

Opening Statement on Local Minimum Wage Ordinance—

I am very grateful and honored to be here today.

My take on the local minimum wage ordinance being proposed is that, in general, the overall impact will be neutral. I say this because it appears that almost every benefit from the ordinance can be offset by some type of cost. It used to be that students of economics and public policy were taught that the minimum wage (especially if enacted at the local level) would have dire consequences and that the cons would significantly outweigh the pros. Simple supply and demand analysis and holding all else constant and assuming competitive markets showed this. Since the mid to late 1990s, this thinking has begun to change. In doing a quick survey of several major textbooks, among them recent editions of several best sellers used in many classrooms throughout the US, most of them said the overall impact of minimum wage laws were uncertain and inconclusive. One item of agreement, however, was an adverse impact on teenage employment. However, whether 16 or 17 year olds should be working at all is another matter. Some educators argue that they should spend more time on their studies or school work, or if thinking about dropping out of school and working, should think about staying in school if at all possible.

In my own research on the living wage ordinance for this area about 11 years or so back, I came across literature that cited decreased turnover rates among firms that paid higher wages. Also, those communities which enacted local living wage ordinances saw no dramatic negative consequences to mandating a higher wage for local firms and employers, although some of these jurisdictions may have had high wage levels already. I estimated at that time that any increased spending effects due to a wage boost for local government workers and government contractors (who were basically the only ones targeted by the living wage ordinance) would offset any negative consequences. In an e-mail correspondence I have had with Professor John P. Nelson at the University of Louisville who has done a lot of research on the local economy over the years, he estimated that in the short run, the local demand for labor here in the Louisville is fairly insensitive to wage increases.....that is, hiring would mostly continue as usual. In the long run, this would probably change. Employers are always looking for ways to simplify their production processes and save on wages, whether wages go up or not. Probably we would see more retailers (who are the biggest employers of minimum wage workers) use more labor saving devices.....automation, more customer self-service, etc. But they would probably try these things anyway in order to make more profits. With a higher minimum wage, they will probably try these things sooner rather than later.

In doing a quick look at the US Bureau of Labor Statistics website, most of the data shows that the average hourly wage in Louisville is below the national average by about \$2.00 or so. This also includes average hourly wages in retailing and food preparation, which I find to be around \$9 to \$10. Of course, this includes all workers in those industries.

A lot depends upon what the entry level wage is for most workers is in Jefferson County. If already a dollar or two above the federal minimum wage, then the impacts of a local minimum wage above the federal minimum are probably muted. I doubt many “pink slips” would be given out. However, usually

employers will think twice before hiring more workers down the road. Hence, the greater sensitivity to wages that John Nelson cites over the long run. Teenage unemployment will go up, but mostly because more of them who are currently not in the labor force will start to look for a job. Prices at some retailers may go up, and some upscale retailers may choose to locate on the outskirts of Jefferson County, although many of them may pay a wage higher than a federal or local minimum wage. On the other hand, lower wage workers will have more spending and consuming and buying power, which helps the local economy. Also, after a minimum wage increase, most hourly workers get a boost in pay as the impact of the wage boost “ripples” upward, so to speak.

I could say more, but it would take even more time. I look forward to your questions. Many thanks,

Thomas Lambert, PhD