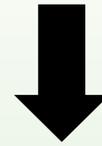


Good Intentions Aren't Good Enough
The Minimum Wage in Alaska

Kyle Hampton
University of Alaska Anchorage

Wage: \$10



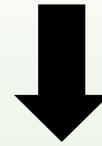
Employers



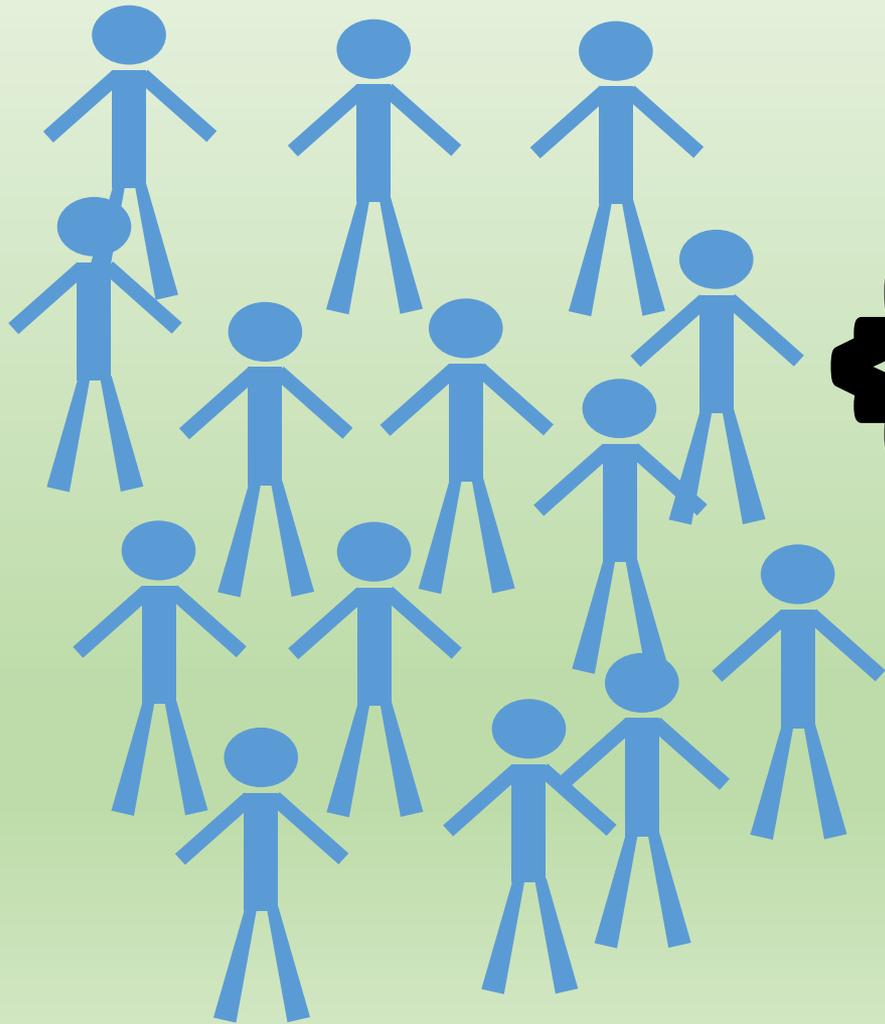
Employees



Wage: \$9



Employers



Employees



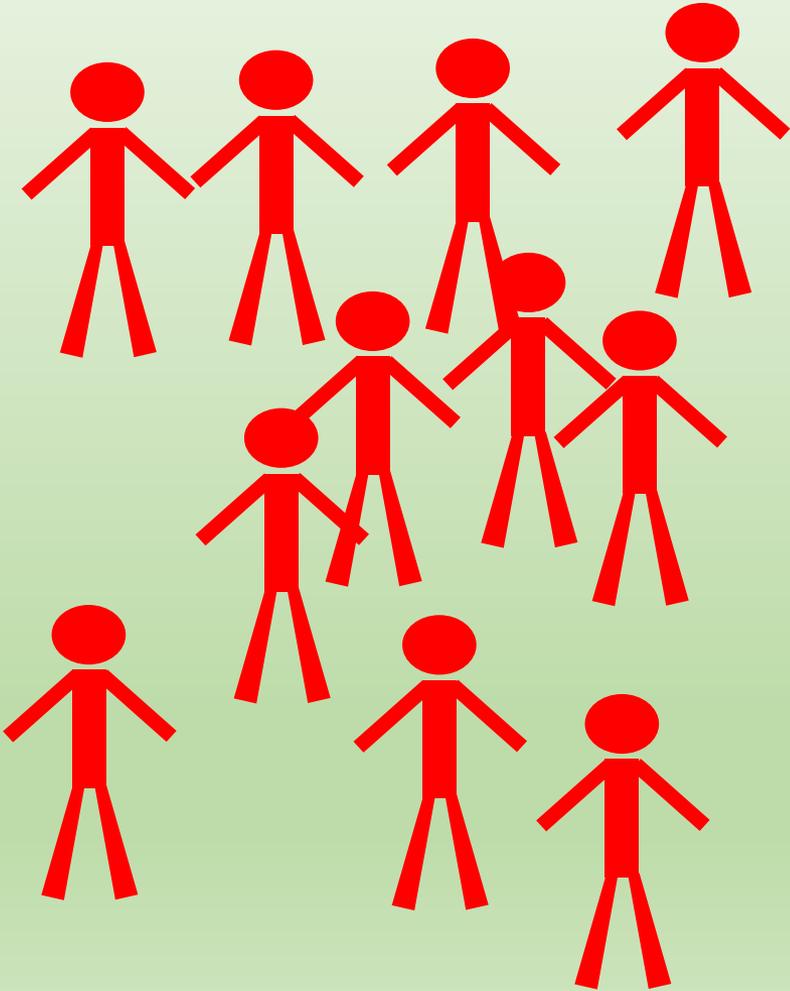
Wage: \$8

Employers



=

Employees



Effects on Employment

- First federal minimum wage enacted in 1938: 25 cents
- U.S. Department of Labor study found it resulted in an immediate loss of between 30,000 and 50,000 jobs in U.S. states.
- Puerto Rico saw job losses of over 120,000 and an unemployment rate of 50%
- President Obama signed emergency legislation in 2009 to postpone minimum wage increases in American Samoa after the Governor

“We are watching our economy burn down. We know what to do to stop it. We need to bring the aggressive wage costs decreed by the Federal Government under control. . . . Our job market is being torched. Our businesses are being depressed. Our hope for growth has been driven away.”



- **Governor Togiola Tulafono, testimony before the Subcommittee on Fisheries, Wildlife, Oceans and Insular Affairs, House Committee on Natural and Insular Affairs, House Committee on Natural Resources on American Samoa,” September 23, 2011.**

Employment Effects Meta-analyses

- 1982 Minimum Wage Study Commission
 - “10% increase in the minimum wage reduces teenage employment by one to three percent.”
- 2006. D. Neumark and W. Wascher - “Minimum Wages and Employment: A Review of Evidence from the New Minimum Wage Research.”
 - 85% of over 100 studies showed disemployment effects for low-skilled workers.
- 2011. Baskaya and Rubinstein. "Using Federal Minimum Wages to Identify the Impact of Minimum Wages on Employment and Earnings Across the U.S. States".
