

# Tacoma Minimum Wage Task Force Public Comment Report

*(Period from June 15, 2015 – June 18, 2015)*

## **June 15, 2015**

Members of the Tacoma Minimum Wage Task Force,

I work on labor policy for the Freedom Foundation, a right-of-center policy think tank based in Olympia. I've been closely involved with the minimum wage debates in Washington for the last two years.

Just so there isn't any doubt, I take the position that, while often well-intentioned, raising the minimum wage does more harm than good.

In my experience, there are many poor arguments out there on this issue. Statistics and research are often misinterpreted.

To help provide you with some resources to consider, this is the first of several short updates discussing various aspects of this debate.

Please do not take anything I say at face value, but weigh it against the other arguments out there. I welcome your feedback.

### **Inflation:**

Supporters of raising the minimum wage often argue that it hasn't kept up with inflation, or the cost of living. They frequently point to the purchasing power of the minimum wage in 1968, which was worth \$10.88 in 2015 dollars. Washington State's current minimum wage is \$9.47.

1. But the current state minimum wage is not out-of-line with historic trends. The selection of 1968 as the benchmark year is deliberate. The purchasing value of the minimum wage hit its all-time high in 1968.

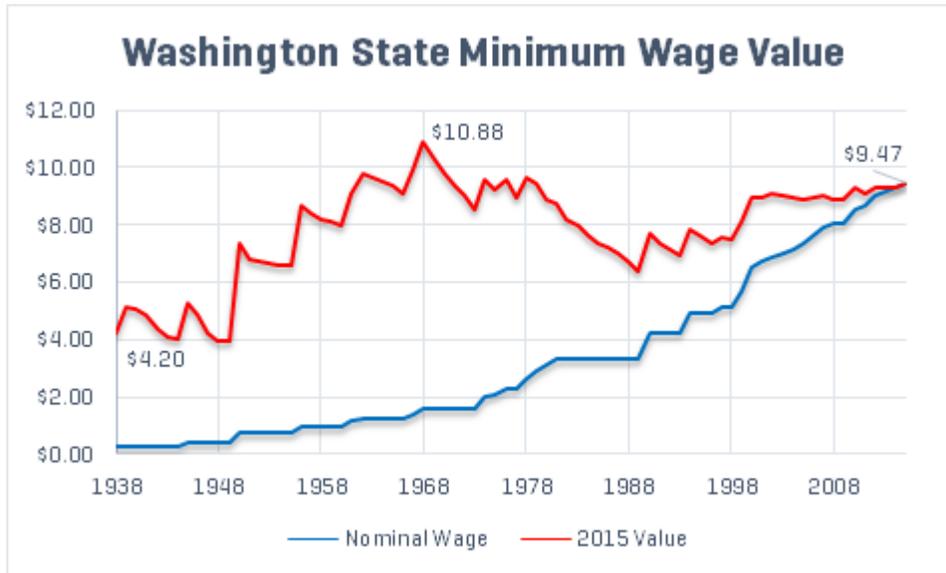
When the minimum wage was first created in 1938, it was worth \$4.20 in today's dollars, less than half of the current state minimum. From 1938 to 2015, the minimum wage prevailing in Washington (sometimes the federal minimum was higher, sometimes the state minimum was) averaged a purchasing power of \$7.87 in today's dollars.

In other words, Washington's current minimum wage of \$9.47 is noticeably higher than the historic average value of the minimum wage of \$7.87.

2. Additionally, the state minimum wage law passed in 1998 provided for automatic yearly increases based on inflation, meaning that the current state minimum wage will continue to keep pace with cost of living increases.
3. The creation of the Earned Income Tax Credit (EITC) in 1975 helped compensate for the decline in the purchasing power of the minimum wage that occurred during the 1980s and '90s. The Congressional Research Service describes the EITC as, "a refundable tax credit available to eligible workers with relatively low earnings. Under current law there are two categories of EITC recipients: childless adults and families with children. Because the credit is refundable, an EITC recipient need not owe taxes to receive the benefits."

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## Sources:

- Washington State Dept. of Labor and Industries, "[History of Washington Minimum Wage.](#)"
- U.S. Dept. of Labor, Wage and Hour Division, "[History of Federal Minimum Wage Rates Under the Fair Labor Standards Act, 1938 – 2009.](#)"
- U.S. Dept. of Labor, Bureau of Labor Statistics, [Inflation Calculator](#)
- Gene Falk, "[The Earned Income Tax Credit \(EITC\): An Overview.](#)" Congressional Research Service, October 2014.

