



Higher Minimum Wage Looms Large in Texas

By Pia M. Orrenius, Madeline Zavodny and Weihua Li

The rising minimum wage has important implications for Texas, which unlike other big states sets its minimum wage equal to the federal one.

In July 2007, the federal minimum wage increased for the first time in a decade, going from \$5.15 to \$5.85. It rose again in July 2008 to \$6.55. The current round of increases will end in July 2009, when the federal minimum will rise to \$7.25. In simple dollars and cents, the \$2.10 increase over these three years is the largest since the minimum wage's inception in 1938.

The rising minimum wage has important implications for Texas, which unlike other big states sets its minimum wage equal to the federal one. Texas also has some densely populated low-wage areas, especially along the U.S.–Mexico border.

How are Texas workers, businesses and consumers likely to be affected by the higher minimums? The answer depends on the prevalence of low-wage work and characteristics of low-wage earners.

Proponents contend that higher minimum wages move some families out of poverty and encourage people to work. Opponents argue that low-skill workers will have difficulty finding jobs and businesses' profits will be squeezed because employers will be unable to pass on all the higher employment costs to their customers.

The public debate on increasing the minimum wage mirrors the disagreement among economists about whether higher minimum wages hurt or help low-wage workers. Standard theory holds that higher minimum wages reduce employment. When the minimum rises, businesses should lay off workers whose productivity is below the new wage floor. Conventional estimates indicate that a 10 percent increase in the real minimum wage reduces employment rates by 1 to 3 percent among workers who earn relatively low wages, such as teenagers and fast-food workers.¹

Some research, however, suggests that U.S. minimum wage increases during the 1990s may not have adversely affected employment. Several explanations may help reconcile this result with standard theory. Businesses may cut workers' hours instead

of firing them. More-skilled workers may enter the labor force, and businesses might substitute these workers for less-skilled employees. New entrants might include young adults substituting work for school, or stay-at-home moms reentering the job market. In addition, job turnover rates and vacancies might fall when the minimum wage rises, counteracting any negative effect on employment.

Both proponents and opponents of minimum wage hikes should keep one thing in mind: After the 2007 and 2008 increases, the inflation-adjusted federal minimum wage is still below what it was after the last increase in 1997 (*Chart 1*).

Unlike state-set minimum wages in Arizona, Oregon, Montana, Vermont and Washington, the federal minimum wage isn't indexed to inflation. The 10-year stretch without an increase led to a substantial decline in the real federal minimum. The scheduled 2009 hike will further raise the minimum in both real and nominal terms, but inflation will gradually undo the increase unless Congress votes for more changes.

Low Wages in Texas

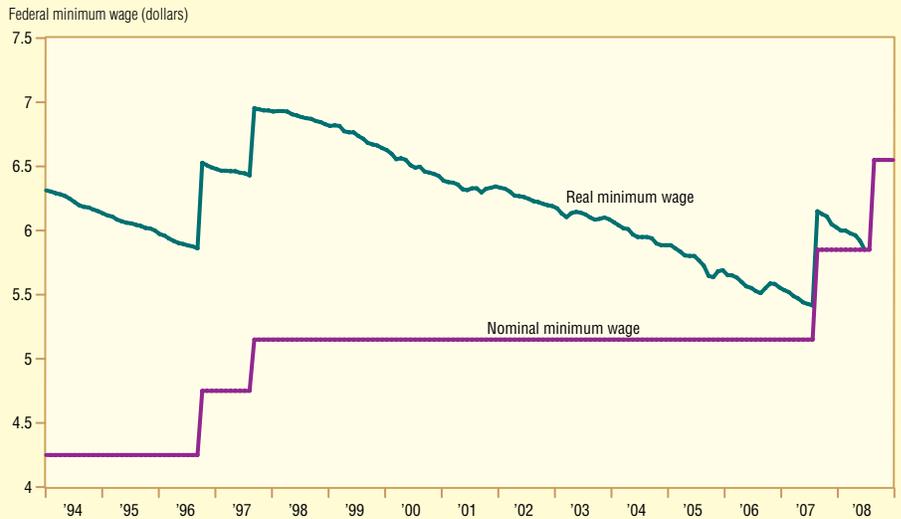
Wages are slightly lower in Texas than in the rest of the U.S., according to household survey data, and the income distribution is more unequal. As a result, more workers earn near the minimum wage in Texas than in the rest of the country.