 - Minimum wage has "notable wage impacts and large corresponding disemployment effects"
- 2014 Congressional Budget Office. “The Effects of a Minimum-Wage Increase on Employment and Family Income.”
 - Increase of minimum wage to \$10.10 would result in the loss of 500,000 jobs.

The Minimum Wage in Alaska

- 2014. Hanson and Hawley. “The \$10.10 Minimum Wage Proposal: An Evaluation Across States.”
- Number of Alaskan workers affected by the proposed federal minimum wage increase:
 - 25,496 – 26,683
 - Between 8% and 9%
 - National average: ~17.5%
- Predicted job losses for Alaska range from 304 (1.2%) to 3,491 (12.96%)

The Minimum Wage in Alaska (cont.)

- The ballot measure language would raise the state minimum wage at least \$1 above the federal standard.
- Extrapolating from the data in Hanson and Hawley, an increase in the Alaska minimum wage to \$11.10 would result in a loss of jobs between 400 (1.6%) and 4,600 (17%).



David Card and Alan Krueger

- 1995. *Myth and Measurement: The New Economics of the Minimum Wage*.
 - Described studies performed where fast food restaurant employers were asked about hiring plans after an increase in the New Jersey minimum wage from \$4.25 to \$5.05 an hour.
 - Found that the increase in the minimum wage increased (!) employment.
- Alan Krueger became the chairman of the White House Council of Economic Advisers in 2011.

Responses to Card and Krueger

- 2010. Neumark and Wascher. "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania: Comment."
 - Found that actual job losses after the minimum wage increase in New Jersey amounted to 4%.
- The battle between Card/Krueger and Neumark/Wascher is ongoing.
- But it hardly matters . . .

