although the mechanisms producing this outcome are not entirely clear (Page, Spetz, and Millar, 2005).

Nevertheless, one shouldn’t make too much of the regressivity of the burden of supporting higher wage floors (i.e., the poor pay a higher proportion of their income in support of the program than the rich). We can pay for transfers with regressive taxes (like sales taxes, which to our way of thinking is the best analog to the incidence of the minimum-wage burden) and still get very progressive outcomes. If low-wage work accounts for 20 percent of the income of poor families, prices would need to go up by nearly 1.25 percent across the board for a minimum wage increase of 25 percent to hurt more poor families than it would help. If low-wage work accounts for 40 percent, you can double those already high numbers. Consequently, it follows that many low-income people would lose a little as a result of a minimum-wage hike; many (although fewer) would realize a nice gain; and, maybe, workers with higher skills would displace a few, creating double losers. Overall, the net effect would appear to be trivially small, however.

If it’s not Economics, Is it Politics?

Clearly, people get worked up over this issue. But, from an economic standpoint, it looks like, as Madeline Zavodny (1996) put it, a “maximal conflict over a minimal effect.” If the economic consequences of minimum-wage hikes are, indeed, trivial, it shouldn’t be surprising to find that they are not driven by economic conditions.

If economic conditions do not explain interstate variations in minimum wages, what about politics? As noted in our introduction, the research on state adoption of minimum wage standards ranks political considerations over economic ones. This had led some observers to conclude that the primary function of proposed minimum-wage hikes is rallying the party faithful to fight mid-term elections. In other words, the minimum wage, like banning assault-weapons or abstinence-only sex education, is basically a political football, an otherwise largely inconsequential object, given symbolic importance by interparty rivalry.

This view was recently outlined in an article in Governing magazine (Pearson, 2014) explaining the failure of Illinois to enact an increased wage floor into law, despite Democratic control of both houses of the state legislature and a Democratic governor. Instead, they put a non-binding advisory referendum on the fall ballot asking whether the state's minimum wage should be increased to $10 an hour. Evidently many legislators thought that this would increase Democratic turnout, especially on the part of young voters, more than would boosting the wage floor. In any case, immediately after signing

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6Let’s say we take 10 percent of the income of every family from the lowest-income quintile in Oregon, 8 percent from the second, 6 percent from the middle quintile, 4 percent from the fourth, and 2 percent from the highest, sum the receipts and divide them equally; those in the lowest quintile would see a net increase in income of 15 percent (pay $1,000, get back $2,500) while the top quintile would see a net reduction of income of less than 1 percent (pay $3,700, get back $2,500) as would families in the fourth quintile; families in the second quintile would realize a net income gain of about two percent and those in the middle would about break even.
the referendum measure, the governor’s campaign e-mailed supporters, reminding them that “when you vote this November, you can send a clear signal to lawmakers in Springfield that we must have an economy that works for everyone.”

*The literature on partisan politics and wage floors*

What the literature (Whitaker, *et al.*, 2012; Ford, Minor and Owens, 2012; Warren, 2008; Waltman and Pittman, 2002) shows is that minimums higher than the national standard predict subsequent state minimum-wage hikes, that timing matters, and that states, which enact minimum-wage hikes, are almost invariably under Democratic Party control (although not all states that are controlled by Democrats have higher minimums and neither the size of Democratic majorities nor shifts from Republican to Democratic control appear to be correlated with increases in state minimum wages). Furthermore, a disproportionate number of minimum-wage hikes are enacted during the even-numbered years between presidential elections (so-called mid-term election years). This variable turns out to be significantly more powerful than the number of years since the last boost (federal and/or state), the main timing-related mechanism considered in earlier studies, but only because the latter is not significantly different from zero, not because the effect is particularly strong. Moreover, both legislative ideology and partisan control matter, although control appears to matter more than ideology.

To say that partisan control matters, is not to say that it explains much of the interstate variation in minimum wages, at least not in any straightforward way. As Whitaker and his colleagues explain, Democratic control of state legislatures “reliably predicts whether state legislatures will consider minimum wage increases and when.” However they also acknowledge that it “fails to predict policy adoption.”

Ford and his colleagues find that “political leanings are the primary factor explaining differences in state minimum wages,” although they explain less than 15 percent of the variance in levels. Waltman and Pittman also observe that interstate ideological differences are the strongest variable influencing state minimum wage levels: more liberal democratic states tend to have higher wage floors. But they acknowledge, not by much or consistently. Finally, Warren, whose analysis is entirely elegant, obviously believes that politics matters, but acknowledges “not in any predicted manner.”

