



Policy Brief:

Minimum wage increase boosted paychecks, cut child poverty in 2017

by James Myall, Policy Analyst | September 24, 2018

Maine’s voter-approved minimum wage increase in 2017 led to the fastest wage increase in a decade for low-income Mainers and helped lift 10,000 Maine children out of poverty — a greater number than were brought above the poverty threshold in any other year in the last decade.

Those findings, based on [new data](#)¹ from the US Census Bureau released earlier this month, indicate that Maine’s minimum wage increase is having a significant impact, especially for low-income families and children.

While other factors, [such as economic growth](#)², helped boost wages in Maine across the income spectrum, wages grew fastest for low income Mainers. That phenomenon is unique to Maine. This suggests that the higher wage floor through the minimum wage was a key factor. This is consistent with [earlier findings](#)³ by MECEP based on [other datasets](#).⁴

MASSIVE GAINS FROM MINIMUM WAGE LAW

The data released by the Bureau [shows that as a result of the minimum wage increase](#),⁵ wage growth in Maine was concentrated among the lowest-paid workers. Income for the poorest Mainers rose much faster for these workers than for any other group.

Income Gains for Lowest-Income Mainers Over Time



Source: MECEP analysis of US Census Bureau, American Community Survey data, 2005-2017, 1-year datasets. Figures adjusted for inflation using the Consumer Price Index.

Compared to 2016, household incomes for the bottom quarter of Maine workers were 10 percent higher in 2017, even after adjusting for inflation.

This was significantly higher than the 2 percent real-terms increase for median household incomes in Maine, and higher than income increases for the bottom quarter of households in New England (0 percent) and nationally (-1.8 percent).

This increase in household incomes for poorer Mainers was the largest annual gain since at least 2001, when this dataset was first compiled.

RECORD-BREAKING REDUCTIONS IN CHILDHOOD POVERTY

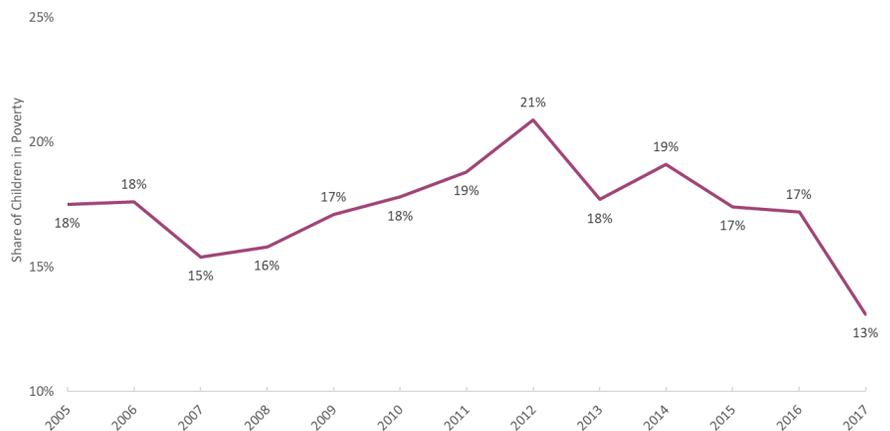
Increasing wages for working parents has a real impact on their children's futures. The 10 percent increase in income among workers with the lowest-incomes corresponded with a [significant reduction in child poverty](#).⁶

Between 2016 and 2017, the child poverty rate fell from 17 percent of Maine children to 13 percent. That's a reduction from 43,000 to 33,000 children, and represents that largest annual decrease in child poverty since the current tracking system was implemented in 2005. (Before 2005, the Census Bureau used a different instrument, the Current Population Survey, to measure poverty back to 1977. Only once in that period, from 2000 to 2001, did the child poverty rate fall below the 13 percent reported for 2017.) Maine's 2016-to-2017 decline in child poverty was also larger than the reduction in national or regional child poverty rates over the same period.

Growing up in poverty can have [severe negative consequences](#)⁷ for a child's future. Childhood poverty is associated with lower lifetime earnings, reduced educational achievement and a series of poor health outcomes. When kids grow up in an environment where [they don't have enough to eat](#),⁸ where money is a constant source of stress and where they miss out on [opportunities as simple as reading books](#),⁹ they have fewer chances to reach their full potential as adults.

That's why the latest reduction is so significant. In 2017, thousands of Maine children got a better shot at success by being lifted out of poverty.

Child Poverty Rates Over Time



Source: MECEP analysis of US Census Bureau, American Community Survey data, 1 year samples.

ANALYSIS

There's substantial evidence suggesting that much of this progress in reducing child poverty in Maine can be credited to the [minimum wage increase](#)¹⁰ from \$7.50 to \$9.00 per hour in 2017.

In general, economists have found mixed effects from past minimum wage increases on reducing poverty. While research generally points to [positive impacts for low-wage workers](#),¹¹ [some studies](#)¹² have found that increases in wages are partially offset by reductions in working hours. These studies have also noted that

relatively few minimum wage workers live below the federal poverty threshold.

