The Regional Impacts of a $15 Minimum Wage in Illinois

Estimates for Six Regions

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REPORT SUMMARY

Illinois should raise the minimum wage. The last time that Illinois increased its minimum wage was in July 2010. A total of 13 states now have minimum wages of $10 per hour or higher, and four have enacted legislation to gradually raise the minimum wage to $15 per hour.

- Recent research shows that raising the minimum wage boosts worker incomes while having little to no effect on employment, business growth, and consumer prices.
- A $15 minimum wage would directly affect more than 1.4 million adult workers in Illinois. Of these individuals, 57 percent are women, 44 percent are African American workers and Latino and Latina workers, 89 percent are U.S. citizens, and 56 percent are workers age 30 or older.
- A $15 minimum wage would have the largest impact on low-income workers in communities outside of the Chicago metro area. While the policy change would raise incomes by about $5,000 for directly-affected workers in the Chicago area, it would increase earnings for low-wage workers by over $8,000 in the Springfield and Bloomington-Normal areas, over $7,000 in the Rockford and Champaign-Urbana regions, and more than $6,000 in the Illinois communities around St. Louis.
- A $15 minimum wage would increase consumer demand from working-class families, who would spend their earnings at local retail stores and restaurants– offsetting initial drops in labor demand.
- In 2014, two-thirds of Illinois voters favored raising the minimum wage. The measure received majority support in 83 of 102 counties, indicating broad support across all regions of the state.

Illinois' current minimum wage of $8.25 fails to prevent workers from earning poverty-level wages. A uniform $15 minimum wage in Illinois would allow working-class families to maintain a decent standard of living in every community across the state. By raising the minimum wage to $15 per hour, Illinois can boost worker incomes, reduce poverty, promote housing affordability, increase consumer demand, and grow the economy.

INTRODUCTION

The minimum wage is intended to ensure that working-class families can maintain a decent standard of living. Illinois' Minimum Wage Law states that an employer who pays wages below "the minimum standard of living for the health, efficiency and general well-being of workers… places an unnecessary burden on the taxpayers of this State" (Illinois General Assembly, 2018). Despite this acknowledgement that poverty-level wages foster reliance on social safety net programs, a full-time worker earning today's state minimum wage rate of $8.25 per hour brings home just $17,160 in annual income. This is now $4,170 below the federal poverty line for a family of three and $8,590 below the federal poverty line for a family of four (HHS, 2019).

The minimum wage has been at the forefront of state policy action to boost earnings for workers. In January 2019, 19 states raised their minimum wages (NELP, 2018). A total of 13 states now have minimum wages of $10 per hour or higher and four– California, New York, Massachusetts, and New Jersey in January 2019– have enacted legislation to gradually raise the minimum wage to $15 per hour (WHD, 2019; Pramuk & Schoen, 2019). Additionally, Missouri voters approved a $12 minimum wage in November 2018, with 62 percent of residents voting to raise the wage floor (Ballotpedia, 2018). Illinois, however, has not increased its minimum wage since July 2010. As a result, low-wage workers in Illinois are falling behind their peers in other states.

RECENT RESEARCH ON THE ECONOMIC EFFECTS OF RAISING THE MINIMUM WAGE

In July 2018, the City of Chicago raised its local minimum wage to $12 per hour. The move was part of an incremental process to raise the city's minimum wage to $13 per hour by July 2019. A June 2018 study by the Project for Middle Class Renewal at the University of Illinois at Urbana-Champaign and the Illinois Economic Policy Institute finds that the policy is working largely as intended (Manzo, Bruno, & Habans, 2018). The minimum wage hike has already boosted annual incomes for at least 330,000 low-wage workers, with an average gain of 2.5 percent. Meanwhile, the City of Chicago did not fare worse on employment outcomes than the surrounding suburbs where the minimum wage had not changed. The authors find that the higher minimum wage had no effect on the unemployment rate but that it reduced working hours by 1.0 percent, on average, allowing employees to work fewer hours but earn higher annual incomes (Manzo, Bruno, & Habans, 2018). It is also worth noting that, as of November 2018, the unemployment rate was lower in Cook County (3.8%)– where local minimum wages are higher– than the rest of the state (4.4%) (BLS, 2019).

