KCEP
KENTUCKY CENTER for ECONOMIC POLICY

WWW.KYPOLICY.ORG KCEP | 433 CHESTNUT STREET | BEREA, KENTUCKY 40403 | 859-986-2373

October 13, 2014

Councilman David Tandy
Chair, Labor and Economic Development Committee
Louisville Metro Council

Dear Chairman Tandy and Members of the Metro Council:

Thank you for the opportunity to speak to the council's Labor and Economic Development Committee on September 23rd about the ordinance proposing to increase the minimum wage in Louisville and Jefferson County. I am writing to provide follow-up information as requested by the committee and to address a few issues that have come up since that meeting. Specifically, this letter covers 1) the number of people who would benefit from the proposed ordinance, 2) the age of the beneficiaries, 3) the impact of the minimum wage increase on poverty and 4) the impact on jobs.

1. The number of people who would benefit from the proposed ordinance is larger than those who make $7.25 an hour.

The question was posed by Councilman Fleming in the committee meeting about the difference between the estimate that 12,000 workers in Louisville make the minimum wage and KCEP's estimate that 62,500 workers in 2017 would directly benefit from the proposed minimum wage increase (and another 24,800 indirectly who make slightly above the new wage). The number 12,000 apparently comes from Dr. Paul Coomes, who cited it in subsequent testimony to the committee on October 2nd. It appears to be an estimate based on a Bureau of Labor Statistics report that identifies the number of minimum wage workers in Kentucky.

There is not a discrepancy between these two estimates because they address different questions. 12,000 is Coomes' estimate of the number of workers in Louisville who make $7.25 an hour (or less) and 62,500 is our estimate of the larger group of workers who would make less than $10.10 an hour in 2017 (and we estimate that another 24,800 would be between $10.10 and $11.50). There is a significant number of low-wage workers who make above the existing minimum wage of $7.25 an hour but below the proposed new wage floor of $10.10 whose hourly wages would go up because of the ordinance. The ordinance is also likely to provide a small wage bump to some workers whose wages are slightly above the new floor because of a ripple effect.

In his recent letter to the Metro Council, Coomes objects to the suggestion that workers who make slightly above the new minimum wage may get an increase because the study cited in our report about the ripple effect from prior minimum wage increases "did not appear in a peer-reviewed academic journal." However, the Congressional Budget Office also assumes that workers who make up to $11.50 are likely to be affected from an increase to $10.10 (in states like Kentucky with a current minimum wage of $7.25) in their report on the minimum wage that Coomes uses to support other points he makes in his testimony and his letter. In justifying this assumption, CBO says that "increases in the minimum wage would raise wages not only for workers who would otherwise earn less than the new minimum but also for some workers who would otherwise earn slightly more than the new minimum."

2. Only a small percentage of workers affected by the ordinance are teenagers.

In testimony on October 2nd, Coomes stated that half of minimum wage workers are between the ages of 16 and 24, citing the same Bureau of Labor Statistics report. Again, it's important to understand that Coomes is referring to the much smaller universe of workers who make $7.25 an hour (or less) and not the larger group of low-wage workers who would receive a raise because of this ordinance. As our report shows, 92 percent of impacted workers are at least 20 years of age, and there are more workers impacted who are over the age of 50 (18 percent) than teenagers (8 percent).

3. A minimum wage increase will help a large majority of workers who live in poverty and a majority of those who are near-poverty.

The impression was given at the October 2nd testimony that a minimum wage increase is not an effective tool to help address poverty. Coomes cited the CBO study mentioned above in stating that only 20 percent of low-wage workers nationally live below the poverty line. However, that perspective misses the fact that a large percentage of working poor households would benefit from an increase as well as a majority of workers who are somewhat above the poverty line but who still have many challenges making ends meet.

Similarly to CBO, we find that 23 percent of workers who stand to receive an increase in Louisville because of the ordinance have family income below the poverty line. But it is also the case that the *vast majority of workers in impoverished families would benefit, far higher than the share of workers in other income categories.* We estimate that 77 percent of workers with family incomes below the poverty line would get a raise. That compares to only 8 percent of workers with family incomes above 400 percent of the poverty line (see table below from our report).

Beneficiaries of Proposed Louisville Minimum Wage Increase by Family Income

Family Income	*Percentage of total affected*	*Share of category affected*
Less than poverty line	23%	77%
Between poverty line and twice poverty	36%	53%
200% to 400% poverty	24%	17%
Above 400% of poverty	17%	8%

Source: KCEP analysis of American Community Survey data.

Also, it is widely recognized that the poverty line is set at a very low level, and that many families with incomes somewhat above the poverty line also have difficulty making ends meet. For that reason, many experts use those living below twice the poverty line as a rough guideline of those families that can be considered low income. For a family of three, twice the poverty line is still less than $40,000 a year, far below the $52,921-$56,822 that the Economic Policy Institute estimates is needed for a family of three to have a "secure yet modest" living standard in Louisville.

This additional group of low-income workers would also benefit disproportionately from this ordinance. Our report estimates that 53 percent of Louisville workers whose family income is between the poverty line and twice the poverty line would get a raise because of this ordinance.

