

# ALASKA STATE LEGISLATURE



SENATOR BILL WIELECHOWSKI

SENATOR JOHNNY ELLIS

SENATOR JOE THOMAS

SENATOR BETTYE DAVIS

SENATOR FRENCH

January 23, 2009

Senator Joe Paskvan, Chair  
Senate Labor and Commerce Committee  
Room 7, State Capitol  
Juneau, Alaska 99801


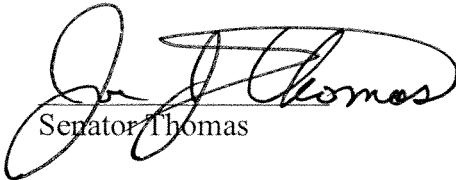


We respectfully request a hearing on SB 1, "An Act increasing the minimum wage; creating an annual adjustment to the minimum wage based on the rate of inflation; and providing for an effective date."

Alaska's cost of living is one of the highest in the nation. The cost of food, housing, utilities, transportation and health care are far greater here than in most states. Despite this, 16 states have a higher minimum wage than Alaska, including California, Connecticut, Hawaii, Iowa, Illinois, Massachusetts, Michigan, Oregon, and Washington. In addition, in July 2009 the federal minimum wage will increase to \$7.25, surpassing Alaska's rate of \$7.15. After this, 39 states will have a higher minimum wage than Alaska.

S.B. 1 would increase Alaska's minimum wage from \$7.15/hour to \$8.75/hour in 2010 and adjust it annually for inflation. If Alaska's minimum wage, last raised in 2003, were to have kept pace with the rate of inflation, it would be \$8.46/hour today. At least nine states adjust their minimum wage annually for inflation, including Arizona, Colorado, Montana, Nevada, Ohio, Oregon, Washington, and Wisconsin.

An estimated 22,254 Alaskans (or 7.4% of the workforce) earn less than \$8.75/hour and would benefit from this legislation. Workers that earn the current Alaska minimum wage make roughly \$14,872/year, little more than the federal poverty level for Alaska, which is \$13,530. On behalf of these workers, many of whom are parents and the sole wage earners in their households, we thank you for your speedy consideration of this request.

Sincerely,

  
\_\_\_\_\_  
Senator Wielechowski  
\_\_\_\_\_  
Senator Ellis  
\_\_\_\_\_  
Senator Thomas  
\_\_\_\_\_  
Senator Davis  
\_\_\_\_\_  
Senator French

# ALASKA STATE LEGISLATURE



SENATOR BILL WIELECHOWSKI

SENATOR JOHNNY ELLIS

SENATOR JOE THOMAS

SENATOR KIM ELTON

SENATOR HOLLIS FRENCH

## **Sponsor Statement: SB 1 Raising the Minimum Wage**

Alaska's cost of living is one of the highest in the nation. The cost of food, housing, utilities, transportation and health care are far greater here than in most states. Despite this, Alaska has the lowest minimum wage on the west coast. Oregon, Washington, California and Hawaii all have higher minimum wages, as do twelve other states. In addition, in July 2009 the federal minimum wage will increase to \$7.25, surpassing Alaska's rate of \$7.15.

SB 1 will increase Alaska's minimum wage from \$7.15/hour to \$8.75/hour in 2010 and adjust it annually for inflation. If Alaska's minimum wage, last raised in 2003, were to have kept pace with the rate of inflation, it would be \$8.46/hour today. At least nine states adjust their minimum wage annually for inflation, including Arizona, Colorado, Montana, Nevada, Ohio, Oregon, Washington, and Wisconsin.

An estimated 22,254 Alaskans (7.4% of the workforce) earn less than \$8.75/hour and would benefit from this legislation. Workers that earn the current Alaska minimum wage make roughly \$14,872/year, which is little more than the federal poverty level for Alaska (\$13,530). Twenty-five percent of those who earn just under \$8/hour are parents. Many are the sole wage earners in their household.

Economic studies show that higher wages lead to greater productivity, lower recruiting and training costs, decreased absenteeism, and increased worker morale. Studies have not documented negative employment impacts (e.g., job loss) due to increases in the minimum wage.

As welfare reform forces more poor families to rely on their earnings from low-paying jobs, a minimum wage increase will help alleviate poverty and improve the standard of living for many Alaskans families. Please join us in supporting this critical legislation.

**SENATE BILL NO. 1**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SIXTH LEGISLATURE - FIRST SESSION

BY SENATORS WIELECHOWSKI, ELLIS, THOMAS, DAVIS, AND FRENCH

Introduced: 1/21/09

Referred: Labor and Commerce, Finance

**A BILL**

**FOR AN ACT ENTITLED**

1   **"An Act increasing the minimum hourly wage, and creating an annual adjustment to**  
2   **the minimum hourly wage based on the rate of inflation; and providing for an effective**  
3   **date."**

4   **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

5    \* **Section 1.** AS 23.10.065(a) is amended to read:

6           (a) Except as provided under (b) of this section and as otherwise provided for  
7           in law, for work performed on or after January 1, **2010** [2003], an employer shall pay  
8           to each employee wages at a rate of not less than **the wage established in this**  
9           **subsection** [\$7.15 AN HOUR] for hours worked in a pay period, whether the work is  
10          measured by time, piece, commission, or otherwise. An employer may not apply tips  
11          or gratuities bestowed upon employees as a credit toward payment of the minimum  
12          hourly wage required by this section. Tip credit as defined by the Fair Labor Standards  
13          Act of 1938 as amended does not apply to the minimum wage established by this  
14          section. **The minimum hourly wage under this subsection is the greater of**