These findings align with the preponderance of the economic research, which is nearly unanimous in concluding that minimum wage hikes are associated with higher incomes for workers. In fact, 37 of 41 peer-reviewed studies (90 percent) find that a higher minimum wage is associated with higher wages (Belman & Wolfson, 2014). In general, a 10 percent increase in the minimum wage is found to boost average incomes by about 1.2 percent (Belman & Wolfson, 2014; Dube, Lester, & Reich, 2011; Reich, Allegretto, & Godoey, 2017). However, previous studies have also found little to no impact of minimum wage laws on employment or hours (Gopalan, Hamilton, Kalda, & Sovich, 2018). A meta-analysis of 64 studies found that a 10 percent increase in the minimum wage is statistically associated with a small 0.2 and 0.6 percent drop in employment or hours (Belman & Wolfson, 2014).

Minimum wage hikes have small or negligible effects on employment for many reasons. First, there is evidence that a higher minimum wage reduces worker turnover, as employers become more diligent in their hiring practices (Schmitt, 2013; Dube, Lester, & Reich, 2011; Reich, Allegretto, & Godoey, 2017). A higher minimum wage can also provide employers with a larger pool of job applicants. For example, after Amazon announced plans to raise its hourly minimum wage to $15, the company received 850,000 job applications in one month, more than double its previous record (Barrabi, 2019). In addition, raising the minimum wage stimulates the economy through increased consumer demand (Aaronson, Agarwal, & French, 2011; Manzo, Bruno, & Habans, 2018).

The impact of a higher minimum wage on consumer prices is modest. One study estimated that a $0.50 increase in the federal minimum wage would cause food prices to go up by less than 1 percent (Lee, Schulter, & O'Roark 2000). Another study examined the effect of a minimum wage hike in San Jose, California at 886 restaurants in San Jose and surrounding Santa Clara County communities. The authors find that the minimum wage boosted incomes and had no negative impact on employment, but that firms slightly increased their prices. The results suggest that a 10 percent increase in the minimum wage is associated with a small 1.2 percent increase in restaurant food prices (Allegretto & Reich, 2016). However, in Seattle, there was no evidence of a change in supermarket food prices both one month and one year following enactment of the local minimum wage ordinance (Otten et al., 2017).

A PROFILE OF ILLINOIS WORKERS DIRECTLY AFFECTED BY A $15 PER HOUR MINIMUM WAGE

A $15 minimum wage could mean a $6,000 raise for more than 1.4 million Illinois workers (Manzo, Manzo, & Bruno, 2018). The majority of the workers directly affected by a $15 minimum wage in Illinois would be women (57 percent), U.S. citizens (89 percent), and workers age 30 and older (56 percent). An estimated 708,000 white workers (50 percent), 263,000 African Americans (19 percent) and 363,000 Latinos and Latinas (26 percent) would see their hourly incomes improve as a result of the policy change. In addition, approximately 38,000 military veterans would be directly impacted by a $15 minimum wage in Illinois.

Figure 1: Profile of Illinois Workers Directly Affected by a $15 Per Hour Adult Minimum Wage

Characteristic	Directly Affected Workers	Share of Directly Affected
All directly affected workers	1,413,000	100.0%
By gender identification		
Employed women	806,000	57.0%
Employed men	607,000	43.0%
By racial or ethnic background		
White workers	708,000	50.2%
African American workers	263,000	18.6%
Latino and Latina workers	363,000	25.7%
By other characteristic		
Employed U.S. citizens	1,250,000	88.5%
Employed veterans	38,000	2.7%
Workers 30 years or older	797,000	56.4%

Source(s): 2017 Current Population Survey *Outgoing Rotation Groups (CEPR, 2018). Estimates are for adult workers aged 18 years or older who are paid by the hour and not employed in the agricultural industry and not self-employed. This data first appeared in a previous report by the Illinois Economic Policy Institute and the Project for Middle Class Renewal at the University of Illinois at Urbana-Champaign (Manzo, Manzo, & Bruno, 2018). Estimates are rounded to the nearest hundred.*