We define 25 percent above the minimum as the upper bound for low-wage earnings. By that standard, 12.2 percent of Texas' hourly employees earned low wages in 2007, compared with 6.8 percent nationally.² The gap isn't surprising because the state's hourly wages are lower across the board. We can see that by looking at the cumulative share of Texas workers at each wage rate, measured as a percentage of the federal minimum (*Chart 2*).

Earning below the minimum wage also is more common in Texas than the rest of

Texas has a greater share of low-wage workers than other states.

Chart 1
Inflation Eats Away at Minimum Wage



NOTE: The real minimum wage is the nominal minimum wage deflated by the Consumer Price Index for urban wage earners and expressed in June 2008 dollars.
SOURCES: Department of Labor Wage and Hour Division; Bureau of Labor Statistics; and authors' calculations.

the nation. In 2007, about 3.1 percent of Texas workers paid hourly earned less than the federal minimum wage, compared with about 1.9 percent nationally. The Texas rate is the second highest among the 50 states.³

Some employers may be illegally underpaying their staff, but minimum wage and overtime laws exempt certain workers, such as employees of religious, educational and nonprofit organizations and workers on

small farms. A lower wage floor—currently \$2.13 per hour—applies to tipped workers, such as waiters and waitresses, as long as they receive enough in tips to bring their total earnings up to the minimum wage.

Texas has a greater share of low-wage workers than other states for two main reasons.

First, Texas has a lower minimum wage than most other states. As inflation eroded the real federal minimum wage through the

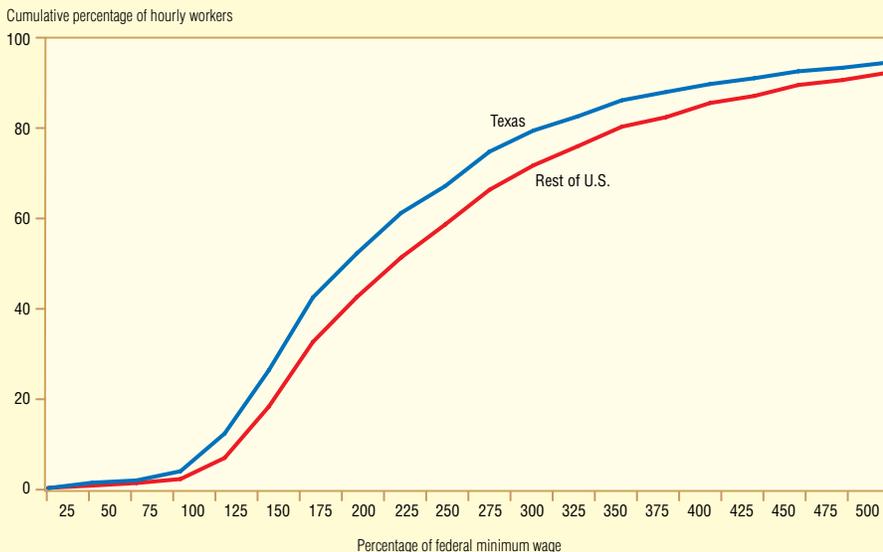
1990s and 2000s, an unprecedented number of states passed laws that set their floors above the federal rate. Before the national increase in 2007, 31 states and the District of Columbia had minimum wages that exceeded the federal level of \$5.15.

Not setting a higher wage floor has its advantages. Low employment costs attracted businesses, encouraged entrepreneurship and spurred job growth in Texas, particularly on the low-skill end. Consumers benefited from lower prices, and some low-wage workers found jobs. At the same time, the policy likely enticed more low-wage workers to move to the state because of job opportunities that might not have existed under a high minimum wage policy.

Second, characteristics of both employees and employers contribute to the relatively low wages. For example, Texas workers have fewer years of education, are slightly younger and are much more likely to be immigrants from Latin America—all characteristics associated with lower wages. Non-Hispanic whites, who tend to earn higher wages, make up only 52 percent of Texas workers, compared with 75 percent in the rest of the nation.

Industry and occupation distributions in Texas are more concentrated in relatively low-paying sectors, such as food service, retail and transportation. In addition, unionization rates—which are associated with higher compensation—are low in Texas.

Chart 2
Texas Earnings Closer to Minimum Wage
(Cumulative distribution of hourly wages relative to federal minimum wage)



SOURCE: Authors' calculations using 2007 Current Population Survey data.

Who Earns Low Wages?

Both in Texas and the country as a whole, workers who earn near the minimum wage are likely to be female, young and Hispanic and to lack a high school diploma.

