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US Virgin **Islands** Self-Sufficiency Standard And Impact of the Minimum Wage Proposal





US Virgin Islands Bureau of Economic Research
Office of the Governor

Acknowledgements

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Overview

The US Virgin Islands' (USVI) Governor Kenneth E. Mapp signed Bill No. 31-0236 into law on March 23, 2016, increasing the USVI's minimum wage to $8.35 per hour in 90 days, $9.25 per hour by January 2017, and $10.50 per hour by January 2018. The USVI has now joined 29 states and the District of Columbia with a minimum wage above the current federal minimum of $7.25.

This analysis brief of the unamended Bill summarizes the effects of minimum wage increases on workers, employment, and the economy. As a precursor to the analysis, the Self-Sufficiency Standard for the USVI is presented to put into context the income necessary to afford basic needs without public or private subsidy.

Self-Sufficiency Standard

The amount of income that families in the USVI require to be self-sufficient depends on family composition. A single adult with employer-sponsored health insurance needs to earn $10.89 per hour ($22,645 annually) to meet basic needs. With the addition of a child, one parent with benefits must earn $17.72 per hour ($36,853 annually). Two employed adults need a combined wage of $16.58 an hour ($34,488 annually), and if they support a child, the family must earn $26.08 an hour ($54,250 annually). When there are two children, the family needs a combined wage of $31.29 an hour ($65,085 annually).

Minimum Wage Increase Impact on Workers

An estimated 14,416 workers—or about 37% of the USVI workforce—would receive a pay raise, resulting in a total increase in aggregate earnings ranging from $16.6 million to $57.1 million. An increase in wages may cause between 0.5 to 1.4% of workers to lose their jobs due to employers scaling back. However, after analyzing experience from other states, we conclude that the possibility of job losses is small because businesses will be able to absorb their cost increases through modest price and productivity gains.

Impact on Output, Revenues and Spending

Increased wages would also result in a corresponding increase in Gross Domestic Product (GDP). An estimated 0.1% to 0.3% change is expected. Overall, we estimate direct tax revenue benefits for the USVI government ranging from $1.2 million to $4.2 million. Additional user fees and sales taxes may also be collected.

Indirect Impacts

Increases in income for low wage-workers are immediately reflected in spending on basic goods and services (in contrast to increased income for high wage earners which is most likely to be reflected in increased savings or luxury expenditures). This will have a significant indirect impact on the economy. An additional 33 to 113 jobs could result in an additional increase in personal income and GDP.

Introduction

This analysis brief consists of two separate yet related assessments. The first is an update to the Self Sufficiency Standard or the living wage for the USVI. The second examines how raising the minimum wage from $7.25 to $10.50 over a three-year period would impact workers, business, and the Island economy.

To provide context for the assessments, the next section briefly describes a living wage and how it differs from the Federal minimum wage, motivation for living wage ordinances in the United States, and theoretical principles behind setting wage standards. The analysis also places the Self-Sufficiency Standard in context, comparing it to the federal poverty measure.

Living Wage and Minimum Wage

It is important to understand the distinction between a minimum wage and a living wage. The minimum wage, as stipulated by the federal government, applies to all workers, except for those workers whose pay is substantially supplemented by tips (i.e. food servers). As the cost of living varies greatly by geographic location, many states have instituted minimum wage ordinances that are higher than the federal minimum, so as to provide additional support to low-wage workers. In cases where the state minimum wage is higher than the federal standard, all workers in that state will be paid the higher standard.

Even with the consistent efforts to increase the minimum wage, many working families still fall below the poverty line and cannot afford to live without government subsidies. In the USVI alone, 33% or one-third of the population lives below the poverty threshold. In essence, the minimum-wage does little to lift people out of poverty and afford them a basic livelihood without subsidy. A living wage, on the other hand, lifts individuals and families out of poverty. A living wage is calculated based on local living conditions. The living wage is based on the cost for food, housing, and basic goods and services for individuals and families. The living wage standard has limited applicability since a living wage mandate usually applies to government employees, government contractors and private entities enjoying government subsidies.