Short-term versus Long-term Effects

- Most of the studies conducted focus on short-term employment effects
 - Easier to study
 - But misses the crucial dynamic
- In the long-term, employers will seek alternatives
 - Labor-reducing technologies
 - Outsourcing some tasks to overseas workers
 - Not hiring versus firing

The Costs of Unemployment

- Costs to the Individual
 - Deterioration of skills
 - Loss of confidence and optimism
 - Deterioration of physical and mental health
 - Employers pass on employees suffering long spells of unemployment
- Costs to Society
 - Decrease in economic growth
 - Increase in social disfunction and crime
 - Decrease in volunteerism
 - Increase in inequality

The problem isn't just unemployment...

- Decreased job turnover
- Reducing school attendance among teenagers
- Increased hiring of illegal immigrants; decreased hiring of legal immigrants
- Increase in the number zero-pay internships
- Increased prices for goods produced by higher wage labor
 - A 10% increase in the minimum wage results in a 4% increase in food prices
 - 2/3 of the increased costs for restaurants associated with an increase in the minimum wage is passed on to the consumer in the form of higher product prices
- Increased employer expectations of workers
- Decrease in fringe benefits

Other negative effects (cont.)

- May 2014 interview in Northwest Asian Weekly with hospitality workers in SeaTac after the imposition of a \$15/hr minimum wage:

“Are you happy with the \$15 wage?” I asked the full-time cleaning lady.

“It sounds good, but it’s not good,” the woman said.

“Why?” I asked.

“I lost my 401k, health insurance, paid holiday, and vacation,” she responded. “No more free food,” she added.

The hotel used to feed her. Now, she has to bring her own food. Also, no overtime, she said. She used to work extra hours and received overtime pay.

What else? I asked.

“I have to pay for parking,” she said.



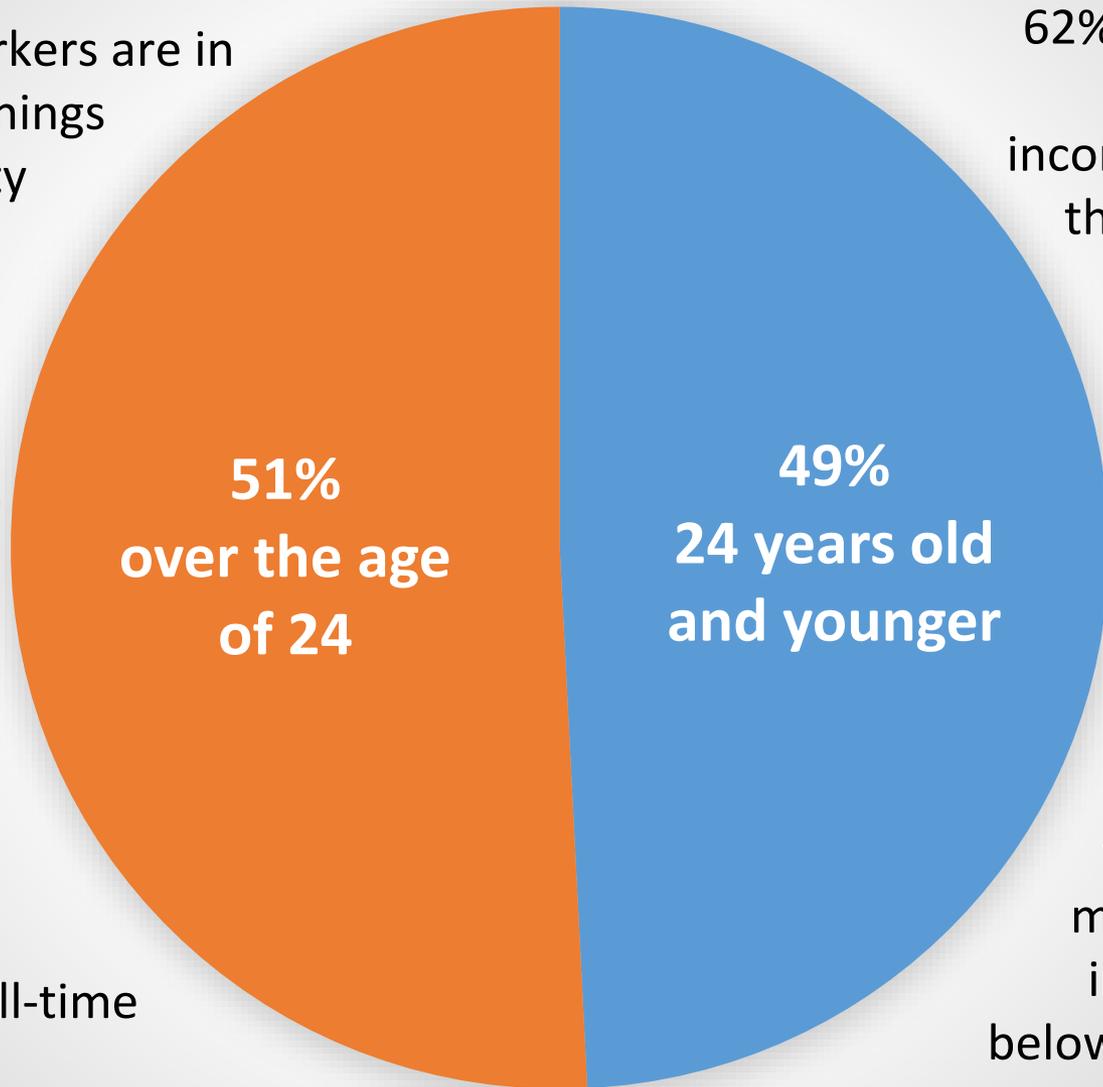
Who gets the Minimum Wage?