A $15 MINIMUM WAGE WOULD HAVE THE LARGEST IMPACTS ON COMMUNITIES OUTSIDE OF CHICAGO

Using data from the 2017 *American Community Survey* collected by the U.S. Census Bureau and applying it to six metropolitan statistical areas, Figure 2 identifies which workers in Illinois would be directly affected by an increase in the minimum wage to $15 per hour.[1] A $15 minimum wage would directly impact more than 1.4 million wage-earners in Illinois. The data indicate that nearly 968,000 of all workers who earn less than $15 per hour reside in the Chicago metro area (68.4 percent). Another 70,000 low-wage workers would be directly impacted in the Illinois communities of the St. Louis region. A $15 minimum wage would also directly affect

[1] This analysis identifies workers actively connected to the workforce whose wage falls below $15 per hour. Hourly wages are estimated for workers ages 18 or older with non-zero income in the previous 12 months who usually work at least 5 hours per week, who worked more than 13 weeks in the previous 12 months, and who are not self-employed or agricultural workers. This follows the method used by researchers at the University of Illinois at Urbana-Champaign and the University of Illinois at Chicago (Nolan, Dickson, Bruno, & Smith, 2016). Estimates have been adjusted to match those from the 2017 *Current Population Survey*, which does report hourly wages and does report whether the worker is paid by the hour (e.g., see Manzo, Manzo, & Bruno, 2018).

between 22,000 and 38,000 workers in the Bloomington-Normal, Champaign-Urbana, Rockford, and Springfield regions of the state (Figure 2).[2]

A $15 minimum wage would boost the wages of directly-impacted workers by thousands of dollars per year.[3] On average, the minimum wage hike would increase the annual earnings of workers currently earning less than $15 an hour by nearly $6,000 across Illinois. However, since the minimum wage is already $12 per hour in the City of Chicago and $11 per hour in some surrounding suburbs, a $15 minimum wage would have larger impacts outside of the Chicago area. While the policy change would raise incomes by about $5,000 for low-wage workers in the Chicago area, it would increase earnings for low-wage workers by more than $8,000 in the Springfield and Bloomington-Normal areas, more than $7,000 in the Rockford and Champaign-Urbana regions, and more than $6,000 in the Illinois communities around St. Louis (Figure 2).

Although a $15 minimum wage might cause an initial drop in labor demand as employers consider reducing hours, delaying new hires, shifting cost increases across their workforce, or adjusting employment levels, the increased consumer demand from working-class families would offset much of these losses.[4] The number of workers who would benefit from the minimum wage hike would exceed any potential drop in working hours from low-wage jobs. Additionally, a study of one million hourly wage employees in over 300 firms and across 23 industries found that existing minimum wage employees are no less likely to be employed after a minimum wage hike. However, the number of employees earning low wages in state's that have implemented minimum wage increases has fallen (Gopalan, Hamilton, Kalda, & Sovich, 2018).

As a result, economic simulations reveal that a $15 minimum wage would grow Illinois' economy.[5] Illinois' annual gross domestic product (GDP) would increase by over $5 billion (Figure 2). Despite 68.4 percent of directly-affected workers residing in Chicago and the surrounding suburbs, the Chicago region would only experience a $2.2 billion increase in economic activity– or 42.8 percent of the total effect on the state. Most of the economic gains would accrue to communities outside of the Chicago metro area. The Bloomington-Normal, Champaign-Urbana, Rockford, Springfield, and St. Louis regions would each see their economies grow by between $68 million and $178 million per year from the boost to consumer spending at local retailers, restaurants, and small businesses.

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[2] These six metropolitan statistical areas (MSAs) had large enough sample sizes in the 2017 *American Community Survey* (1-Year Estimates) to confidently conduct data analyses. An MSA is defined by the United States Office of Management and Budget, using Bureau of Census data, as a "geographical region with a relatively high population density at its core and close economic ties throughout the area."