Motivation for Living Wage Ordinance

Living wage laws gained prominence in American cities starting in the mid-1990s, when community-based organizations, concerned that many working families were increasingly unable to make ends meet and that the federal measure of poverty were far too low, advocated for living wages. These groups argue that instead of using poverty thresholds as the standard to measure people's economic well-being, a more suitable measure is the living wage which takes into account the full range of costs required for families of different sizes and locations to maintain a decent standard of living.

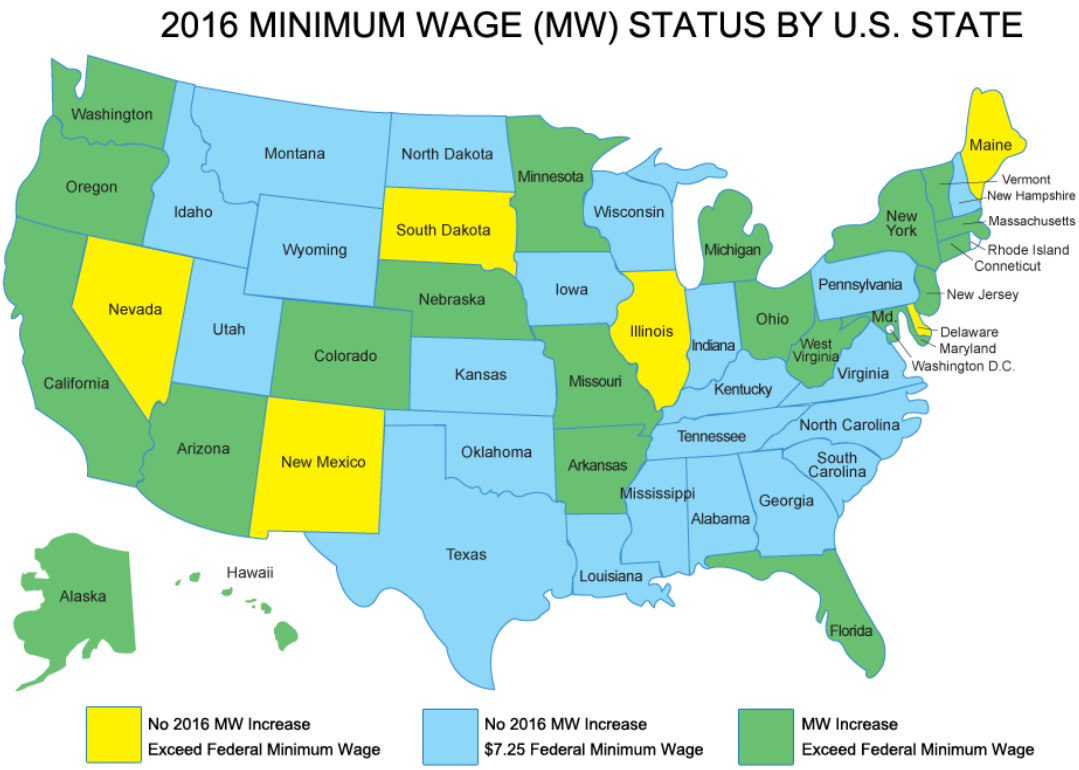
Currently more than 140 American municipalities have adopted a living wage law and more than 100 living wage campaigns are underway in cities, counties, and states. Living wages across the country vary, with many requiring businesses to pay a higher wage if health insurance is not provided to the employee. The major cities in the US that have adopted living wage laws include Baltimore, San Francisco, Los Angeles, Boston, Chicago, Cleveland, Detroit, Miami-Dade, Milwaukee, Minneapolis, New York, Washington, DC, Santé Fe, and Albuquerque.

Federal Minimum Wage in 2016

The USVI, like 21 states, has a federally mandated minimum wage of $7.25 per hour, which has been in effect since 2009. At the federal minimum hourly wage, a full-time worker earns $15,080 annually. Twenty-nine states and the District of Columbia have minimum wage requirements above the federal minimum (See map on next page for states with minimum wages equal to or above the federal minimum wage in effect as of January 1, 2016.)