1                   (1) \$1 more an hour than the federal minimum wage; or  
2                   (2) \$8.75 an hour, as adjusted under this paragraph; the  
3                   department shall, by regulation, not later than September 30 of each calendar  
4                   year, adjust the minimum hourly wage established in this paragraph for inflation  
5                   effective for the following calendar year; the adjusted minimum hourly wage  
6                   shall be the most recent wage under this paragraph adjusted for 100 percent of  
7                   the rate of inflation based on the Consumer Price Index for all urban consumers  
8                   for the Anchorage metropolitan area, compiled by the Bureau of Labor Statistics,  
9                   United States Department of Labor; the department shall round the adjusted  
10                  minimum hourly wage up to the nearest one cent; the adjusted minimum hourly  
11                  wage shall apply to work performed beginning on January 1 through  
12                  December 31 of the year for which it is effective.

13       \* Sec. 2. This Act takes effect January 1, 2010.

# FISCAL NOTE

STATE OF ALASKA  
2009 LEGISLATIVE SESSION

Fiscal Note Number:

Bill Version:

SB 1

() Publish Date:

Identifier (file name):

SB001-DOLWD-WH-02-02-09

Title

Alaska Minimum Wage

Dept. Affected: Labor and Workforce Development

RDU

Labor Standard & Safety

Component

Wage and Hour

Sponsor

Senators Wielechowski, Ellis, Thomas, Davis, French

Requester

Senate Labor and Commerce

Component Number

345

## Expenditures/Revenues

(Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

|                               | Appropriation<br>Required | Information |         |         |         |         |         |
|-------------------------------|---------------------------|-------------|---------|---------|---------|---------|---------|
|                               |                           | FY 2010     | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 |
| <b>OPERATING EXPENDITURES</b> |                           |             |         |         |         |         |         |
| Personal Services             |                           |             |         |         |         |         |         |
| Travel                        |                           |             |         |         |         |         |         |
| Contractual                   |                           |             |         |         |         |         |         |
| Supplies                      |                           |             |         |         |         |         |         |
| Equipment                     |                           |             |         |         |         |         |         |
| Land & Structures             |                           |             |         |         |         |         |         |
| Grants & Claims               |                           |             |         |         |         |         |         |
| Miscellaneous                 |                           |             |         |         |         |         |         |
| <b>TOTAL OPERATING</b>        |                           | 0.0         | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |

|                             |  |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|--|
| <b>CAPITAL EXPENDITURES</b> |  |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|--|

|                               |  |  |  |  |  |  |  |
|-------------------------------|--|--|--|--|--|--|--|
| <b>CHANGE IN REVENUES ( )</b> |  |  |  |  |  |  |  |
|-------------------------------|--|--|--|--|--|--|--|

## FUND SOURCE

(Thousands of Dollars)

|                            |  |     |     |     |     |     |     |
|----------------------------|--|-----|-----|-----|-----|-----|-----|
| 1002 Federal Receipts      |  |     |     |     |     |     |     |
| 1003 GF Match              |  |     |     |     |     |     |     |
| 1004 GF                    |  |     |     |     |     |     |     |
| 1005 GF/Program Receipts   |  |     |     |     |     |     |     |
| 1037 GF/Mental Health      |  |     |     |     |     |     |     |
| 1157 Worker Safety Account |  |     |     |     |     |     |     |
| <b>TOTAL</b>               |  | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Estimate of any current year (FY2009) cost:

None

## POSITIONS

|           |  |  |  |  |  |  |  |
|-----------|--|--|--|--|--|--|--|
| Full-time |  |  |  |  |  |  |  |
| Part-time |  |  |  |  |  |  |  |
| Temporary |  |  |  |  |  |  |  |

**ANALYSIS:** (Attach a separate page if necessary)

There is no anticipated financial impact to the department as a result of this legislation.

Prepared by: Grey Mitchell, Director

Division: Labor Standard & Safety

Approved by: Click Bishop, Commissioner

Agency: Department of Labor and Workforce Development

Phone 465-4855

Date/Time 2/2/09 9:32 AM

Date 2/2/09

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101


State Capitol  
Juneau, Alaska 99801-1182  
Deliveries to: 129 6th St., Rm. 329

## MEMORANDUM

January 26, 2009

**SUBJECT:** Sectional Analysis of Senate Bill 1  
(Work Order No. 26-LS0006\R)

**TO:** Senator Bill Wielechowski  
Attn: Michelle Sydeman  
Senator Johnny Ellis  
Senator Joe Thomas  
Senator Bettye Davis  
Senator Hollis French

**FROM:** Dan Wayne   
Legislative Counsel

You have requested a sectional summary of the above-described bill. As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

**Section 1.** This section would amend AS 23.10.065(a) so that the minimum wage rate would become the greater of: (1) \$1.00 more an hour than the federal minimum wage; or (2) \$8.75 an hour effective January 1, 2010, and thereafter adjusted annually for inflation. The inflation-based rate would be calculated as follows: effective January 1, 2010 the rate would be \$8.75 an hour through December 31, 2010. No later than September 30, 2010, the Department of Labor would calculate an inflation-based rate, for calendar year 2011, of \$8.75 an hour adjusted for 100 percent of the rate of inflation based on the Anchorage Consumer Price Index. The 2011 inflation-based rate would be applied in the same way, no later than September 30, 2011, to calculate the 2012 inflation-based rate, which would become part of the 2013 inflation-based calculation, and so on. The greater of the two rates -- the inflation-based rate or the \$1.00 over minimum wage rate -- would always be the prevailing rate.