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## **June 16, 2015**

I would like to share my perspective as a University Place based business that has several clients in Tacoma.

1. My employees make \$15 or more already. My clients and vendors in many cases do not. The impacts on my business are increased costs for the products and services I'm delivering. In some cases my vendors may have to downsize the workforce, which means slower response times to my clients. This will negatively impact my customer service delivery.
2. Despite my employees making more than \$15, it has an impact on perceived earnings relative to other sectors of the workforce, and I may be pressured to raise my wages even more to accommodate. The cost to maintain some parity would be over \$34,000 a year.
3. We just recently raised prices to attempt to get enough revenue to offer health insurance. My larger competitors offer that to employees and I've had a hard time getting good employees as a result. The revenue from the increase will now have to go do the difference in wages and I still won't be able to offer any other benefits.
4. Our staffing is highly mobile, about 60% of our clients are in Tacoma even though we're in University Place. Due to our current workloads there's no way I can afford to cut any staff.
5. Based on my time as a business owner in this economy, I feel that a minimum wage change is a good thing, and I'd like to see Tacoma achieve \$13/hour within 3 years. It has to be phased-in with allowances for micro-businesses, with no link to CPI or other mandated COL adjustments, and a threshold for compliance based on number of employees. Micro businesses need to grow and compete - they cannot do that if they're held to the same standards as deep-pocketed corporations that will shrug off this increase.

Thank you,  
Wade Stewart

## **June 16, 2015**

The unfortunate bottom line is many actually most of our lower dollar staff members are not personally motivated enough to warrant such an increase, currently we have no one at just the minimum but an increase that you are proposing will get many people dismissed from our co. And those left (albeit few) will have to do the jobs for those that will be gone. Basically most will lose their jobs and we will replace with far fewer, but individuals who are self motivated and worthy of the extreme increase in salary.

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## June 16, 2015

Members of the Tacoma Minimum Wage Task Force,

Today I'd like to briefly address whether the minimum wage has kept up with the productivity of the labor force.

Some advocates of raising the minimum wage contend that it has failed to keep up with increases in workers' productivity. Supporters argue that compensation largely tracked with productivity until 1968, when wage growth began to lag behind productivity increases. Consequently, they argue that workers are not being fairly compensated for their labor.

The productivity/minimum wage contrast was first [promulgated](#) by the left-leaning Center for Economic and Policy Research (CEPR) in 2012, which compared increases in the productivity of the average worker to the increases in the purchasing power of the minimum wage. CEPR contended that, "If the minimum wage had continued to move with average productivity after 1968, it would have reached \$21.72 per hour in 2012."

Cast in this light, calls to boost the minimum wage to \$10, \$12 or even \$15 an hour appear much more reasonable.

However, there are serious problems with this comparison.

1. There is serious debate about whether average wage growth has actually lagged behind average productivity increases. A [detailed analysis](#) of the issue by the right-leaning Heritage Foundation determined that, properly measured, the value of workers' wages and benefits continue to grow with productivity. The Heritage report notes:

"Harvard Professor Martin Feldstein, the former President of the National Bureau of Economic Research, concluded that the apparent divergence results from using the wrong data to measure pay and productivity. Using the correct data, he finds that pay and productivity have both grown together. Dean Baker, director of the left-leaning Center for Economic and Policy Research, and staff at the Federal Reserve Bank of St. Louis also come to that conclusion. Georgetown Professor Stephen Rose likewise finds that the apparent gap between pay and productivity collapses under scrutiny. He concludes that economic growth resulting from productivity growth continues to benefit working Americans."

2. Regardless, however, the productivity and compensation of average workers tells us nothing about the productivity of the average *minimum wage* worker. In order to begin to be relevant, the data would need to show that the productivity of minimum wage workers was increasing faster than their compensation. I have yet to see any evidence that this is the case, and some to the contrary.

For example, while the Dept. of Labor's Bureau of Labor Statistics (BLS) does not track minimum wage workers' productivity, it [recently released](#) information about the productivity of restaurant employees. Because many restaurant employees' hourly wages (not counting tips) are fairly low, they are frequently featured prominently in minimum wage debates.

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According to the BLS, labor productivity for employees of “food services and drinking places” increased by an average of 0.6 percent per year from 1987 to 2013. Over the same period, pay for these workers increased by an average of 5.1 percent per year.