A minimum wage increase will not by itself solve poverty, but neither will a state Earned Income Tax Credit (EITC) alone (a critical tool but one organizations have advocated for in Frankfort since 2001 without success so far), nor any other single policy. It takes a range of strategies. The minimum wage is a key tool because it helps the very lowest-wage workers regardless of age and family status, and unlike the EITC it provides benefits each paycheck as opposed to once a year. In fact, EITCs work better in conjunction with minimum wage increases because otherwise a significant portion of the credit ends up subsidizing low-wage employers.

4. While traditional economic theory held that minimum wage increases cause harmful job loss, the view has changed over the last couple of decades due to a growing body of empirical research suggesting little to no impact.

Coomes states in his letter that our report "ignores any economic response to the high local minimum wage," but in fact we review the empirical research on this question in our report. The bulk of that research suggests little to no effect on employment from increases as firms utilize multiple channels of adjustment in response. I discuss that research further here.

It is often claimed or assumed that minimum wage increases will result in harmful declines in employment. However, as noted in a recent review of the literature, "economists' understanding of minimum wage effects has undergone significant changes over the past 20 years" (the reference in the endnote contains a literature review of the studies mentioned below).[1] There is growing recognition that minimum wage increases do not automatically mean less employment because businesses can and do utilize a number of channels of adjustment in response to minimum wage increases besides layoffs. The evidence suggests that the most common channels are the cost savings and increased productivity associated with lower labor turnover as a result of increased wages, improvements in organizational efficiency, reductions in wages of high earners and minor price increases.

There is now a large body of empirical literature on state and federal minimum wage increases, and the weight of evidence suggests small to non-existent impacts on jobs. An influential study in 1994 led to a new wave of research on the subject; that paper looked at employment in fast food restaurants close to the New Jersey-Pennsylvania border after New Jersey passed a minimum wage increase and found no measurable negative effect on employment. The study was later generalized to nearly 300 bordering counties in states where one state had raised its minimum wage, and again no statistically significant negative effect was found. An analysis of 64 published academic studies containing 1,500 estimates of the impact of minimum wage increases found the bulk of the estimates clustered around employment effects of zero or near-zero.

While the research on local minimum wage laws is necessarily limited because only 14 cities or counties have passed such laws, many of them recently, there are three rigorous studies of the employment impacts of laws that increased local minimum wages:

- Dube, Naidu and Reich (2007) surveyed a sample of restaurants in and outside of San Francisco before and after the city's minimum wage increase in 2004 and found "no statistically significant negative effects on either employment or the proportion of full-time jobs as a result of the San Francisco law." Jacobs and Reich (2014) did a follow-up study of San Francisco and found that restaurant employment increased slightly faster in the city than surrounding counties after the increase.
- Potter (2006) compared employment in Santa Fe before and after its 65 percent increase in the minimum wage in 2004 (from $5.15 to $8.50) and compared it to nearby Albuquerque. Potter also "found no statistically significant negative impact. . . on Santa Fe employment, both at an absolute level and relative to Albquerque."
- Schmitt and Rosnick (2011) analyzed the impact of the laws in Santa Fe and San Francisco on a variety of fast food, food services, retail and broader low-wage establishments—as well as firms of different sizes—and "found no discernible negative effects on employment, even three years

after the respective ordinances were implemented." This study also compared the cities to control groups of nearby suburbs and cities.

Dr. Aaron Yelowitz of the University of Kentucky has also conducted studies of Santa Fe and San Francisco for the Employment Policies Institute, and these studies have questioned the wisdom of increases. But as reported by Reich, et al. (2014), these studies "suffer from serious methodological problems that make the results unreliable." Yelowitz found an increased probability of unemployment in Santa Fe. But the increase in the unemployment *rate* in Santa Fe was the result of an increase in labor force participation likely due to the higher wages now being offered (more workers began looking for jobs because better wages were available), as Pollin and Wicks-Lim (2005) pointed out. Those authors replicated Yelowitz's study of Santa Fe looking at employment rather than the unemployment rate and found no negative effect. In other words, there wasn't evidence that the minimum wage increase cost jobs, just that it made it more attractive to seek work.

Yelowitz also has findings that are contradictory. While he suggests employers may have substituted away from low-skilled adults to teenage workers in Santa Fe, in San Francisco he suggests a decline in teen work hours with no effect on total employment. He also claims for some groups to find a small decline in average hours worked among those with jobs. However, even if that were true most workers' overall compensation would still increase significantly because of their higher wages even while they worked fewer hours, as Pollin and Wicks-Lim point out.

Thank you again for the opportunity to speak to the committee. I am happy to provide any additional information that would be helpful as you deliberate this matter.

Sincerely,

Jason Bailey
Director, Kentucky Center for Economic Policy

---

[1] Michael Reich, et al., "Local Minimum Wage Laws: Impacts on Workers, Families and Businesses," University of California, Berkeley Institute for Research on Labor and Employment, March 2014, http://murray.seattle.gov/wp-content/uploads/2014/03/UC-Berkeley-IIAC-Report-3-20-2014.pdf.