**Section 2.** This section establishes the bill's effective date.

DCW:plm  
09-038.plm

# Raising the Minimum Wage

## Proposal:

Increase Alaska's minimum wage from \$7.15/hour to \$8.75/hour, effective January 1, 2010, and adjust it annually for inflation.

## Background:

- Alaska's cost of living is one of the highest in the nation. The cost of food, housing, utilities, transportation and health care are far greater than in other states.
- Despite this, 16 states have a higher minimum wage than Alaska, including California, Connecticut, Hawaii, Iowa, Illinois, Massachusetts, Michigan, Oregon, Rhode Island, Vermont, and Washington. By July 2009, this number will increase to 39.
- Alaska's minimum wage was last raised in January 2003. Since then, the prices of fuel, medical care, and other goods in Alaska have skyrocketed.
- If the minimum wage were to keep pace with Alaska's rate of inflation, it would be \$8.46/hour today. Washington, California and Massachusetts all have minimum wages above \$8/hour.
- At least nine states adjust their minimum wage annually for inflation, including Arizona, Colorado, Florida, Missouri, Montana, Nevada, Oregon, and Washington.
- In 2009 the federal minimum wage will increase to \$7.25, surpassing Alaska's.
- An estimated 22,254 Alaskans (or 7.4% of the workforce) earn less than \$8.75/hour and would benefit from this legislation. Workers that earn the current Alaska minimum wage make roughly \$14,872/year, little more than the federal poverty level for Alaska, which is \$13,530. Twenty five percent of those who slightly less than \$8/hour are parents. Many are the sole wage earners in their household.
- Economic studies have not found negative employment impacts (e.g., job loss) due to increases in the minimum wage, perhaps because higher wages lead to greater productivity, lower recruiting and training costs, decreased absenteeism, and increased worker morale.
- As welfare reform forces more poor families to rely on their earnings from low-paying jobs, a minimum wage increase can help alleviate poverty.





## State Minimum Wages

Updated December 17, 2008

| State                | Minimum Wage           | Future Scheduled Increases                 |
|----------------------|------------------------|--|
| Alabama (F)          | \$6.55                 | \$7.25 July 24, 2009                       |
| Alaska               | \$7.15                 |  |
| Arizona              | \$6.90                 | *  |
| Arkansas             | \$6.25                 |  |
| California           | \$8.00                 |  |
| Colorado             | \$7.02                 | *  |
| Connecticut          | \$7.65                 | \$8.00 Jan. 1, 2009; \$8.25 Jan. 1, 2010   |
| Delaware             | \$7.15                 |  |
| District of Columbia | \$7.55                 | \$8.25 July 24, 2009                       |
| Florida              | \$6.79                 | *  |
| Georgia (F)          | \$6.55                 | \$7.25 July 24, 2009                       |
| Hawaii               | \$7.25                 |  |
| Idaho (F)            | \$6.55                 | \$7.25 July 24, 2009                       |
| Illinois             | \$7.75                 | \$8.00 July 1, 2009; \$8.25 July 1, 2010   |
| Indiana (F)          | \$5.85                 | \$6.55 July 24, 2008; \$7.25 July 24, 2009 |
| Iowa                 | \$7.25                 |  |
| Kansas               | \$6.55                 | \$7.25 July 24, 2009                       |
| Kentucky (F)         | \$6.55                 | \$7.25 July 24, 2009                       |
| Louisiana (F)        | \$6.55                 | \$7.25 July 24, 2009                       |
| Maine                | \$7.25                 | \$7.50 Oct. 1, 2009                        |
| Maryland             | \$6.55                 | \$7.25 July 24, 2009                       |
| Massachusetts        | \$8.00                 |  |
| Michigan             | \$7.40                 |  |
| Minnesota            | \$6.15 (1)             |  |
| Mississippi (F)      | \$6.55                 | \$7.25 July 24, 2009                       |
| Missouri             | \$6.65                 | *  |
| Montana              | \$6.55                 | \$7.25 July 24, 2009*                      |
| Nebraska             | \$6.55                 | \$7.25 July 24, 2009                       |
| Nevada               | \$6.85 (2)/ \$5.30 (3) | *  |
| New Hampshire        | \$7.25                 |  |
| New Jersey           | \$7.15                 |  |
| New Mexico           | \$6.50                 | \$7.50 Jan. 1, 2009                        |
| New York             | \$7.15                 | \$7.25 July 24, 2009                       |
| North Carolina       | \$6.55                 | \$7.25 July 24, 2009                       |
| North Dakota         | \$6.55                 | \$7.25 July 24, 2009                       |
| Ohio                 | \$7.00 (4)             |  |
| Oklahoma             | \$6.55                 | \$7.25 July 24, 2009                       |
| Oregon               | \$7.95                 | *  |
| Pennsylvania         | \$7.15                 | \$7.25 July 24, 2009                       |
| Rhode Island         | \$7.40                 |  |
| South Carolina (F)   | \$6.55                 | \$7.25 July 24, 2009                       |

|               |        |                      |
|---------------|--------|----------------------|
| South Dakota  | \$6.55 | \$7.25 July 24, 2009 |
| Tennessee (F) | \$6.55 | \$7.25 July 24, 2009 |
| Texas         | \$6.55 | \$7.25 July 24, 2009 |
| Utah (F)      | \$6.55 | \$7.25 July 24, 2009 |
| Vermont       | \$7.68 | *                    |
| Virginia (F)  | \$6.55 | \$7.25 July 24, 2009 |
| Washington    | \$8.07 | *                    |
| West Virginia | \$7.25 |                      |
| Wisconsin     | \$6.50 |                      |
| Wyoming (F)   | \$6.55 | \$7.25 July 24, 2009 |

(F) - State does not have its own minimum wage laws, but adheres to federal minimum wage requirements.