Put simply, from 1987 to 2013, restaurant worker compensation increased more than eight times as fast as restaurant worker productivity.

For these reasons, I find the argument that the minimum wage has failed to keep up with productivity to be unproven and unconvincing.

## Sources:

- John Schmitt, “[The Minimum Wage is Too Damn Low](#),” Center for Economic and Policy Research, March 2012.
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## June 17, 2015

Members of the Tacoma Minimum Wage Task Force,

An increasingly common argument used by supporters of raising the minimum wage is that boosting entry-level workers’ income will prompt them to spend more, thus stimulating the economy and local businesses. President Obama, Governor Inslee, local millionaire Nick Hanauer and labor activists have all made variations of this argument.

Unfortunately, the argument is logically unsound and empirically unsupported.

1. Some minimum wage supporters simply take the number of workers earning less than a proposed minimum wage, multiply it by the wage increase per worker, and conclude that increasing the wage floor creates millions of dollars in new consumer spending in the economy. Left-leaning Puget Sound Sage has used this method to estimate that a \$15 minimum wage in Seattle would generate millions in new economic activity.

However, such simplistic estimates are of little value since they fail to account for the other effects of a minimum-wage increase — reduced business spending, higher prices and decreased employment.

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As the Congressional Budget Office [noted in a report](#) last year,

*“The increased earnings for some workers would be accompanied by reductions in real (inflation-adjusted) income for the people who became jobless because of the minimum-wage increase, for business owners, and for consumers facing higher prices.”*

The fundamental flaw in the argument is that it assumes the additional income received by entry-level workers is new money in the economy when, in reality, it has simply been redistributed from businesses that must raise prices or cut back on human labor (layoffs, reduced hiring, fewer hours for employees, more automation) in response.

2. Furthermore, the evidence indicates that, overall, the economy is no better off in the end.
  - a. Minimum wage expert Professor David Neumark of the University of California-Irvine [has noted](#) that “there is simply no evidence” to support the claim that raising the minimum wage stimulates the economy.
  - b. Professor Sylvia Allegretto of the University of California-Berkeley, whose research has often been used by minimum wage supporters, [has admitted](#) that her research does not show that the minimum wage stimulates the economy.
  - c. In a [2010 paper](#) published by the right-leaning Employment Policies Institute, Dr. Joseph Sabia of the U.S. Military Academy at West Point concluded that, “Far from stimulating an economy, an increase in the minimum wage has no discernible impact on overall GDP [Gross Domestic Product] and could actually hinder growth in certain low-wage sectors.”
3. Minimum wage supporters frequently misinterpret studies to argue in favor of a positive economic stimulus from the minimum wage.
  - a. A [2011 study](#) by Daniel Aaronson, Sumit Agarwal and Eric French of the Chicago Federal Reserve found, unsurprisingly, that households benefiting from a minimum wage increase spent more. However, they specifically warned that their study is “silent about the aggregate effects of a minimum wage hike.”

The same research team has documented some of the negative consequences of a higher minimum wage. In a [2006 paper](#), Aaronson and French found that a 10 percent increase in the minimum wage decreased employment in the restaurant industry by 1 to 3 percent.

Furthermore, Aaronson and French concluded in a [2007 study](#) that “restaurant prices unambiguously rise” following a minimum wage increase.

Taking only the negative employment effects into account led the researchers to conclude in a [2013 paper](#), “A minimum wage hike provides stimulus for a year or so, but serves as a drag on the economy beyond that.”

- b. Minimum wage supporters in the state legislature have pointed to a [2006 paper](#) by Marshall Fisher, Jayanth Krishna and Serguei Netessin of the University of Pennsylvania which found that, “increasing associate payroll by \$1 at a given store is associated with a sales lift of anywhere from \$4 to \$28.”

However, the paper had nothing to do with the minimum wage, but rather about how retail stores could structure their payroll and staffing to optimize sales.

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Responding to my email inquiry about the nature of his paper, Professor Fisher confirmed that “those citing the paper [in support of the minimum wage] are mis-interpreting it.”

In sum, both reason and existing economic evidence confirm that raising the minimum wage simply redistributes existing wealth in a manner that appears to have slightly negative effects on the overall economy. No new economic activity is generated and no new wealth is created. No net economic stimulus should be expected from raising the minimum wage.

