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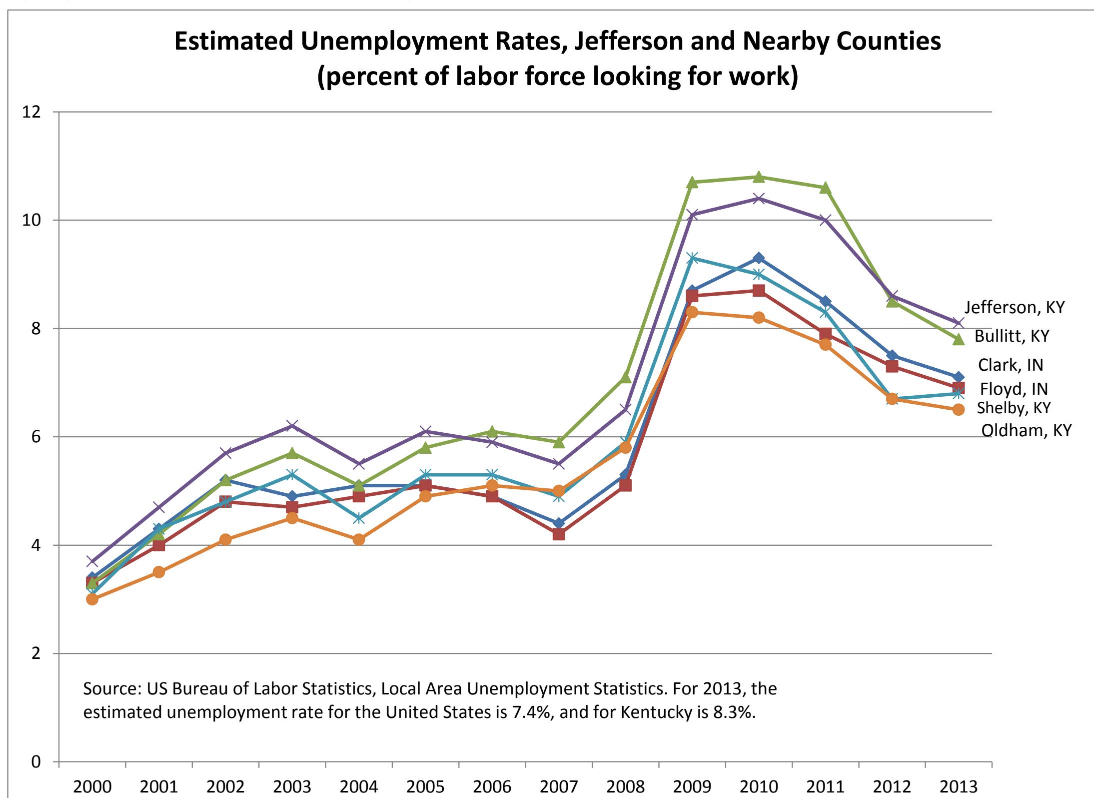
TO: Councilman David Tandy
Chair, Committee on Labor and Economic Development

FROM: Paul Coomes, Ph.D.

RE: follow up to questions from Council members at last Thursday's hearing on the proposed local minimum wage

I made some notes on questions asked by Council members at the hearing Thursday and am providing some answers. Would you please share this with your members?

Councilman Miller asked about the unemployment rate in Jefferson and surrounding counties. Here are the latest BLS estimates. As you can see, Jefferson County KY had the highest unemployment rate in 2013, at 8.1 percent.



Councilwoman Woolridge asked for a reaction to the Jason Bailey report. I have reviewed it, and have two primary critiques. First, the analysis ignores any economic response to the high local minimum wage and implicitly assumes that everyone in a current pay range will simply get a raise due to the legislation. This is not true even for a federal minimum wage, as the CBO spells out in their literature review and estimates, including a rise in unemployment. It is certainly not true for a county-level minimum wage, as there are so many more ways for employers to respond when adjacent jurisdictions are required to pay $2.85 less per hour. Unemployment will rise in Jefferson County, and those people will have a zero wage rate instead of $10.10 per hour. Moreover, as I mentioned Thursday, other negative consequences will occur, such as higher prices, fewer employee benefits, more automation, and fewer first-time job opportunities for teenagers.

Secondly, the Bailey report extends the range of those 'benefiting' well beyond the proposed $10.10 per hour to cover those earning up to $11.50 per hour. The justification provided is a study of 'ripple effects' by Wicks-Lim at the Political Economy Research Institute at the University of Massachusetts at Amherst. The study did not appear in a peer-reviewed academic journal. So, until the concept is rigorously vetted, I do not think it valid to just assume that workers further up the wage scale will automatically get raises when workers below them are pulled up the scale. To me this is another assumption that ignores economic responses in the labor market and elsewhere. Proponents need to explain where all this extra money is coming from.

Councilwoman Scott asked about whether the minimum wage worker/household poverty distribution was based on the minimum wage of $7.25 or the proposed minimum wage of $10.10 per hour. I was referring to the 2014 CBO study on the proposed federal minimum wage of $10.10. See www.cbo.gov/sites/default/files/cbofiles/attachments/44995-MinimumWage.pdf , in particular Table 3. This is a projection to 2016, when the proposed minimum wage would take effect. It shows that 20 percent of low wage workers are in families with income below the poverty line, while 35 percent are in families with income three or more times the poverty line.

Councilwoman Hamilton probed for the potential benefits of a local minimum wage to older workers who may be working two low-wage jobs and struggling to pay their bills. I apologize if I appeared dismissive of this, because it is a very real concern for our community and our society. My remarks about minimum wage workers needing to prove to their employers that they could show up on time and be responsible, before then moving up the pay scale, were about young people with no job experience. There are certainly thousands of low-wage workers

in Louisville who live in low-income households, though I do not believe they are a majority of those impacted by the minimum wage.

I have already addressed the issue of the minimum wage being a crude and ineffective tool to fight poverty, and the discussion of the earned income tax credit is in my handout. But your challenge raises another issue, and I will try to summarize what economists have learned about safety net programs in general. Our theory and evidence suggest that safety net programs are best handled at the federal level, where the benefits are the same regardless of the jurisdiction where you live. Examples include social security retirement benefits, social security disability benefits, supplemental security income, SNAP/food stamps, and subsidized housing. The primary reason is that if a city decided to, for example, pay very generous housing subsidies to its low income citizens it would find that low income households from elsewhere would flock to the city, thus overwhelming the city's ability to find the funds through local taxation. As the city attempted to raise taxes, they would find that citizens not receiving the housing subsidies would move to another city and pay less in taxes. By making this (HUD Section 8) and other safety net programs federal, citizens have less reason to relocate to chase benefits or reduce their tax burdens. It is more efficient than doing it at the state or local level.

We have a concept called 'fiscal federalism' that essentially means that each level of government has advantages and disadvantages for certain public goods and services. Local governments, like municipalities, have advantages in providing local safety, sanitation, streets, traffic control, infrastructure, jails, sidewalks, libraries, parks, swimming pools, and the like. State governments have advantages in providing highways, public higher education, and prisons. The federal government has advantages in national security, interstate trade, and safety net programs.

So, this might help you understand why I didn't automatically connect the dots between a truly 'working poor' household and a local minimum wage. Because of my professional training, I don't consider poverty to be primarily a local government responsibility. I do consider it a personal responsibility in my private life. But on the public sector side (taxes and government programs), it is primarily a federal government responsibility.