Moreover, a number of states that have passed legislation to increase their minimum wage have programmed further increases and others have increases based on the cost of living. For example, Washington, DC's minimum wage increase to $11.50 takes effective July 1, 2016 with index increases beginning July 1, 2017. Massachusetts will increase its minimum wage to $11.00 effective January 1, 2017, and will automatically increase its minimum wage 10 cents above the rate set in the Fair Labor Standard Act, if the Federal minimum wage equals to or become higher than the state minimum. Oregon lawmakers recently passed legislation, that if signed into law by the Governor as expected, will increase their state's minimum to the

highest in the country. The Oregon Plan imposes different increases for different parts of the state, with gradual increases starting this summer. By 2022, the state's current $9.25 an hour minimum wage would climb to $14.75 in metro Portland, $13.50 in smaller counties, and $12.50 in rural communities.



Source: http://www.kogo.com/articles/kogo-local-news-125548/2016-minimum-wage-increases-by-state-14236442/ (Accessed 02.22.2016)

The Self Sufficiency Standard

What income is required to meet basic household needs?

The Self-Sufficiency Standard for the USVI 2016 defines the income necessary to meet the basic needs of families, differentiated by family size and number of children. Consistent with standardized or equivalent methodologies and calculators used nationally, the Standard calculates the costs of six basic needs—housing, child care, food, transportation, health care, taxes and credits, and miscellaneous purchases (clothing, telephone, household items). It does not include public subsidies or private assistance, meals at restaurants, savings, or funds for emergencies.

As Table 1 shows and graphically depicted in Figure 1, a single adult with employer-sponsored health insurance needs to earn $10.89 per hour ($22,645 annually) in a full-time job to make ends meet. This difference grows exponentially for larger household structures, especially where child care is involved. With the addition of a child, one parent with benefits must earn $17.72 per hour ($36,853 annually). Two employed adults need a combined wage of $16.58 an hour ($34,488 annually), and if they support a child, the family must earn $26.08 an hour ($54,250 annually). If they support two children, the family needs a combined wage of $31.29 an hour ($65,085 annually). Corresponding standards are also given for individuals and families without employer health benefits.

Table 1. Self-Sufficiency Wage by Household Structure

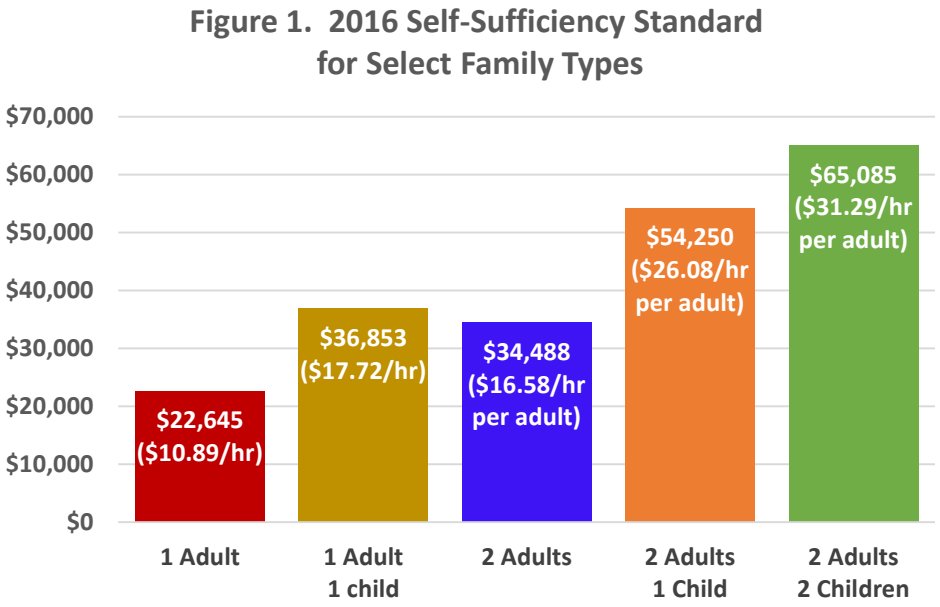
Health Insurance Options	1 Adult	1 Adult + 1 Child	2 Adults	2 Adults + 1 Child	2 Adults + 2 Children
Living Wage w/Employer Health Benefits	$10.89	$17.72	$16.58	$26.08	$31.29
Living Wage w/o Employer Health Benefits	$12.47	$20.79	$19.68	$30.56	$35.81

Source: *The Self Sufficiency Standard for the US Virgin Islands 2010* (BER 2010). Updated to 2016 figures.