The political football story is one way to make sense of these patterns. Certainly, the issue is firmly identified with the Democratic Party. However, this story seems to us to be more of an *ex-post* rationalization than a wholly credible theory. Moreover, even if it explains the episodic appearance of the minimum wage on the policy agenda, it doesn’t really advance our understanding of why it is that some Democratic states adopt higher minimum wages and others do not.

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7 If one searches for “minimum wage” using Google Trends, the expected spikes are observed in 2009-10 and 2013-14, but there is also a set of spikes in 2007, when the federal standard was increased from $5.15 to $7.25, and no spike in 2006, when several states enacted minimum wage hikes. Moreover, the issue tends to reappear on the legislative agenda every fourth year in states, like Washington, where the minimum wage is both high and already indexed for inflation.
Taking the sales tax idea seriously

Our contribution to this issue was conditioned by two conclusions, both of which we hope we have justified here. First, the net material effects of moderate hikes in wage floors really are vanishingly small. Second, wage floors are like taxes on labor, with their proceeds paid directly to low-wage workers and their costs shifted forward to consumers. In other words, their distributional effects on the burden side are more like those of sales taxes than anything else. With these conclusions in mind, we had an aha moment thinking about the SeaTac initiative, which raised the minimum wage to $15 “for the airport’s hospitality and transportation workers.” Almost all of the beneficiaries of this initiative are local residents; its burden falls almost entirely on nonresidents.

Taxes inherently raise the Colbert problem: how to “Pluck the goose with a minimum of hissing?” In a democracy the easy solution to this problem is “don’t tax me (voter); don’t tax thee (voter); tax the guy behind the tree (non-voter). The technical term for this phenomenon is ‘tax exporting.’ Most economists believe that if a jurisdiction can export taxes, it will. Indeed, one of the strongest findings in the literature on state and local finance is that specific tax rates tend to be higher where more of their burden can be exported to nonresidents. For example, more tourists mean higher local-option sales taxes; more second homes, higher property taxes; etc.

Is it conceivable that this factor could actually influence minimum wages more generally? The SeaTac case seems exceptional. Most places offer far less scope for exporting the burden of minimum wage hikes. To be honest, initially, the very notion that such a puny cause (cost shifting) could have such a mighty effect (boosting statutory minimum wages) seemed far-fetched, but, gradually, the realization sunk in that, if the material consequences of a moderate increase in wage floors really are trivial, then this wouldn’t be a big effect after all. It is not so implausible to imagine that a feeble effect could be triggered by a tiny cause.

Consequently, to answer the question: do state minimums vary inversely with their cost to in-state consumers, either because states adopting them have few minimum wage workers or because of tax exporting (i.e., shifting the burden of the minimum wage to out-of-state consumers), holding partisan control constant, we used piece-wise linear models with state minimum wages as our response variable and the following predictor variables: a dummy variable indicating Democratic control of the state house (1 when controlled by Democrats), median state house ideology, export employment as a percent of total employment, and two interactions with export employment one involving democratic control and the other involving ideology.

We collected data from several sources for this analysis. State minimum wage data was from the U.S. Department of Labor and state websites. The data on party control of state houses was collected from governing.com, while the ideology measure we used was the median ideology of each states house as measured by Shor and McCarty (2011, conservatives are represented as positive numbers, liberals negative ones). State level

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8 http://www.dol.gov/esa/minwage/america.htm
export employment data was collected from the U.S. Department of Commerce’s International Trade Administration.\textsuperscript{10}

Our interaction terms are consistently positive and significant. The interaction terms also dominate much of the effect that Democratic control (either as a percent or a dummy) or legislative ideology shows on its own. Interestingly, specifications featuring the interaction between Democratic control of the state legislature and export employment (regressions 4 and 5 in Table 1) consistently outperform those featuring the interaction between ideology and export employment (regressions 2 and 3 in Table 1). Ideology does help to predict the state minimum wages, but only when the interaction of democratic control and export employment is included in the regression. Stated statistically, there are good reasons to think that legislative ideology scores are measuring demand for minimum wages ‘with error’ in this setting, and concluding, therefore, that the real issue is party brand.