71% of these workers are in families with earnings above the poverty line.

54% are from families making at least 1.5 times the poverty threshold.

25% work part-time voluntarily.

Just 34.3% are full-time workers.



62% of this group live in families with incomes at least twice the current poverty level.

Average family income for teens earning the minimum wage: \$70,600.

Only 16.8% of teenagers making minimum wage are in families that fall below the poverty line.

Who gets the **Minimum Wage**? (cont.)

- Only 20.8% of all minimum wage workers are family heads or spouses working full time.
- 30.8% are minors.
- 32.2% are enrolled in school.
- Percentage of minimum wage earners who are below the poverty line, are adults, are trying to raise a family while working full-time: 4.7%.

Who Pays the Minimum Wage?

- Census Bureau statistics show:
 - Half of minimum wage earners work for businesses with fewer than 100 employees.
 - 40% work for businesses with fewer than 50 employees.
- For workers making \$10 or less
 - 46% work for businesses with less than 100 employees
- McDonald's makes its money in franchising stores to individuals.
 - Profit margin for independently owned fast food restaurants is 2.6%

The Minimum Wage and Poverty

- 63.5% of Americans below the poverty line do not work and would therefore not be helped by a minimum wage increase.
- Higher minimum wages hurt the unemployed poor by making jobs more scarce (especially for the lowest-skill workers) and making consumer goods more expensive.
- Since 1995, eight studies have examined the relationship of minimum wage increases and the incidence of poverty in the United States. Seven found no effect. The eighth found a very small positive effect.

Countries without a Minimum Wage

- Norway
- Sweden
- Italy
- Denmark

Alternatives to the Minimum Wage

- Job training
- Decreasing health care costs
- Mobility subsidies
- Increased public spending on education
- Collective bargaining
- More sharply redistributive tax structure
- Prison sentencing reform
- Food and housing subsidies
- Wage subsidies