For all these groups, a higher percentage of workers earn close to the minimum wage in Texas than in the rest of the nation (Table 1). Some gaps are quite large. For example, the percentage of Hispanic workers who earn at most 25 percent above the federal minimum wage is almost three times higher in Texas.

At 42 percent, Hispanics represent a huge fraction of the state's hourly labor force. However, they make up 52.5 percent of its low-wage workforce (Table 2). Low-wage workers in Texas are also less likely to be 16–19 year olds and 20–24 year olds than in the rest of the country, suggesting that the state's low-wage workers are older. In addition, a greater percentage of the state's low-wage workers—almost half—don't have high school diplomas.

Immigration is an important factor in the low education and pay levels among adult Hispanics in Texas. Almost 20 percent of Texas workers are foreign born, and another 12 percent have at least one immigrant parent. The vast majority of foreign-born workers in Texas are from Mexico.

Immigrants are more likely than native-born workers to earn near the minimum wage in Texas. More than 24 percent of low-wage workers in Texas are foreign born, and 32 percent of workers who earn exactly the minimum wage are immigrants. Almost 15 percent of workers born in Mexico earn at most 25 percent above the minimum wage, or less than \$7.32 an hour after the 2007 increase. The comparable figure is 12 percent for natives.

Table 1
Who Earns Close to the Minimum?

	Texas	Rest of U.S.
Male	8.7	4.9
Female	15.9	8.6
White, non-Hispanic	9.8	6.8
Black, non-Hispanic	10.2	7.9
Hispanic	15.2	5.6
Age 16–19	41.5	28.0
Age 20–24	16.1	11.3
Not high school graduate	20.7	13.4
High school graduate	8.8	5.3

NOTE: Shown are the percentages of workers paid hourly within a given group who earn at most 25 percent above the federal minimum wage.

SOURCE: Authors' calculations based on 2007 Current Population Survey.

Table 2
Low-Wage Labor Differs in Texas, U.S.

	Texas	Rest of U.S.
Female	62.9	64.0
White, non-Hispanic	32.3	66.7
Black, non-Hispanic	11.4	14.6
Hispanic	52.5	12.6
Age 16–19	24.8	29.6
Age 20–24	19.2	23.9
Not high school graduate	48.7	36.2

NOTE: Shown are the percentages of low-wage workers who have each characteristic. Low-wage workers are those paid hourly who earn at most 25 percent above the federal minimum wage.

SOURCE: Authors' calculations based on 2007 Current Population Survey.

Interestingly, immigrants aren't more likely than natives to earn less than the minimum wage in Texas. If underreporting is worse among new immigrants—workers who typically earn the lowest wages—this result could be due to the limitations of household survey data.

The foreign born are more likely to earn near the minimum wage because of their relatively low educational attainment and poor English skills. Immigrants from Latin America in particular tend to have these traits.

Unlike natives, who mostly earn the minimum wage when they are young and experience substantial earnings growth as they age, many immigrants may earn near the minimum wage their entire working lives unless they acquire skills valued in the U.S. labor market. Indeed, the average low-wage immigrant worker is five years older than the average low-wage native worker in Texas.

Locations of Low-Wage Jobs

The majority of Texas' low-wage workers live in the metropolitan areas of Houston, Dallas–Fort Worth–Arlington and San Antonio (Table 3). These three areas, however, have large and diverse economies, so low-wage workers make up a relatively small share of their overall employment.

The state's highest concentrations of low-wage workers can be found along the U.S.–Mexico border. The share of workers earning at most 25 percent above the federal minimum wage topped 37 percent in the Brownsville–Harlingen metropolitan area, 31 percent in Laredo, 23 percent in McAllen and 20 percent in El Paso.

The prevalence of low-wage workers in border cities is mainly a result of the large number of foreign-born workers

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Table 3
Texas Metros Vary in Concentration of Low-Wage Workers

	Pct. of metro-area workers earning low wages	Pct. of Texas low-wage workers	Pct. of Texas total emp.
Amarillo	9.8	1.1	1.1
Austin	5.6	3.1	7.3
Beaumont–Port Arthur	9.7	1.0	1.6
Brownsville–Harlingen	37.3	3.0	1.2
Corpus Christi	17.2	3.2	1.7
Dallas–Fort Worth–Arlington	8.2	19.8	28.3
El Paso	20.1	5.5	2.6
Houston	12.0	22.4	24.5
Killeen	11.9	1.5	1.2
Laredo	31.2	3.0	0.8
Longview	13.3	0.9	0.9
Lubbock	16.6	1.1	1.2
McAllen	23.6	3.7	2.0
Midland	9.1	0.5	1.2
San Antonio	15.0	10.3	8.0
Victoria	11.6	2.1	0.5
Waco	11.5	1.4	1.0
Not in a metropolitan area	15.4	16.4	14.8

NOTE: Low-wage workers are hourly workers who earn at most 25 percent above the federal minimum wage.