\* Future annual increases indexed to cost of living.

(1) Applies to employers with an annual sales volume of more than \$625,000. The federal minimum wage applies to employers with annual sales of \$625,000 or less.

(2) Without benefits. (3) With benefits.

(4) Applies to employers with an annual sales volume of \$255,000 or more. The federal minimum wage applies to employers with annual sales less than \$255,000.

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**Denver Office:** Tel: 303-364-7700 | Fax: 303-364-7800 | 7700 East First Place | Denver, CO 80230 | [Map](#)

**Washington Office:** Tel: 202-624-5400 | Fax: 202-737-1069 | 444 North Capitol Street, N.W., Suite 515 | Washington, D.C. 20001

critics and those trying to understand what's behind changes to the overall CPI.

What's more, there's an especially wide range of dollar amounts that consumers spend on housing, making it more likely that a person's individual expenses will differ from the calculated average.

Some people have paid off their home loans and pay only property taxes and maintenance costs, neither of which are likely to change significantly with the vagaries of housing markets. Others spend very little on housing because they live with parents or other relatives. On the other end of the spectrum, new homeowners can pay large monthly mortgage payments and see increases far in excess of those represented by the CPI.

### Where is inflation headed?

Whether inflation will stay low is impossible to predict with any certainty, but it appears unlikely. Most forecasts for U.S. inflation are generally higher, due to the current trends in both energy and food costs, and in three out of the first four months of 2008<sup>3</sup> the national CPI has been up at least 4 percent over the year.

The higher national inflation has been driven largely by rising energy and food prices, increases Anchorage is unlikely to escape. Consultants for the Alaska Permanent Fund Corporation, which uses the CPI to make sure the principal of the Permanent Fund keeps up with inflation, have forecasted a 2.8 percent U.S. inflation rate for the next five years.<sup>4</sup> Anchorage data for the first half of 2008 will be released in late July.

<sup>3</sup> The national CPI is produced every month. Monthly CPI data are also available for the nation's four Census regions (Northeast, Midwest, South and West) and for three major metropolitan areas. Data for 11 metropolitan areas are published every other month. Anchorage is in a group of 13 smaller metropolitan areas for which data are published every six months.

<sup>4</sup> The forecast comes from the investment consulting firm, Callan Associates.

## Alaska Cities Generally More Expensive ACCRA<sup>1</sup> cost of living index, first quarter 2008



|                      | All<br>Items<br>Index<br>Costs | Grocery<br>Items | Housing | Utilities | Transportation | Health<br>Care | Miscellaneous<br>Goods and<br>Services |
|----------------------|--------------------------------|------------------|---------|-----------|----------------|----------------|--|
| Anchorage            | 126.6                          | 142.7            | 138.0   | 109.8     | 102.7          | 125.3          | 123.2                                  |
| Fairbanks            | 133.3                          | 125.7            | 149.1   | 170.6     | 108.2          | 139.8          | 117.9                                  |
| Kodiak               | 123.4                          | 148.5            | 116.3   | 144.7     | 115.3          | 128.8          | 115.8                                  |
| West                 |                                |                  |         |           |                |                |  |
| Portland, Ore.       | 119.9                          | 108.2            | 138.9   | 101.3     | 109.4          | 105.5          | 117.9                                  |
| Honolulu             | 165.3                          | 164.0            | 249.1   | 138.5     | 117.1          | 109.8          | 120.5                                  |
| San Francisco        | 173.6                          | 131.4            | 292.7   | 96.6      | 114.5          | 118.6          | 131.1                                  |
| Las Vegas            | 110.6                          | 99.0             | 136.7   | 99.5      | 101.4          | 104.7          | 98.3                                   |
| Southwest/Mountain   |                                |                  |         |           |                |                |  |
| Cedar City, Utah     | 91.7                           | 95.6             | 89.6    | 82.4      | 96.0           | 88.6           | 93.8                                   |
| Phoenix              | 101.6                          | 103.8            | 101.0   | 94.7      | 98.7           | 99.0           | 104.7                                  |
| Denver               | 105.1                          | 104.7            | 111.4   | 103.4     | 92.8           | 104.0          | 104.2                                  |
| Dallas               | 91.9                           | 100.6            | 72.1    | 99.1      | 100.6          | 103.0          | 100.0                                  |
| Midwest              |                                |                  |         |           |                |                |  |
| Minneapolis          | 109.3                          | 124.4            | 117.7   | 105.4     | 96.8           | 104.2          | 101.8                                  |
| Cleveland            | 95.1                           | 100.5            | 84.5    | 101.0     | 101.7          | 104.0          | 97.7                                   |
| Chicago              | 111.5                          | 107.9            | 129.0   | 118.0     | 109.2          | 103.3          | 96.9                                   |
| Southeast            |                                |                  |         |           |                |                |  |
| Orlando, Fla.        | 102.1                          | 106.5            | 93.5    | 102.1     | 105.5          | 95.2           | 108.1                                  |
| Mobile, Ala.         | 93.6                           | 104.1            | 76.1    | 105.7     | 96.4           | 88.4           | 101.7                                  |
| Atlanta              | 97.6                           | 96.4             | 94.0    | 90.3      | 105.0          | 103.6          | 100.3                                  |
| Atlantic/New England |                                |                  |         |           |                |                |  |
| New York (Manhattan) | 218.8                          | 141.0            | 404.9   | 150.1     | 124.8          | 129.1          | 142.0                                  |
| Boston               | 134.0                          | 121.6            | 160.5   | 130.4     | 108.5          | 136.2          | 123.8                                  |
| Philadelphia         | 122.6                          | 126.5            | 140.6   | 118.5     | 105.2          | 108.6          | 113.3                                  |