Table 1: Estimated Slopes from Regressions Explaining the Variation in State Minimum Wages

<table>
<thead>
<tr>
<th>Regression</th>
<th>Intercept</th>
<th>Export Employment</th>
<th>Ideology</th>
<th>Dem Control</th>
<th>Interact Dem Con</th>
<th>Interact Ideology</th>
<th>Adj. R(^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>7.25*</td>
<td>0.042</td>
<td>-0.235</td>
<td>0.4419</td>
<td>-</td>
<td>-</td>
<td>29.5%</td>
</tr>
<tr>
<td>2</td>
<td>7.58*</td>
<td>0.009</td>
<td>-0.034</td>
<td>-</td>
<td>-0.109</td>
<td>-0.150</td>
<td>26.8%</td>
</tr>
<tr>
<td>3</td>
<td>7.27*</td>
<td>0.035</td>
<td>0.475</td>
<td>0.547</td>
<td>-</td>
<td>0.216</td>
<td>39.7%</td>
</tr>
<tr>
<td>4</td>
<td>7.56*</td>
<td>-0.037</td>
<td>-</td>
<td>-0.250</td>
<td>0.216</td>
<td>-</td>
<td>38.2%</td>
</tr>
<tr>
<td>5</td>
<td>7.78*</td>
<td>-0.058</td>
<td>-0.349</td>
<td>-0.720</td>
<td>0.248</td>
<td>-</td>
<td>42.7%</td>
</tr>
<tr>
<td>6</td>
<td>7.91*</td>
<td>-0.080</td>
<td>-0.726</td>
<td>-1.065</td>
<td>0.311</td>
<td>0.074</td>
<td>42.0%</td>
</tr>
</tbody>
</table>

Numbers in bold are significant at the 90 percent level, asterisks signify significance at the 95 percent level.

As improper as this is, we marvel at the fact that we can explain over 40 percent of the variance in state minimum wages. This seems like a lot of explanatory power given that we are considering only partisan control and the jobs mix. At the same time, we do not see how these results can be reconciled with the notion that minimum-wage battles are really about the policy’s material consequences.

MOVING FORWARD

Minimum wage hikes express our sympathy for the working poor and our solidarity with them. Moreover, on balance moderate increases in minimum wages probably do more good than harm. But they don’t do very much good; the good they do is poorly targeted; the harms they impose are often inequitably distributed. Their importance is, in fact, almost entirely symbolic. From a purely material standpoint, it would be better if the attention given to boosting minimum wages were instead focused on policies that economically benefit low-income families and the working poor.

People who are really concerned about the welfare of poor families would focus their attention on the preservation and expansion of the social safety net, especially food-stamps, aid to needy families, and unemployment benefits. There is clear, unambiguous evidence that these policies materially improve the welfare of low-income households. Moreover, states that pursue these policies have lower rates of infant mortality, less crime, higher earnings, and better education outcomes. There is even some evidence that they are associated with greater social mobility.

\textsuperscript{10} http://trade.gov/mas/ian/tradestatistics/index.asp
The material benefits of reducing reliance on sales taxes in favor of income and wealth taxes appear to be of a similar magnitude (there is little or no evidence on the relationship between social outcomes and reliance on tax types). According to the Institute on Taxation and Economic Policy (2012), Washington takes 17.3 percent of the incomes of poorest 20 percent of households in state and local taxes. We think the figure probably less than 15 percent (Thompson, Beatty, and Thompson, 2013). But, even so, that’s a big hit. Merely eliminating Washington’s general-purpose sales tax would increase the incomes of the poorest 20 percent of its families 5 percent; lowering it to the level of the median state, Maryland, by 3 percent.

Of course, most states rely on sales taxes and would not wish to eliminate them, but five states (Arizona, Hawaii, Idaho, New Mexico and Oklahoma) offset sales taxes with income-tax credits that are fully refundable, i.e., even where they exceed the family’s income-tax liability and ten others (Georgia, Indiana, Kentucky, Maryland, New York, Ohio, Pennsylvania, Virginia, West Virginia and Wisconsin) provide partially-refundable sales-tax offsets to households below a specified income level. These policies have positive, measurable consequences for poor families.

Those primarily concerned with the working poor should concentrate on the expansion of state-level earned income-tax credits (EITC) and making them fully refundable. Unlike minimum wages, these programs target their benefits exclusively to the working poor and are implicitly financed by income taxes, which are progressive at the federal level and generally more progressive than other tax types utilized at the state level. Unfortunately, only 24 states have EITC programs and several of those (Delaware, Rhode Island and Virginia) are not refundable.
Bibliography


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