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- Congressional Budget Office, “[The Effects of a Minimum-Wage Increase on Employment and Family Income](#),” February 2014.
- David Neumark, “[Should Missouri Raise its Minimum Wage?](#)” Show-Me Institute, September 2012.
- Sylvia Allegretto, comments made during podcast interview, “[Neumark, Allegretto Debate Minimum Wage Impact](#),” Bloomberg, February 2013.
- Joseph Sabia, “[Failed Stimulus: Minimum Wage Increases and Their Failure to Boost Gross Domestic Product](#),” Employment Policies Institute, December 2010.
- Daniel Aaronson, Sumit Agarwal, and Eric French, “[The Spending and Debt Responses to Minimum Wage Increases](#),” Federal Reserve Bank of Chicago, February 2011.
- Daniel Aaronson and Eric French, “[Product Market Evidence on the Employment Effects of the Minimum Wage](#),” Federal Reserve Bank of Chicago, April 2006.
- Daniel Aaronson, Eric French, and James MacDonald, “[The Minimum Wage, Restaurant Prices, and Labor Market Structure](#),” Federal Reserve Bank of Chicago, August 2007.
- Daniel Aaronson and Eric French, “[How does a federal minimum wage hike affect aggregate household spending?](#)” Federal Reserve Bank of Chicago, August 2013.
- Marshall Fisher, Jayanth Krishna and Serguei Netessin, “[Retail Store Execution: An Empirical Study](#),” The Wharton School, University of Pennsylvania, October 2006.

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## June 18, 2015

Authors: Bronwyn Clarke & Sophie Nop

Dear Minimum Wage Taskforce Members:

We are writing to you on behalf of the Associated Students of the University of Washington Tacoma (ASUWT). As official representatives of 4,500 students – of whom approximately 75 are student employees funded by student-initiated fees – we have a significant interest in a minimum wage policy that results in net benefits for students at our university and others in the Tacoma region. Furthermore, UW Tacoma’s identity as an urban-serving university drives us to advocate for a policy that will mitigate negative unintended consequences in the broader Tacoma community.

Before we outline our specific recommendations, it is important to note one thing: We do not yet have an official opinion in favor of or against a minimum wage increase. Because this issue came to a head toward the end of our academic year, we have not had the time to assess students’ views on this issue.

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This summer and fall, we will form a taskforce to gather student views, collect impact data, and work with university administration on how to approach this issue.

But considering the prevailing support for a minimum wage increase among the members of *this* Taskforce, we think it wise to advocate for specific policy components that will benefit students and contribute to an effective policy for the Tacoma region as a whole. To this end, we support the following:

- 1. A proportionate minimum wage exemption (or a tax credit) for employers who offer on-the-job professional development, paid managerial training, and/or educational credit to their employees.** If one of the fundamental goals of a minimum wage increase is to foster upward income mobility, then employees of all ages need to be provided with opportunities to enhance their skills so that they can move into positions with higher pay. A policy that incentivizes employers to offer these learning opportunities by providing them with a proportionate financial exemption (or a similar tax credit) from the minimum wage requirement would lay the foundation for workers to pursue higher wages on their own.
- 2. A phased-in policy contingent upon positive periodic economic assessments.** Given the apparently ambiguous research on the effects of a minimum wage increase and this Taskforce's stated commitment to a "data-driven" decision, we find Dr. Modarres' proposal to be prudent and absolutely necessary. We would add that a baseline assessment of Tacoma's regional economy should be conducted *prior* to a policy taking effect so that the causal effects of a minimum wage increase can be determined. In the interest of an objective evaluation, we also suggest that this economic assessment be conducted by a research committee comprised of a City of Tacoma economic analyst, at least two economists from different universities in the Tacoma region, and at least two independent policy analysts from semi-local think tanks that hold differing positions on the political spectrum.

In addition to these specific policy recommendations, we urge the Taskforce members to consider the potential negative consequences that a minimum wage increase would have on people with minimal prior work experiences (generally high school students and college students). An increase in the minimum wage will likely induce employers to pass over less-skilled/experienced candidates for more-skilled/experienced candidates that they won't have to spend extra time and money training. We are concerned that this issue has not been considered adequately in the Taskforce's meetings thus far. This concern derives from our position as representatives of UW Tacoma students and the responsibility we feel to the students of the greater Tacoma region.

Finally, we'd like to draw your attention to the significant financial strain that a \$15 minimum wage would exert on student-directed budgets at universities in the Tacoma region. At UW Tacoma, even a \$13 minimum wage would exert considerable compression costs on the student funds that finance student employment positions. Our current levels of services and employment would be unsustainable under a \$15 minimum wage. Please note these are just the facts; we are not advocating for or against a minimum wage increase.