Note: Index numbers represent a comparison to the average for all cities for which ACCRA volunteers collected data.

<sup>1</sup> The ACCRA Cost of Living Index was originally produced by the American Chamber of Commerce Researchers Association. It's now produced by The Council for Community and Economic Research. The focus of the index, which has been published since 1968, is on professional and managerial households with incomes in the top 20 percent for the area.

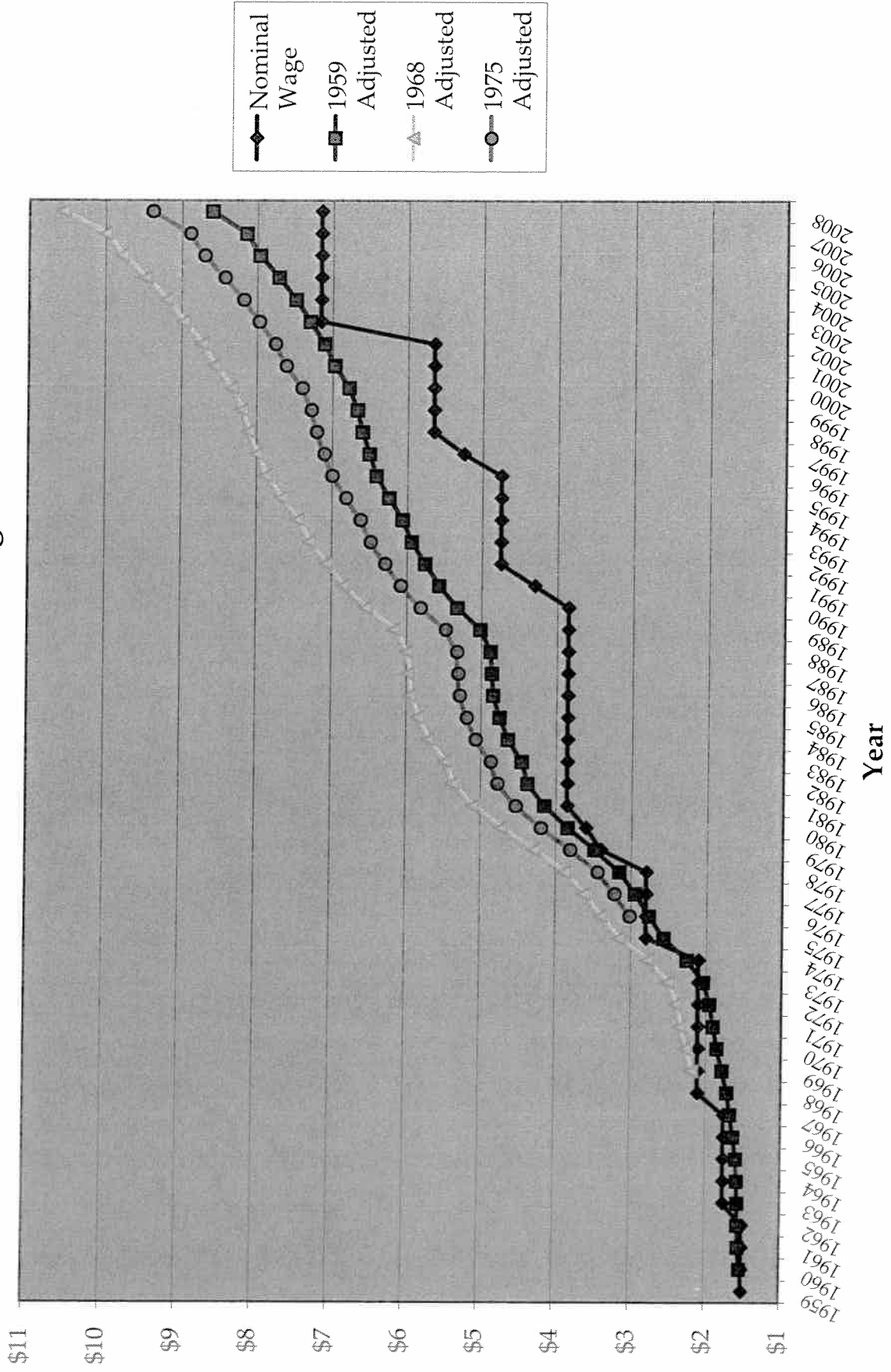
Source: ACCRA Cost of Living Index

### The CPI can't be used for geographic comparisons

The CPI gives the most authoritative answer to how much prices are rising over time in a particular location, but it is not designed to say whether one location is more expensive than another. Index numbers for the U.S. CPI are higher than they are for Anchorage, but that only means that prices have increased more nationally than they have for Anchorage since the 1982-1984 base period (when the index was set at 100).