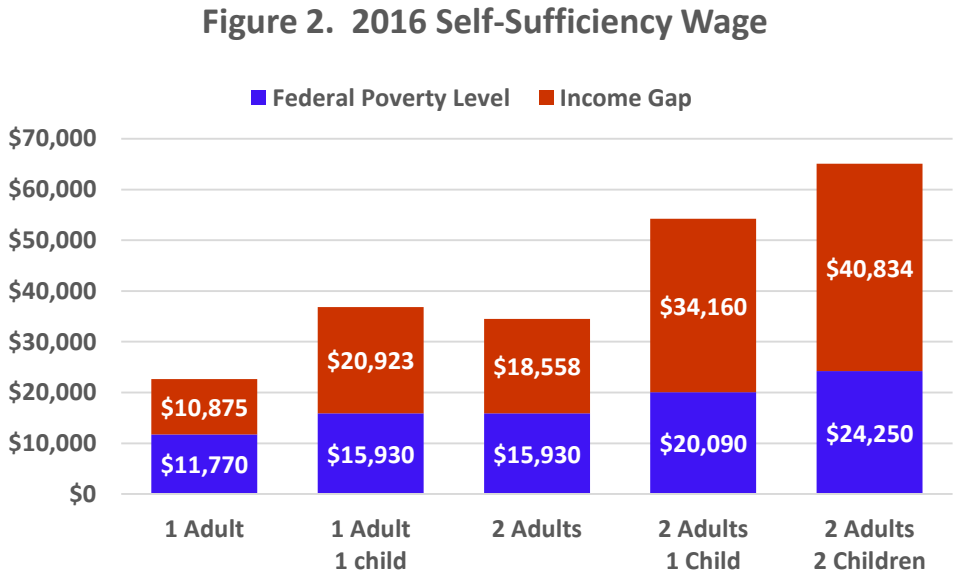
How does the Self-Sufficiency Standard Compare to the Federal Poverty Level?

The Federal Poverty Level (FPL) is the official measurement used to determine poverty status throughout the United States. Families are classified "poor" if their income falls below the Federal Poverty Level and "not poor" if it is above the FPL. Across all family types, the FPL falls short of the wage necessary to meet families' basic needs. A family comprised of two adults and child, for example, would be considered "poor" with an annual income of $20,090

or less, based on the FPL. The FPL for this three-person family is just 37% of the Self-Sufficiency Standard. In other words, a family of two adults and a child needs 129% more than the poverty standard to have a decent standard of living. This figure only escalates when additional members are added to a household.



**The hourly wage for families with two adults represents the hourly wage that each adult would need to earn, while the annual wages represent both parents' wages combined.*



The Impact of a Minimum Wage Increase to $9.50 and 10.50 per Hour

This assessment summarizes the economic effects of a minimum wage increase in the USVI to $9.50 by January 1, 2017 and to $10.50 by January 1, 2018—as originally proposed by Bill No. 31-0236 introduced by Senator Jean A. Forde. We provide estimates to answer the following two questions:

(1) Which workers will be impacted by a minimum wage increase?

(2) What effects will this increase have on employment, wages and income, gross domestic product (GDP), and consumer spending? We also consider other unintended consequences on families of raising the minimum wage.

Effects of Increasing the Minimum Wage

Increasing the minimum wage will have both positive and adverse short-term impacts on the local economy. These are transitory impacts, where in the long run the interaction of economic productivity of the workforce and capital to resources and policy will determine the overall health of the U.S. Virgin Islands' economy.

The positive impacts are through increased wages and the extent to which those wages represent new expenditures to the local economy. Changes in wages that represent reshuffling of earnings from high-income earners to low-income earners are muted, only generating impacts to the extent that low-income earners spend more of their wages locally.