SOURCE: Authors' calculations based on 2007 Current Population Survey.

A large number of Texans work at or near the minimum wage, both because of the size of the state's labor force and its relatively unequal wage structure.

with low education levels. In addition, the border area has a disproportionate share of employment in sectors with large numbers of low-wage workers, such as retail trade and leisure and hospitality.

More than 16 percent of Texas' low-wage workers live outside metropolitan areas. Some of the wage differential in this case likely reflects lower costs of living in rural areas, particularly for housing. Differences in the industry and occupational mix between rural and urban areas also play a role.

Interestingly, the proportion of low-wage workers is relatively small in the Austin area compared with that area's share of all jobs. Most likely, this reflects the concentration of relatively high-paying government, high-tech and university jobs.

Industry, Occupation Breakdowns

Three industries account for almost all low-wage jobs in Texas. More than one-third of all hourly workers who earn near the minimum wage in Texas are employed by food services and drinking places (*Chart 3A*). The two other low-wage industries are retail trade and "other services," a broad category that includes private household, repair, personal, business, social, entertainment and recreational services.

When it comes to occupations, food preparation and serving account for almost one-third of low-wage workers (*Chart 3B*), nearly matching the figure for eating and

drinking places. For both industries and occupations, the low-wage employment share far exceeds food-related jobs' share of total Texas employment.

Sales-related occupations employ 16 percent of workers who earn near the minimum wage, slightly less than the 19 percent of low-wage jobs in the retail trade industry. Other occupations that disproportionately employ low-wage workers include transportation and material moving, personal care and services, and building and grounds cleaning and maintenance.

Although office and administrative support occupations account for a large proportion of low-wage workers, these jobs compose a smaller proportion of low-wage workers than their total occupational share. In other words, the Texas economy has many secretarial jobs, but few of them pay near the minimum wage.

Manufacturing and construction also account for large proportions of low-wage workers because they are large sectors, but the proportion of workers earning near the minimum wage is quite low in those industries.

Minimum Wage Hikes' Effects

A large number of Texans work at or near the minimum wage, both because of the size of the state's labor force and its relatively unequal wage structure. About 220,000 hourly workers earned the federal minimum wage or less in 2007, and an additional 470,000 were paid no more than 25 percent above the federal minimum.

These workers tend to be female and poorly educated, many of them adult immigrants from Mexico. They are disproportionately concentrated along the border and in rural areas, working in food services, retail and other service-sector jobs.

It's too early to assess the effect of the 2007 minimum wage hike on employment in either the state or the nation. The increase coincided with a general economic slowdown, rapid housing market declines in many parts of the country and shrinking residential construction activity. Employment changes stemming from the increasing minimum wage would be difficult to disentangle from those caused by the deteriorating economic conditions.

However, any adverse impact was probably larger in Texas than in much of the country because the state doesn't set a minimum wage above the federal level. As a result, Texas experienced the full 70 cent increase in the wage floor last year, and it

will bear the full brunt of the most recent 70 cent hike and next year's as well.

Simple employment growth regressions for 1994–2008, which control for business cycle effects, suggest that a \$1 increase in the minimum wage on average reduces Texas payroll employment by about 15,500 jobs. The job losses are concentrated in the leisure and hospitality, manufacturing, and education and health industries.

City- and industry-specific regressions show that areas with a large presence of affected industries have had slower em-

ployment growth in the wake of minimum wage increases. Leisure and hospitality in Brownsville and Austin, manufacturing in El Paso and Austin, and services in San Antonio and Fort Worth have felt the impact.

The 2008 and 2009 minimum wage increases—which bring the floor to \$7.25—are likely to have much larger effects than the 2007 increase. More workers will be directly affected.

In 2007, over 925,000 hourly workers in Texas (16.6 percent) earned less than \$7.25 an hour. The increases this year and

next coincide with the economic slowdown and the imposition of a new franchise tax on Texas companies.⁴ Businesses' profits will likely suffer more from next year's minimum wage hike than from this year's. Consumers may experience some higher prices as a result of rising labor costs.