Studies and surveys designed to compare the cost of living in different locations continue to

# Alaska Minimum Wage



# LEGISLATIVE RESEARCH REPORT

JANUARY 30, 2009



REPORT NUMBER 09.113

## ALASKA'S MINIMUM WAGE ADJUSTED FOR INFLATION

PREPARED FOR SENATOR BILL WIELECHOWSKI

BY ROGER WITHINGTON, LEGISLATIVE ANALYST

|   |          |
|---|----------|
| INFLATION-PROOFING THE MINIMUM WAGE.....                                      | 1        |
| <i>Figure 1: The Inflation Rate and the Inflation Adjusted Minimum Wage,</i>  |          |
| <i>2004 through 2009, and Projected for 2010.....</i>                         | <i>3</i> |
| HISTORY OF THE MINIMUM WAGE.....  | 4        |
| <i>Table 1: The Minimum Wage in Alaska and the Federal Minimum Wage .....</i> | <i>5</i> |

You asked for information regarding Alaska's minimum wage. Specifically, you wished to know what the minimum wage would be today if the minimum wage inflation-proofing provisions of HB 56, passed in 2002, had not been repealed in 2003. You also asked us to project what the minimum wage would be in 2010. Based on our calculations, had the minimum wage been adjusted for inflation each year since October 2003, the current minimum wage in Alaska would be \$8.46 per hour and the projected minimum wage for 2010 would be \$8.78 per hour.

\*

## INFLATION-PROOFING THE MINIMUM WAGE

As you may know, an inflation-proofing provision was added to the Alaska minimum wage law through the enactment of HB 56 in 2002, which also raised the minimum wage from \$5.65 (which was 50 cents above the federal minimum wage) to \$7.15 per hour. The bill, which took effect on January 1, 2003, also instructed the Department of Labor and Workforce Development (DOLWD) to calculate the first inflation-adjusted minimum wage rate by October 1, 2003, and each year thereafter. Because HB 199, which removed the inflation-adjustment provision, passed prior to October 1, 2003, the DOLWD was never required to calculate inflation-related minimum wage increases.

The annual rate of inflation for each calendar year is not available until January of the following year. Since the inflation-proofing provisions of HB 56 required the minimum wage be adjusted by October 1<sup>st</sup> of each year, we adjusted the minimum wage using the previous two semi-annual Anchorage Consumer Price Index (CPI) figures.<sup>1</sup> Based on our calculations, if the minimum wage had been adjusted for inflation each year since October 2003, the current minimum wage would be \$8.46 per hour.

You also asked us to project the minimum wage, using a forecasted inflation rate, for 2010. Using the projected rate of inflation used by the Alaska Permanent Fund Corporation (APFC) for 2009 of 3.85 percent, the inflation-adjusted minimum wage for 2010 would be approximately \$8.78 per hour.<sup>2</sup> Please use caution when considering this figure. As you know, we are in a period of significant economic uncertainty, and as such, the APFC's projected rate of inflation for 2009 is unlikely to reflect actual events.

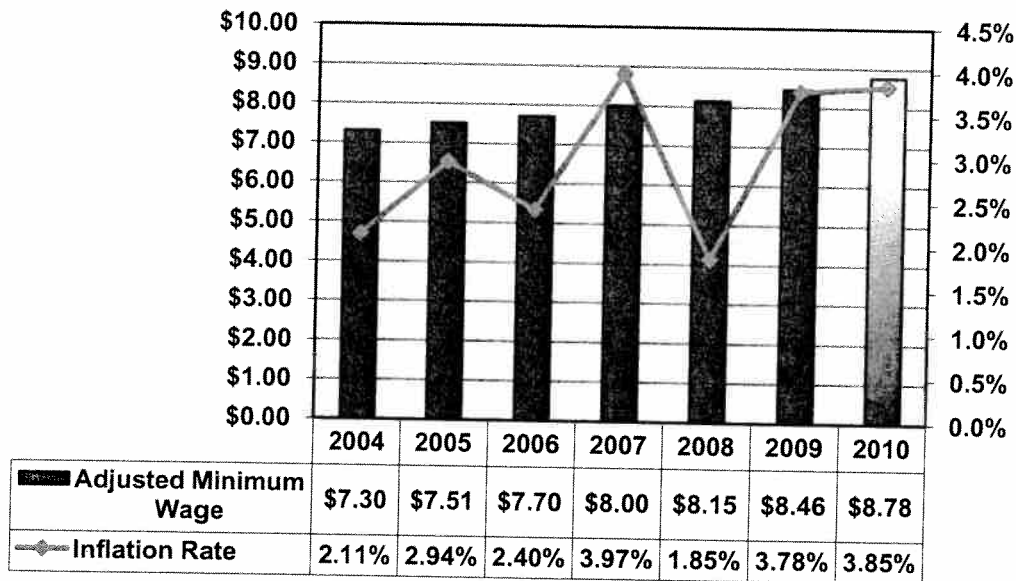
In Figure 1 we provide the inflation rate and the inflation adjusted minimum wage for each year since 2003, as well as the projected inflation rate for 2010.