Negative impacts are expected to be realized by lower-income workers, who under a higher minimum wage mandate become more expensive for employers. Employers may seek to reduce their reliance on low-wage workers, and compete with other producers for higher skilled workers that are more productive, or substitute away from labor-intensive processes. Regardless, the net effect is an expected decline in low-skilled employment.

The research literature on offsetting impacts suggests that the expected impact of an increase in minimum wage will have differing effects depending on the economic environment in which they are introduced. In an environment of slack labor markets, the impacts are largely thought to advance low-skilled incomes and generate an overall positive impact on the economy. This effect is greater, if the costs of implementing higher wages can be exported

through lower multinational firm profits, or through the exports of goods sold. Both, however, can only be realized in the short run, as regions where production is more expensive will find it difficult to attract new investment, and exports become less competitive in global markets. However, with imposed higher wages, firms adjust processes in the long-run and workers gain incentives to invest in human capital that may bring about long-term economic prosperity if productivity increases.

Employment

Conventional economic analysis indicates that increasing the minimum wage reduces employment in two ways. First, is the scaling effect by which employment would decline in general, regardless of wage levels. Higher wages would translate to higher costs of producing goods and services. Some of these increased costs would result in consumers having to pay more for the same goods and services resulting in fewer purchases of the goods and services. This in turn would result in a reduction in demand and a reduction in production, so the need for fewer workers.

The second way is known as the substitution effect. In this case, a minimum-wage increase raises the cost of low-wage workers relative to other inputs such as technology and automation. Choosing some of the other inputs could reduce employment among low-wage workers but increases it among higher-wage workers.

Existing literature also states that the expected change in employment differs by broad age categories within the workforce. Current literature suggests that impacts are expected to be largest for those age categories with the lowest skilled workforce. That is, the young workforce is most impacted.

Estimating Impact from Industry Data

We calculate three different scenarios of raises that fit the USVI economy to show the economic impact of increasing the USVI minimum wage.

Scenario 1: This scenario assesses the impact of raising the minimum wage from the current federal mandate of $7.25 to the proposed step one USVI mandate of $9.50 minimum per hour. This is a 31% increase in the minimum wage.

Scenarios 2: This scenario is more realistic to the USVI as entry-level workers currently earn more than the Federal minimum wage of $7.25/hour. According to the BLS 2014 data, Entry-level workers earn approximately $8.60 per hour. Scenario 2 assesses a wage increase from $8.60 to the proposed step one USVI mandate of $9.50 minimum per hour. We estimate that these workers, on average, will receive a 10% wage increase.

Scenarios 3: This scenario assesses the step-two increase from $9.50 to $10.50 per hour. This constitutes an additional 10% wage increase.

How Many Workers Are Likely to Be Affected?

The estimates for the number or count of workers who would be affected by the minimum wage increase are based on the 2013 Virgin Islands Community Survey adjusted to reflect the Virgin Islands Bureau of Labor Statistics (BLS) estimates of employment in 2014 (most recent published data). To estimate the impact of a $9.50 and $10.50 minimum wage on employment and income, we utilized elasticities from studies produced by the Congressional Budget Office, (CBO 2014) which were then applied to show the change in total employment by income group to a percent change in minimum wage.

Empirical evidence from minimum wage studies has consistently shown that minimum wage increases have a greater impact on young low-skilled workers, especially teenagers. Indeed, the impact in the USVI is estimated to be greatest for younger workers in the age cohort 16 to 24 years, as 77% are low-wage workers. Older workers are less likely to be impacted, since 13% of all workers in that age cohort earn less than $11 an hour based on our estimates.

Minimum wage increases directly affect workers who are paid the minimum wage and those who earn slightly above the new minimum wage, as they too will receive wage increases due to a ripple effect. It is estimated that approximately 14,416 or more than one-in three (37%) low-wage workers will realize pay increases if a new minimum wage becomes law (Table 2). In the USVI, the number of workers most impacted by any increase in the minimum wage will be those working adults between 25 to 44 years of age (49%), 31% are adults 45 to 64 years, and 3% are older workers 65 years and over. Young adults, between 16 to 24 years of age, constitute 17% of the impacted workforce.