The irony of minimum wage increases is that they may hurt the people they are designed to help—namely the least-skilled workers. Employers that face mandated wage hikes often try to offset higher employment costs by hiring more-productive workers.

In Texas, the least-skilled workers are likely to be less-educated females, many of them adult Hispanic immigrants. The most vulnerable industries and regions are along the border, such as tourism in Brownsville and manufacturing in El Paso.

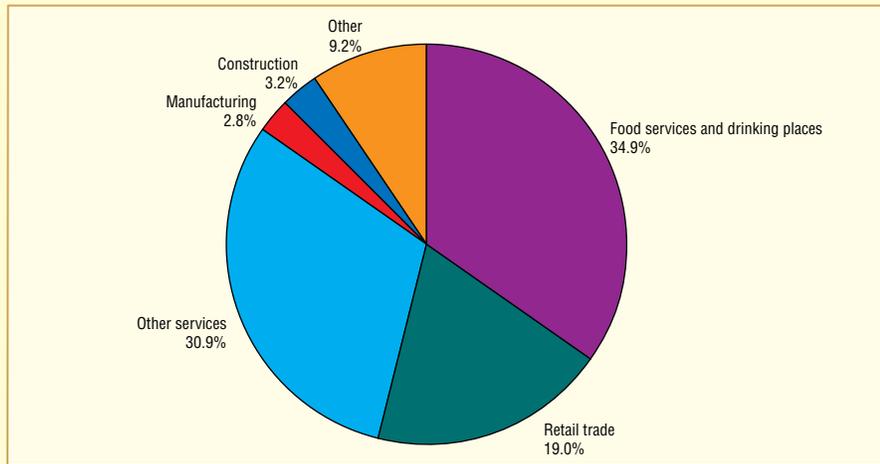
In the long run, higher minimum wages will raise employment costs, compelling students to get more education and businesses to invest more in workers through on-the-job training. Job growth may be slower as a result, however, and employment rates among low-skill workers could decline.

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Chart 3

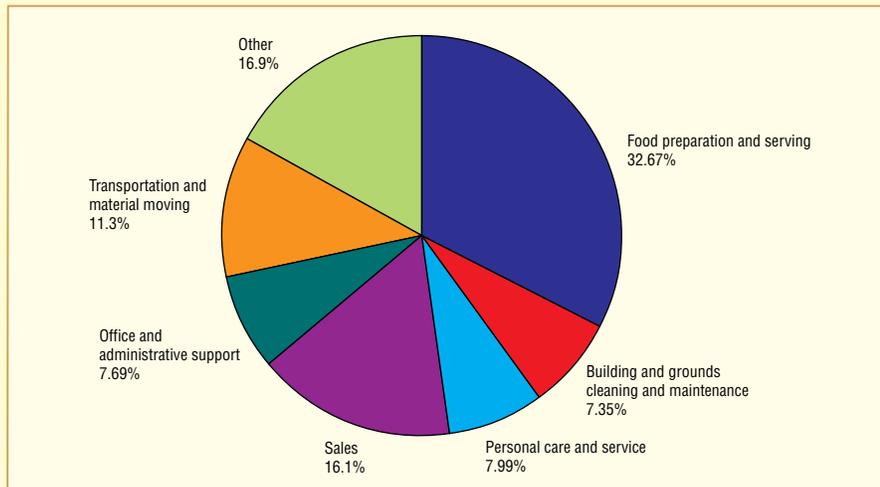
Where Low-Wage Jobs Are Found in Texas

A. Most Fall into Three Industries . . .



NOTES: Shares show fraction of low-wage workers employed in each industry. Low-wage workers are hourly paid workers who earn at most 25 percent above the federal minimum wage.

B. . . and a Few Occupations



NOTES: Shares show fraction of low-wage workers employed in given occupational categories. Low-wage workers are hourly paid workers who earn at most 25 percent above the federal minimum wage.

SOURCE: Authors' calculations based on 2007 Current Population Survey.

Notes

¹ For a recent survey, see "Minimum Wages and Employment: A Review of the Evidence from the New Minimum Wage Research," by David Neumark and William Wascher, National Bureau of Economic Research, Working Paper no. 12663, November 2006.

² Based on authors' calculations from 2007 Current Population Survey Outgoing Rotation Group data for workers paid hourly.

³ See Table 1 in www.bls.gov/ro6/fax/minwage_tx.htm.

⁴ See "Will New Business Tax Dull Texas' Competitive Edge?" by Jason L. Saving, Federal Reserve Bank of Dallas *Southwest Economy*, March/April 2008.