Thank you in advance for taking into account students' stake in this issue and our specific policy recommendations. At the end of the day, ASUWT is committed to a minimum wage policy that positively affects students. When UW Tacoma makes its decision on how to proceed with this issue as an autonomous public university, we will advocate for the course of action that is best for students.

Sincerely,

**Sophie Nop Bronwyn Clarke** ASUWT President ASUWT Director of Finance [snop@uw.edu](mailto:snop@uw.edu) [bronwyn@uw.edu](mailto:bronwyn@uw.edu)

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## June 18, 2015

Dear Minimum Wage Taskforce Members,

Having listened to the conversation tonight about a minimum wage policy distinction between large businesses and small businesses, we have one more point to add:

If large businesses are defined as 50 or more employees, then universities employing student workers in the Tacoma region **will be categorized as large businesses**. These student employees are funded from two sources: tuition \$\$ or fees authorized and allocated by students. At UW Tacoma, these fees go into a fund called the Services & Activities Fund, which currently stands at about \$2 million. This fund is used to employ approximately 75 student employees. This year, 10 student positions were eliminated to accommodate an increase to an \$11 minimum wage. If universities are categorized as large businesses, this committee will be forced to choose between decreasing student positions and services or increasing student fees.

In addition, student jobs at universities frequently involve more benefits than the pay alone - leadership development, service-provider experience, skill acquisition, health benefits, flexible scheduling, and convenience are some of the benefits that student employees at our university receive. These student positions would get lumped in with the university's total hiring count - i.e., faculty, administration, and salaried staff that are not affected by a minimum wage increase. This is why university student employers should not be considered large businesses at 50 employees or more.

Please consider the unique status of university student employers when choosing to define large businesses as 50+ employees across the board.

Sincerely,

**Sophie Nop Bronwyn Clarke** ASUWT President ASUWT Director of Finance [snop@uw.edu](mailto:snop@uw.edu) [bronwyn@uw.edu](mailto:bronwyn@uw.edu)

## June 18, 2015

Members of the Tacoma Minimum Wage Task Force,

The past three briefings have discussed important issues, but were peripheral to perhaps the biggest question surrounding the minimum wage: does raising the minimum wage harm employment?

There is too much information on this question to cover every study that has been done on the topic. Instead, I will endeavor to provide an overview of the development of the debate in broader terms.

Opponents of raising the minimum wage contend that increasing the cost of human labor will cause employers to purchase less of it, reasoning that the economic laws of supply and demand apply to labor just as they do to any other good or service. Employers can use less human labor by: laying off low-skilled workers; reducing the hours of entry-level employees; cutting employee benefits; replacing less-skilled workers with employees that have more education or experience; replacing human labor with automation; or limiting their future hiring and expansion.

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Supporters of raising the minimum wage contend that the evidence indicates that a higher minimum wage does not noticeably reduce employment opportunities. In many cases, they explain their research by contending that raising the minimum wage will produce an economic stimulus as low-wage workers spend more money, and that the resulting increase in jobs will outweigh any jobs lost because of the higher wage. Others argue that a higher minimum wage will increase workers' productivity and be good for the business in the long run, or that businesses have enough profit to pay for the raises without making any other changes.

Yesterday's briefing dealt with the unfounded stimulus argument. The argument about higher productivity implies that "greedy" business owners don't know what's best for them and need to be forced to adopt more profitable business practices. While this may be true for a few businesses, it seems unlikely to be the case generally. As for profits, a few businesses that employ minimum workers (by no means all) likely make enough profit to mathematically afford an increase in the minimum wage without taking other mitigating steps. But that doesn't mean that they *will* respond by simply throwing up their hands and eating the increase, especially if employees are unable to produce enough value to offset the increased cost of their employment.

All of this leaves many minimum wage supporters without a clear theoretical explanation for why their studies indicate the minimum wage doesn't kill jobs.