Table 2. Jobs Counts and Workers Affected by Minimum Wage Increases			
Age	Total Workers	Percent Low-Wage	Workers Impacted
16-24	3,491	76.95	2,686
25-44	17,756	40.5	7,191
45-64	16,331	27.4	4,475
65+	483	13.3	64
Total	38,060		14,416

Occupations in the USVI most likely to be impacted by minimum wage increases are those with low entry-level wages. According to the 2013 BLS data, the occupations most impacted are food preparation and serving related (10.54% of the workforce), sales and related occupations (10.51% of the workforce) and building and grounds cleaning and maintenance (5.68% of the workforce).

Impact on Employment

As discussed earlier from empirical findings, a negative unintended consequence resulting from business adjustments to the minimum wage increase is that some workers, particularly low-skilled, may lose their jobs. To estimate expected job losses for each group of affected workers, we simply multiplied the percent change in minimum wage by the number of impacted workers and by the labor demand elasticity.

In the three scenarios the evidence for job loss appears valid. More specifically, the estimates in Table 3 show that increasing the hourly minimum wage from $7.25 to $9.50; from $8.60 to $9.50; and from $9.50 to $10.50 could result in a job loss of 521, 176, 177 respectively. This loss of jobs, translates to 0.5 to 1.4% of the total employment.

Table 3. Employment Change			
Age	Net impact $7.25 to $9.50/hour	Net impact $8.60 to $9.50/hour	Net impact $9.50 to $10.50/hour
16-24	-125	-42	-42
25-44	-279	-94	-95
45-64	-116	-39	-39
65+	-1	-1	-1
Total	-521	-176	-177
% change in employment	-1.4%	-0.5%	-0.5%

It is possible that job losses may not occur. In arriving at this conclusion, we considered empirical research on the effects of minimum wage on employment, which suggests businesses adjust to the higher costs associated with a minimum wage increase through combination of modest price increases and improvements in business productivity, thus mitigating the need to lay-off employees.

Impact on low-wage workers' wages

The effect of a higher minimum wage on household or family income of low-wage workers depends on the number of such workers in a family, whether those workers become jobless (and, if so, for how long), and whether there are other changes in family income. For instance, the decline in income from losing a job can be offset in part by increases in non-labor income, such as unemployment compensation, or by increases in the work of other family members.

In Table 4, we summarize the impact on workers' income from wage increases under three scenarios. An increase in the minimum wage will have significant impact on workers income. For workers who receive an increase in the minimum wage from $7.25 to $9.60 per hour, we estimate their total net income will amount to $57.2 million. An increase from $8.60 to $9.50 will yield $16.7 million in workers income. In the third scenario of $9.50 to $10.50 per hour, net income earnings of low-wage workers are estimated to be $18.6 million.

Table 4. Wage Increase

Age	Net increase in Wages $7.25 to $9.50/hour	Net increase in Wages $8.60 to $9.50/hour	Net increase in Wages $9.50 to $10.50/hour
16-24	$10,100,712	$2,557,691	$2,856,329
25-44	$28,142,188	$7,949,443	$8,864,950
45-64	$18,654,275	$6,089,718	$6,779,726
65+	$270,902	$90,646	$100,890
Total	**$57,168,076**	**$16,687,498**	**$18,601,895**

Impact on Taxes Revenues

Along with the increases in wages and income that will result from a higher minimum wage, the government is also likely to realize a modest increase in tax revenues. Table 5 reports

increases in individual and corporate net revenues associated with minimum wage increase under all three scenarios—an estimated $4.2 million, $1.3 million and $1.4 million, respectively.

Table 5. Impact of Changes in Earnings on Income Tax Withholdings			
Revenue	$7.25 to $9.50/hour	$8.60 to $9.50/hour	$9.50 to $10.50/hour
Likely change in income tax receipts	$5,716,808	$1,668,750	$1,860,190
Likely change in corporation tax receipts	$(1,429,202)	$(417,187)	$(465,047)
Net change in personal and corporate tax revenues	$4,287,606	$1,251,562	$1,395,142

Impact on GDP

The impact on the USVI economy of raising the minimum wage can be captured in the change in GDP. The estimates suggest that increases in the minimum wage are associated with a positive effect on aggregate GDP growth. In total, real GDP, which was $3.5 billion in 2013, is expected to increase only modestly in the short- term as shown in Table 6.