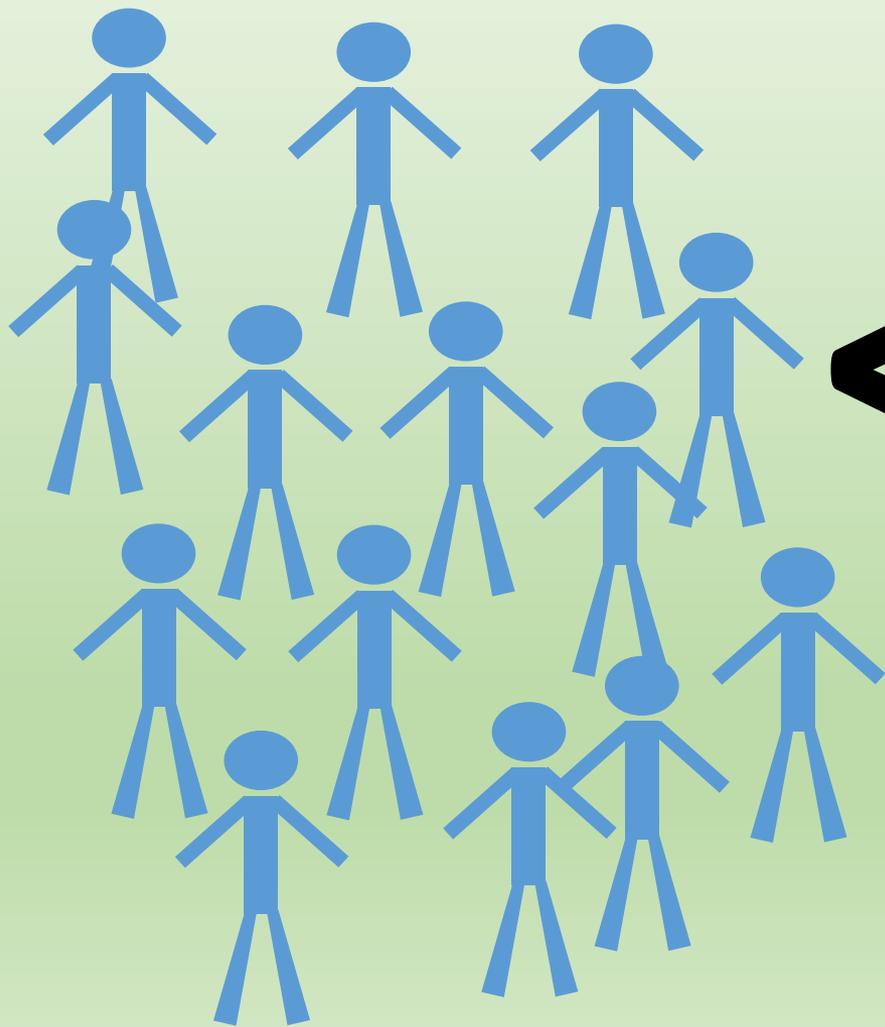
Wage subsidies

- Earned Income Tax Credit
- Worker subsidies
- Employer subsidies

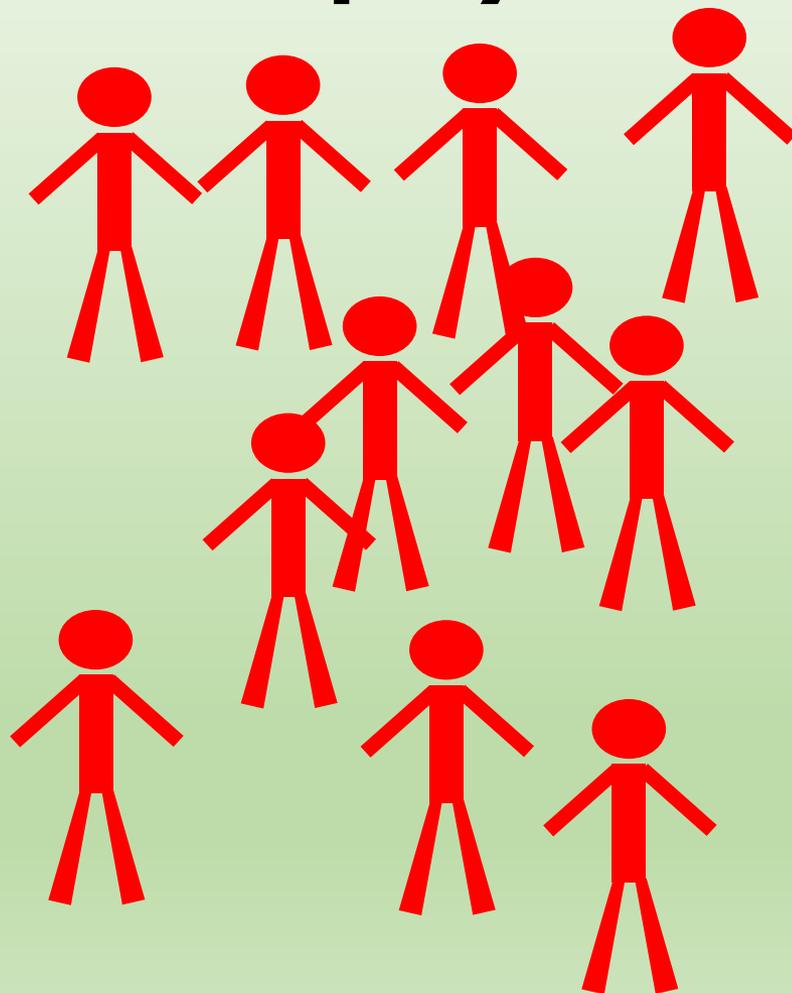
Wage: \$8

+ \$2 subsidy

Employers



Employees



Wage: \$8

+ \$2 subsidy

Employers

Employees