[3] Drawing on the economic research, Figure 2 assumes that every 10 percent increase in the minimum wage causes a 1.1 percent increase in worker incomes and a 0.45 percent decrease in working hours (or "labor demand"). These "elasticities" are the midpoints between a comprehensive analysis of dozens of peer-reviewed minimum wage studies (Belman & Wolfson, 2014) and a more recent, and perhaps more relevant for Illinois, evaluation of the Chicago Minimum Wage Ordinance (Manzo, Bruno, & Habans, 2018).

[4] The analysis assumes a potential small change in labor demand, in accordance with much of the economic research. The analysis suggests that total hours worked may fall by about 133.6 million hours on net, or a 1.2 percent drop in total hours of employment across all workers in Illinois, but research finds that these lost hours are typically spread out among the affected workers, who potentially work a little less but earn more overall per year (Cooper, Mishel, & Zipperer, 2018).

[5] The analysis uses IMPLAN, an input-output software that is considered the "gold standard" in economic impact analyses (Vowels, 2012). IMPLAN uses U.S. Census Bureau data to account for the interrelationship between businesses and households in a regional market, following a dollar as it cycles through the economy. The software uses multipliers to estimate how much a policy change– such as increasing employee compensation by raising the minimum wage– would affect the economy (IMPLAN, 2019).

Lastly, Figure 2 includes estimates from a 2016 study by researchers at the University of Illinois at Urbana-Champaign and the University of Illinois at Chicago on the impact of a minimum wage hike on housing affordability in the state (Nolan, Dickson, Bruno, & Smith, 2016). The authors find that higher earnings for Illinois workers caused by a minimum wage increase impact their ability to sustain families and cover housing expenses. In fact, a $15 minimum wage would reduce the housing cost burden so much that more than 114,000 renters would now spend less than 30 percent of their household incomes on housing, a 21 percent decrease in the number of cost-burdened renters. The largest relative effects would occur in the St. Louis region (-28 percent), the Champaign region (-26 percent), the Rockford region (-25 percent), and the Springfield region (-25 percent).

Figure 2: Change in Earnings, Labor Demand, the Economy, and Housing from $15 Minimum Wage, By Region

Metropolitan Statistical Area	Estimated Workers Impacted	Average Earnings Change for Directly-Affected Workers	Net Impact on Regional Economy	Impact on Renters Who are Housing Cost Burdened
Illinois (total)	**1,413,000**	**+$5,900**	**+$5,076 million**	**-21%**
Bloomington region	22,700	+$8,000	+$68 million	-19%
Champaign region	27,500	+$7,400	+$70 million	-26%
Chicago region	967,900	+$5,100	+$2,172 million	-20%
Rockford region	37,100	+$7,400	+$121 million	-25%
Springfield region	22,700	+$8,300	+$72 million	-25%
St. Louis region*	69,600	+$6,700	+$176 million	-28%