Below is a brief overview of the history and research related to the effect of the minimum wage on jobs and employment:

1. Up until 1994, the general economic consensus was that increasing the minimum wage would decrease employment of low-wage employees. In 1981, the economists on the Congressional Minimum Wage Study Commission [concluded](#) that "studies typically find that a 10 percent increase in the minimum wage reduces teenage employment by one to three percent."
2. In 1994, Princeton economists David Card and Alan Krueger [published a study](#) which looked at fast food employment following a minimum wage increase in New Jersey. The original Card and Krueger study was based on phone interviews with employers, and concluded that New Jersey's increased minimum wage resulted in a 17.6 percent increase in employment compared to neighboring Pennsylvania, which did not raise its minimum wage. However, two years later, economists David Neumark (University of California-Irvine) and William Wascher (Federal Reserve) [published a paper](#) for the National Bureau of Economic Research debunking the Card and Krueger paper. When the Card-Krueger study was repeated by Neumark and Wascher using actual payroll data for the same fast food restaurants, employment among the New Jersey restaurants actually declined by 4.6 percent relative to Pennsylvania. Card and Krueger [repeated their study](#) with different data in 2000 and concluded that the higher minimum wage did not boost employment in New Jersey after all. Nevertheless, the original Card-Krueger paper is still often cited as proof that the minimum wage does not harm employment.
3. In 2007, Neumark and Wascher [published a review](#) of modern minimum wage studies. Two-thirds of the studies concluded that a higher minimum wage had negative employment effects, and 85 percent of the studies Neumark and Wascher considered to be the most credible pointed to negative employment effects.
4. Since 2007, about a half dozen economists (including Michael Reich of the University of California-Berkeley, Ken Jacobs of UC Berkeley, Sylvia Allegretto of UC Berkeley, Arin Dube of the University of Massachusetts-Amherst, and William Lester of the University of North Carolina) have published a series of studies using a new methodology and purport to find that

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moderate minimum wage increases have no discernable effect on employment. This new methodology relied on comparing employment in jurisdictions that had increased the minimum wage to employment in neighboring jurisdictions that did not.

5. In 2012, David Neumark, Ian Salas and William Wascher [published a paper](#) evaluating the methodology of the new minimum wage research and concluding that, "...neither the conclusions of these studies nor the methods they use are supported by the data." Neumark, Salas and Wascher contend that comparing neighboring jurisdictions often results in an apples-to-oranges comparison. For instance, it wouldn't make sense to compare King County (population of 2 million+, 3.3% unemployment) to neighboring Kittitas County (population of 42,000, 5.9% unemployment). The economies are too dissimilar, and the effects of a higher minimum wage in the city is likely to be obscured by its generally strong economy as the region's urban center. It is more appropriate, they argue, to compare jurisdictions based on similarity rather than simply proximity.
6. In 2014, the Congressional Budget Office [reviewed the literature](#) on the minimum wage, split the difference between the studies, and concluded that a federal minimum wage of \$10.10 would eliminate about 500,000 and as many as 1 million jobs nationwide.
7. It's also important to bear in mind that there are many ways in which job opportunities for low-skilled individuals could decrease following a minimum wage hike that would not show up as decreased overall employment.
  - a. For instance, in a [2013 study](#), Jonathan Meer of Texas A&M University and Jeremy West of the Massachusetts Institute of Technology [argued](#) that, "the minimum wage reduces net job growth, primarily through its effect on job creation by expanding establishments," or, in other words, jobs never created.
  - b. Reductions in employee hours or benefits decrease workers' pay without registering as jobs lost. For example, a [2012 paper](#) by Dr. Aaron Yelowitz of the University of Kentucky examined San Francisco's \$10.24 minimum wage (as of 2012) and concluded that every dollar increase in a city's compensation floor causes a 26-hour reduction in the number of hours worked per year by younger employees. His paper also argued that every dollar increase in the minimum wage boosted unemployment for young workers by 4.5 percentage points and decreases their participation in the labor force by two percentage points.
  - c. If employers hire more skilled/educated workers over less-skilled/educated workers, the total number of jobs may remain the same while still making it harder for the least-skilled individuals to find work. As David Neumark, Ian Salas and William Wascher explained in a [2012 paper](#), "The minimum wage can lead employers to substitute higher-skilled workers for lower-skilled workers without reducing net employment very much."

Overall, I think the evidence is pretty clear. As common sense would indicate, increasing the cost of labor will make it that much harder for the least-skilled, least-educated workers to find employment. After all, an employer is not likely to hire someone if they can't produce enough value for the business to offset the cost of paying them. Effectively, the minimum wage criminalizes low-skill, entry-level jobs. While there is little disagreement that small increases in the minimum wage have moderate consequences, the larger the increase, the larger the consequences.

## Sources:

- Charles Brown, Curtis Gilroy, Andrew Kohen, "[The Effect of the Minimum Wage on Employment and Unemployment](#)," National Bureau of Economic Research, January 1982.
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