However, there are several reasons Maine's 2017 increase is helping to reduce poverty:

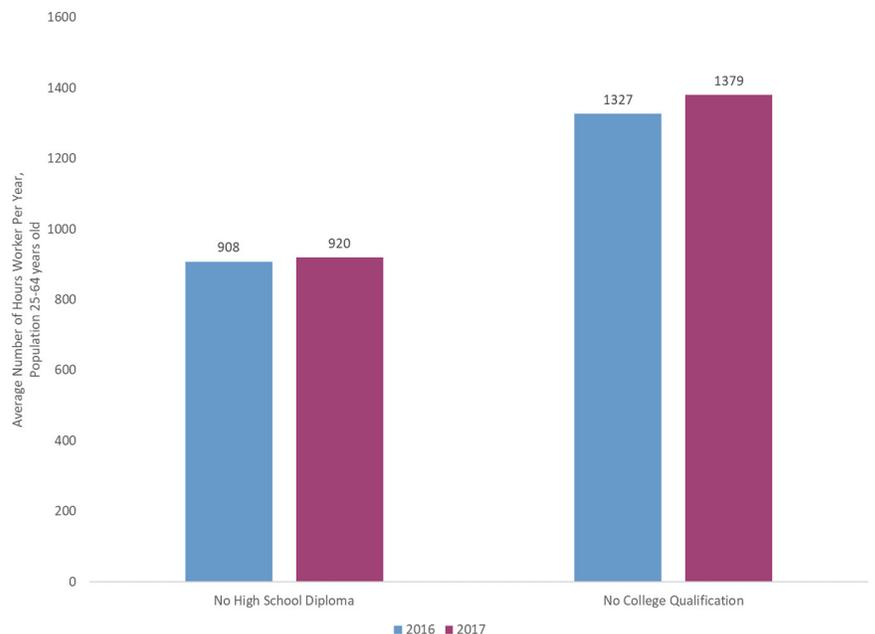
- The size of the increase — an additional \$1.50 per hour — is larger than most minimum wage increases, which have [historically](#)¹³ been at the level of 25 or 50 cents per hour. The 2017 raise affected more people and raised wages by a larger amount than most past increases. This makes it more likely that effects would be visible in the data.
- Maine has a [tightening labor market](#),¹⁴ meaning that employer demand for workers remains high. Rather than less-educated and lower-credentialed workers being replaced or losing hours, data shows that between 2016 and 2017 employment among those workers did not decline — and in fact [may have increased slightly](#).¹⁵
- The 2017 increase affected a large portion of Maine's working poor. Using 2016 census data, it's possible to model how many Mainers were impacted by the minimum wage increase. MECEP estimates that 40 percent of adults living in poor households with children in poverty would get a raise.

The 2017 U.S. Census Bureau data closely mirrors predictive [modeling conducted by MECEP](#)¹⁶ based on 2014 data before the minimum wage referendum, and updated recently to reflect 2016 figures.

MECEP used [methodology developed by EPI](#)¹⁷ to model the impact of the wage increase for Mainers who were working in 2016, and estimated that the parents of 36,000 poor children would receive a raise as a result of the new minimum wage law and that 10,000 children would be lifted out of poverty as a result.

The model presumed that Mainers earning \$7.50 per hour in 2016 would be paid the new minimum wage of \$9 per hour in 2017, and that those earning up to \$10.50 per hour would

Hours Worked by Low-Credentialed Workers, 2016-2017



MECEP analysis of CPS monthly data, 12-month calendar year average. Hours worked for the population aged 25-64. Hours worked as an average across the entire working and non-working population.

also receive a small hourly increase. Tipped workers who earn less than the minimum wage in regular wages would receive an increase from \$3.50 to \$5.00 per hour before tips, under the terms of the new minimum wage law. The model presumed no significant employment changes because of the wage increase.

The actual data for 2017 from the Census Bureau match MECEP's model very closely, suggesting that our assumptions of higher wages and stable employment were correct.

While some critics of minimum wage increases suggest that increasing the minimum wage can lead to job losses for low-wage workers, new research finds that this is not the case. For example, [a study recently published by the National Bureau of Economic Research](#)¹⁸ examined 136 state minimum wage increases between 1977 and 2016 found rather than destroying jobs, increases in the minimum wage simply lead to workers being paid more. Following the same methodology, MECEP compared the number of jobs paying different hourly wage rates in 2017 with what we would expect if the minimum wage had not been increased. To determine what Maine's job market would look like without the increase, we used growth in job numbers from other rural states without a minimum wage increase (Idaho, New Hampshire, North Dakota, Wisconsin, and Wyoming).

Compared to the hypothetical labor market without a minimum wage increase, Maine had 18,000 fewer workers earning between \$7 and \$9 per hour (just below the new minimum wage threshold). However, compared to the same forecast, Maine had 20,000 more workers earning between \$9 and \$11 per hour. In other words, there was no net loss in jobs that pay wages close to the minimum wage.

There was a similar effect for tipped workers. Compared to the forecast without a minimum wage increase, there were 5,000 fewer Mainers earning close to \$3.50 per hour (the old tipped minimum wage). At the same time there were 5,000 additional Mainers earning close to \$5 per hour (the new tipped minimum wage). Again, rather than losing jobs, tipped workers were paid a higher hourly rate.

CONCLUSION

It's been nearly two years since an overwhelming majority of Maine voters approved a minimum wage increase at the ballot box.

All evidence suggests that to date, Maine's minimum wage law has been a resounding success. Negative effects of the minimum wage increase predicted by its opponents have not come to pass. As previous MECEP analysis demonstrates, job growth has remained steady since the minimum wage increase and workers have not seen their hours cut.

At the same time, the positive effects of the minimum wage are irrefutable. Wages in Maine are up across the board, particularly for Mainers at the bottom of the income distribution, and childhood poverty saw its steepest decline since tracking began. As a result, thousands of children will do better in school, grow up healthier and earn more over their lifetimes.

ABOUT

The Maine Center for Economic Policy provides citizens, policymakers, advocates and media with credible and rigorous economic analysis that advances economic justice and prosperity for all Mainers. MECEP is an independent, nonpartisan organization founded in 1994.

James Myall is MECEP's policy lead on education, health care and poverty and is a skilled policy researcher and analyst. He has a master's degree in public policy and management from the University of Southern Maine and a master's degree in ancient history and archaeology from the University of St. Andrews in Scotland.

Endnotes

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