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<sup>1</sup> The U.S. Department of Labor, Bureau of Labor Statistics (BLS) only calculates the consumer price index for Anchorage.

<sup>2</sup> According to Laura Achee, Director of Communications for the Alaska Permanent Fund Corporation (APFC), the methodology used by the APFC to calculate the rate of inflation can be found in AS 37.13.145(c). Ms. Achee can be contacted at 907-796-1522. We obtained the projected inflation rate from [http://www.apfc.org/\\_amiReportsArchive/2008\\_12\\_PROJ.pdf](http://www.apfc.org/_amiReportsArchive/2008_12_PROJ.pdf).

**Figure 1: The Inflation Rate and the Inflation-Adjusted Minimum Wage, 2004 through 2009, and Projected for 2010**



**Notes:** The 2003 minimum wage was \$7.15. We used this figure to base all subsequent adjustments. HB 56 required the Department of Labor and Workforce Development (DOLWD) to calculate an inflation adjusted minimum wage by October 1<sup>st</sup> of each year. This adjusted minimum wage would go into effect January 1<sup>st</sup> of the following calendar year. Because HB 199, which removed the inflation-adjustment provision, passed prior to October 1, 2003, the DOLWD did not calculate inflation-related minimum wage increases.

The Inflation rate is based on the Anchorage Consumer Price Index (CPI), which is the rate used to adjust the minimum wage. Since the annualized CPI rate for each year is not available until January of the following year, and because the minimum wage was to be adjusted by October 1<sup>st</sup> of each year, we used the CPI for the first half of one year and the second half of the previous year, divided by two to get the average, and then calculated the percentage difference from the year before. This is the rate we applied to the minimum wage in order to make the adjustment for inflation.

The figures for 2010 are projected.

**Sources:** Consumer Price Index information is from the Alaska Department of Labor and Workforce Development, <http://almis.labor.state.ak.us/?PAGEID=67&SUBID=198>. Projected rate of inflation is from the Alaska Permanent Fund Corporation, [http://www.apfc.org/\\_amiReportsArchive/2008\\_12\\_PROJ.pdf](http://www.apfc.org/_amiReportsArchive/2008_12_PROJ.pdf).

## HISTORY OF THE MINIMUM WAGE

As you know, the federal Fair Labor Standards Act (FLSA), first passed by Congress in 1938, addresses many employment issues including overtime and the minimum wage. Congress set the first federal minimum wage at \$0.25 per hour.<sup>3</sup> States could also set their own minimum wages, and in 1959 the first Alaska legislature established the Alaska minimum wage at \$1.50 per hour—at that time, the federal minimum wage was \$1.00 per hour.<sup>4</sup> As with the FLSA, Alaska law included several exemptions to coverage by the minimum wage requirement, including farmers, fishermen, domestic help, and public employees.<sup>5</sup>

In 1962, the Alaska legislature changed the statute so that the minimum wage in Alaska would be at least \$0.50 per hour greater than the federal minimum wage, which at that time was \$1.25 per hour.<sup>6</sup> In 1974, the Alaska legislature again addressed the issue of the minimum wage, and amended the statute to establish the minimum wage at “not less than 50 cents an hour greater than the prevailing Federal Minimum Wage Law or \$2.60 an hour, whichever is greater.”<sup>7</sup> In 1990, the legislature included a requirement that school bus drivers be paid a rate of not less than two times the minimum wage.<sup>8</sup> Table 1 shows the amount of the minimum wage in Alaska from 1959 to the present.

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<sup>3</sup> “Federal Minimum Wage Rates under the Fair Labor Standards Act,” Wage and Hour Division, Employment Standards Administration, U. S. Department of Labor, <http://www.dol.gov/esa/minwage/chart.htm>.

<sup>4</sup> Section 5, Chapter 171, SLA 1959.

<sup>5</sup> Section 2, Chapter 171, SLA 1959. According to the U. S. Department of Labor, “The 1938 Act was applicable generally to employees engaged in interstate commerce or in the production of goods for interstate commerce. The 1961 Amendments extended coverage primarily to employees in large retail and service enterprises as well as to local transit, construction, and gasoline service station employees. The 1966 Amendments extended coverage to State and local government employees of hospitals, nursing homes, and schools, and to laundries, dry cleaners, and large hotels, motels, restaurants, and farms. Subsequent amendments extended coverage to the remaining Federal, State, and local government employees who were not protected in 1966, to certain workers in retail and service trades previously exempted, and to certain domestic workers in private household employment.”

<sup>6</sup> Section 4, Chapter 2, SLA 1962.

<sup>7</sup> Section 1, Chapter 41, SLA 1974.

<sup>8</sup> Sections 3 & 4, Chapter 12, SLA 1990.