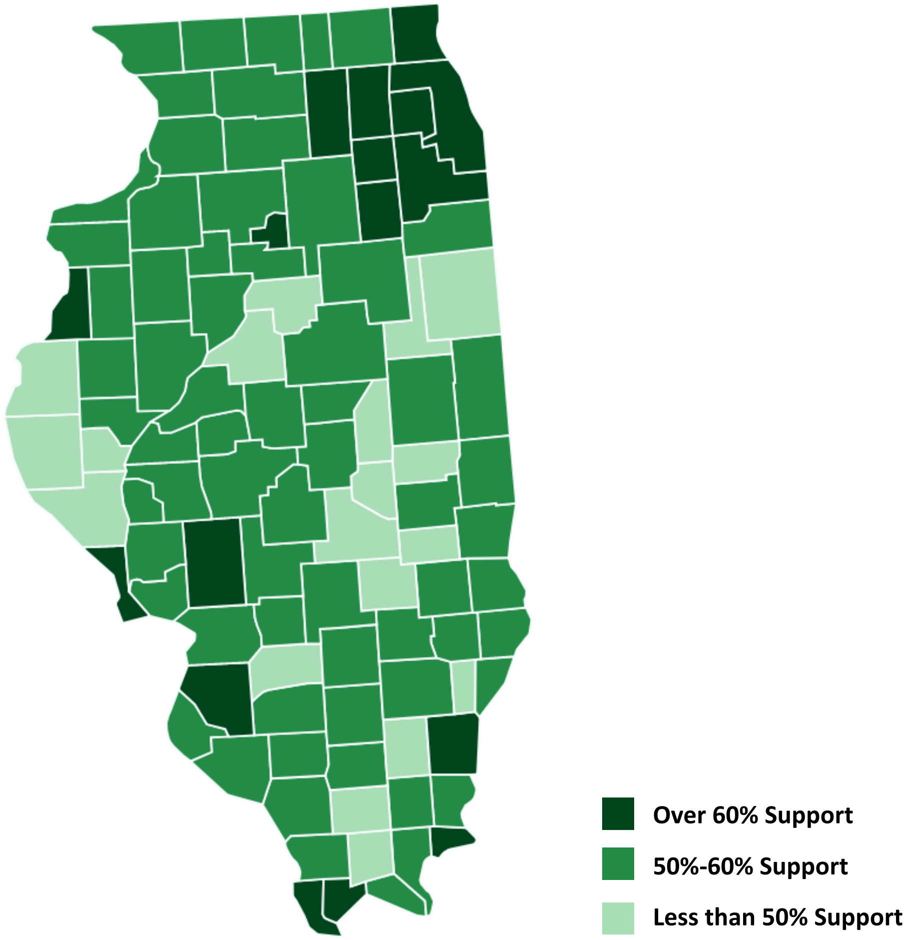
Source(s): 2017 American Community Survey *(1-Year Estimates) by the U.S. Census Bureau (Ruggles et al., 2018). Estimates are for adult workers aged 18 years or older who are paid by the hour and actively connected to the workforce (i.e., working 5 hours per week for at least 13 weeks per year) and are not employed in the agricultural industry and not self-employed. Estimates are rounded to the nearest hundred. Estimates on housing cost burden are from a previous report by authors at the University of Illinois at Urbana-Champaign and the University of Illinois at Chicago. *The St. Louis region only includes individuals who work and live in Illinois communities.*

The data reveal that a $15 minimum wage would have the most positive significant impacts outside of the Chicago area. This is because the minimum wage is already $12 per hour in the City of Chicago. Low-wage workers would experience larger income gains, consumer spending would expand more, and housing would become more affordable in the regions outside of the Chicago area.

A Majority of Illinois Voters Support Raising the Minimum Wage

In 2014, Illinois voters were asked an advisory question about raising the adult minimum wage. In total, 66.7 percent of votes cast were in support of increasing the state's minimum wage. The measure also received majority support in 83 of 102 counties in the state (81.4 percent). Figure 3 visually depicts voter support for the minimum wage, with darker colors indicating a higher share of votes in favor. While there were 19 counties (18.6 percent) where fewer than 50 percent of respondent voters who favored raising the minimum wage, there were 17 counties (16.7 percent) where support exceeded 60 percent. Between 50 and 60 percent of voters said Illinois should raise the minimum wage in 66 counties (64.7 percent), indicating broad support across all regions of the state (Figure 3).

Figure 3: Support for Raising the Minimum Wage in Illinois, 2014 Advisory Question– Percent "Yes" Votes Cast



Source(s): Official Canvas: November 4, 2014 General Election *(Illinois Board of Elections, 2014).*

CONCLUSION

A $15 minimum wage would boost earnings for more than 1.4 million adult workers in Illinois, with the largest economic effects occurring in communities outside of the Chicago metro area. This is because the minimum wage is already $12 per hour in the City of Chicago. Directly-affected workers in communities outside of the Chicago region would earn between $6,000 and $9,000 more per year, while low-wage workers in the Chicago area would see their incomes rise by about $5,000 per year. As a result, consumer demand would expand more and housing affordability would improve more in communities outside of Chicago.

The minimum wage is intended to ensure that working-class individuals can sustain families and cover living expenses. Illinois' current minimum wage of $8.25 fails to prevent workers from bringing home poverty-level wages. By contrast, a uniform $15 minimum wage in Illinois, if enacted, would allow working-class families to maintain a decent standard of living in every area of the state.

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