Table 6. Change in Components of Gross Domestic Product (Million $2005 Chained)								
	31% Change in Wage				10% Change in Wage			
	Baseline	After	Change	Percent Change	Baseline	After	Change	Percent Change
GDP	$3,501	$3,513	12	0.30	$3,501	$3,505	4	0.10
Exports	$1,507	$1,505	(2)	(0.10)	$1,507	$1,506	(1)	0.00
Imports	$1,412	$1,422	10	0.70	$1,412	$1,415	3	0.20
Other components of GDP	$3,406	$3,430	24	0.70	$3,406	$3,414	8	0.20

Impact on Consumer Expenditures

The added personal income will resonate through a multiplier effect that will lift all sectors of the economy. One can expect that the net increase in household income to materialize in more consumer expenditures. These expenditures were modeled with an input-output model for the USVI to assess the overall impact to the economy through increased household expenditures.

Table 7. Impact of Increased Household Expenditures			
Impact Type	$7.25 to $9.50/hour	$8.60 to $9.50/hour	$9.50 to $10.50/hour
Direct increase Income	$57,168,076	$16,687,498	$18,601,895
Induced Employment	113.5	33	37
Additional Labor Income	$4,630,870	$1,277,100	$1,423,610
Gross domestic Product	$16,554,043	$4,555,561	$5,078,177

As can be noted in Table 7, in addition to the direct impacts, one can expect additional indirect or induced impacts within the economy. As such, a two-step increase in minimum wage could result in an additional 70 jobs, $2.7 million in wages, and $9.5 million to GDP.

The multiplier effect of consumer spending on the top ten impacted sectors is illustrated in Tables 8a, b and c. When the expenditures on goods and services consumed by beneficiaries of the wage increase are distributed across sectors, the primary businesses that will benefit are restaurants, retail stores, and real estate.

Table 8a. Multiplier Effect of Consumer Expenditures within the Top Ten Sectors $7.25 to $9.50					
Sector	Description	Employment	Total Labor Income	Total Value Added	Total Output
501	Full-service restaurants	9.3	$209,430	$224,156	$518,889
502	Limited-service restaurants	8.2	$157,863	$385,063	$525,190
400	Retail - Food and beverage stores	7.4	$195,419	$325,180	$440,932
405	Retail - General merchandise stores	6.5	$134,083	$202,272	$424,838
440	Real estate	5.3	$264,666	$923,388	$1,073,034
475	Offices of physicians	5.3	$377,198	$418,271	$773,486
396	Retail - Motor vehicle and parts dealers	4.2	$186,081	$308,103	$331,408
395	Wholesale trade	3.6	$312,666	$186,532	$280,644
399	Retail - Building material and garden equipment and supplies stores	2.9	$100,177	$158,155	$246,961
516	Labor and civic organizations	2.8	$100,792	$127,582	$154,064

Table 8b. Multiplier Effect of Consumer Expenditures within the Top Ten Sectors $8.60 to $9.50					
Sector	Description	Employment	Total Labor Income	Total Value Added	Total Output
501	Full-service restaurants	2.7	$57,757	$61,818	$141,935
502	Limited-service restaurants	2.4	$43,535	$106,193	$143,659
400	Retail - Food and beverage stores	2.2	$53,893	$89,678	$125,454
405	Retail - General merchandise stores	1.9	$36,977	$55,783	$120,875
440	Real estate	1.5	$72,990	$254,652	$289,468
475	Offices of physicians	1.5	$104,024	$115,351	$208,904
396	Retail - Motor vehicle and parts dealers	1.2	$51,317	$84,969	$94,292
395	Wholesale trade	1.1	$86,227	$51,442	$80,237
399	Retail - Building material and garden equipment and supplies stores	0.8	$27,627	$43,616	$70,265
516	Labor and civic organizations	0.8	$27,797	$35,185	$41,791

Table 8c. Multiplier Effect of Consumer Expenditures within the Top Ten Sectors $9.50 to $10.50					
Sector	Description	Employment	Total Labor Income	Total Value Added	Total Output
501	Full-service restaurants	3.0	$64,382	$68,910	$158,218
502	Limited-service restaurants	2.7	$48,530	$118,375	$160,139
400	Retail - Food and beverage stores	2.4	$60,075	$99,966	$139,846
405	Retail - General merchandise stores	2.1	$41,219	$62,182	$134,741
440	Real estate	1.7	$81,363	$283,865	$322,676
475	Offices of physicians	1.7	$115,957	$128,584	$232,869
396	Retail - Motor vehicle and parts dealers	1.4	$57,204	$94,716	$105,109
395	Wholesale trade	1.2	$96,119	$57,343	$89,442
399	Retail - Building material and garden equipment and supplies stores	0.9	$30,796	$48,620	$78,326
516	Labor and civic organizations	0.9	$30,985	$39,221	$46,586

Impact on Productivity

Labor productivity is a measure of the economic growth of a country. Labor productivity relates to output or GDP and measures the amount of goods and services produced by one hour of labor. The Bureau of Labor Statistics (BLS) calculates labor productivity for the US as a whole entity and does not break it down by individual states. Productivity can also be calculated by industrial sector but not by occupational sectors. A very basic method to calculate labor productivity is to divide the GDP by state or territory's GDP by total worker hours.

The weight of evidence suggests that a higher minimum wage may improve workers' performance. Because of the lack of official data, this analysis does not provide a quantitative assessment of effects on worker's productivity. Nonetheless, rough estimates of productivity are given for the USVI and the US for comparative purposes.

In Table 9 the top 10 most productive states and the 10 least productive states in the US are shown. As indicated, the USVI worker productivity for all industrial sectors falls within the top ten states in the US mainland. Comparatively, the average USVI worker generates $43.55 output per hour towards the USVI GDP—higher productivity rate on average than a number of states.

Table 9. Labor Productivity

Top 10 States	Worker Output/hour
Washington DC	$105.99
Delaware	$50.91
Alaska	$49.40
Wyoming	$44.13
Connecticut	$43.85
U.S. Virgin Islands	**$43.55**
New York	$41.31
Massachusetts	$39.71
New Jersey	$39.53
Minnesota	$36.68
California	$36.45
Bottom 10 States	
Mississippi	$21.93
West Virginia	$22.93
South Carolina	$23.87
Arkansas	$24.10
Kentucky	$24.60
Alabama	$24.74
Maine	$25.86
Idaho	$25.87
Michigan	$27.18
Florida	$27.48

Source: https://www.mainstreet.com/slideshow/most-productive-states (Accessed 2.22.2016)

Conclusion

We conclude that the USVI is already progressive in its wage structure with entry-level workers making $8.60 per hour (18% higher than the federal minimum wage of $7.25). Additionally, all public sector full-time employees already earn more than $10 an hour and would not be impacted by the increase to $9.50. A minimum wage increase, though it does not address the fact that it takes a livable wage of $10.89 per hour (and will only continue to increase by 1 to 2% annually), is a step in the right direction, as it would improve the living standards for low-wage workers and their families. The minimum wage increases to $9:50 and $10.50 would therefore boost earnings of workers and their families.

In addition to the earnings, the increase in minimum wage will also have a positive impact on income tax revenues and consumer expenditures. Furthermore the increased earnings will create a multiplier effect that will generate additional indirect and induced impacts on jobs, earnings and consumer spending throughout the economy.

We conclude, as well, that the possibility exists that businesses may reduce hiring low-wage workers after the minimum wage increases. However, businesses may adjust to the higher costs through small increases in consumer prices and improved operational efficiencies, thereby mitigating the need to reduce employment.

While increases to the minimum wage will result in an added cost to doing business, the largest sectors impacted would be food preparation and serving related occupations; sales and related occupations; and building and grounds cleaning and maintenance operations. Given the nature of these occupational sectors, we expect a major portion of added costs to be passed on to higher income consumers, many of whom do not live in the US Virgin Islands.