| Table 1: The Minimum Wage in Alaska and the Federal Minimum Wage  |        |         |
|---|--------|---------|
| Year  | Alaska | Federal |
| 1959-1962   | \$1.50 | \$1.00  |
| 1963-1967   | \$1.75 | \$1.25  |
| 1968-1974   | \$2.10 | \$1.60  |
| 1975-1978   | \$2.80 | \$2.30  |
| 1979  | \$3.40 | \$2.90  |
| 1980  | \$3.60 | \$3.10  |
| 1981-1990   | \$3.85 | \$3.35  |
| 1991  | \$4.30 | \$3.80  |
| 1992-1996   | \$4.75 | \$4.25  |
| 1997  | \$5.25 | \$4.75  |
| 1998-2002   | \$5.65 | \$5.15  |
| 2003-2006   | \$7.15 | \$5.15  |
| 2007  | \$7.15 | \$5.85  |
| 2008  | \$7.15 | \$6.55  |
| <b>Notes:</b> Minimum wages are per hour.<br>The federal minimum wage provisions for covered, non-exempt employees are contained in the Fair Labor Standards Act (FLSA). The Fair Minimum Wage Act of 2007 included phased increases to the federal minimum wage. For work performed on or after July 24, 2009, the federal minimum wage will be \$7.25 per hour. <a href="http://www.dol.gov/dol/topic/wages/minimumwage.htm">http://www.dol.gov/dol/topic/wages/minimumwage.htm</a> .<br><b>Source:</b> U.S. Department of Labor. |        |         |

I hope you find this information to be useful. Please do not hesitate to contact us if you have questions or need additional information.

# Estimated Alaska 2007 Employment<sup>1</sup> by Industry and Below Certain Wages

| Number and percentage of workers making less than this wage: |            |         |
|--|------------|---------|
|  | Employment | Percent |
| Below \$7.75   | 8,790      | 2.9%    |
| Below \$8.75   | 22,254     | 7.4%    |
| Total Employment   | 301,918    |         |



| Industry                                   | Total Employment | Below \$7.75 |             | Below \$8.75  |             |
|--|------------------|--------------|-------------|---------------|-------------|
|  |                  | Number       | Percent     | Number        | Percent     |
| Agriculture, Forestry, Fishing and Hunting | 361              | 0            | 0.0%        | 4             | 1.0%        |
| Mining                                     | 13,300           | 19           | 0.1%        | 59            | 0.4%        |
| Utilities                                  | 1,832            | 8            | 0.4%        | 25            | 1.4%        |
| Construction                               | 17,555           | 70           | 0.4%        | 124           | 0.7%        |
| Manufacturing                              | 9,885            | 648          | 6.6%        | 1,467         | 14.8%       |
| Wholesale Trade                            | 6,519            | 83           | 1.3%        | 244           | 3.7%        |
| Retail Trade                               | 36,006           | 1,138        | 3.2%        | 4,285         | 11.9%       |
| Transportation and Warehousing             | 21,623           | 166          | 0.8%        | 631           | 2.9%        |
| Information                                | 6,964            | 147          | 2.1%        | 304           | 4.4%        |
| Finance and Insurance                      | 8,969            | 54           | 0.6%        | 174           | 1.9%        |
| Real Estate and Rental and Leasing         | 4,885            | 216          | 4.4%        | 564           | 11.5%       |
| Professional, Scientific, and Technical    | 12,146           | 90           | 0.7%        | 245           | 2.0%        |
| Management of Companies and Enterprises    | 1,203            | 3            | 0.3%        | 13            | 1.1%        |
| Administrative and Support and Waste       | 11,026           | 220          | 2.0%        | 446           | 4.0%        |
| Educational Services                       | 31,737           | 1,168        | 3.7%        | 1,953         | 6.2%        |
| Health Care and Social Assistance          | 36,245           | 372          | 1.0%        | 990           | 2.7%        |
| Arts, Entertainment, and Recreation        | 4,066            | 355          | 8.7%        | 884           | 21.7%       |
| Accommodation and Food Services            | 26,610           | 3,440        | 12.9%       | 8,309         | 31.2%       |
| Other Services (except Public              | 9,425            | 358          | 3.8%        | 987           | 10.5%       |
| Public Administration                      | 41,561           | 235          | 0.6%        | 546           | 1.3%        |
|  |                  |              |             |               |             |
| <b>TOTAL EMPLOYMENT:</b>                   | <b>301,918</b>   | <b>8,790</b> | <b>2.9%</b> | <b>22,254</b> | <b>7.4%</b> |

1 Nonfarm wage and salary employment. Excludes self-employed workers, fishermen, domestic workers, unpaid family workers and nonprofit volunteers.

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section, and U.S. Department of Labor, Bureau of Labor Statistics, January 20, 2009.

These estimates are based on information collected in cooperation with the U.S. Bureau of Labor Statistics (BLS), but have not been reviewed nor validated by BLS. The Research and Analysis Section is responsible for the creation of these estimates.

|  |        |
|--|--------|
| 5  | 25,790 |
| 6  | 29,530 |
| 7  | 33,270 |
| 8  | 37,010 |
| For families with more than 8 persons, add \$3,740 for each additional person. |        |

### 2009 Poverty Guidelines for Alaska

| Persons in family  | Poverty guideline |
|--|-------------------|
| 1  | \$13,530          |
| 2  | 18,210            |
| 3  | 22,890            |
| 4  | 27,570            |
| 5  | 32,250            |
| 6  | 36,930            |
| 7  | 41,610            |
| 8  | 46,290            |
| For families with more than 8 persons, add \$4,680 for each additional person. |                   |

### 2009 Poverty Guidelines for Hawaii

| Persons in family  | Poverty guideline |
|--|-------------------|
| 1  | \$12,460          |
| 2  | 16,760            |
| 3  | 21,060            |
| 4  | 25,360            |
| 5  | 29,660            |
| 6  | 33,960            |
| 7  | 38,260            |
| 8  | 42,560            |
| For families with more than 8 persons, add \$4,300 for each additional person. |                   |

Go to [Further Resources](#) on Poverty Measurement, Poverty Lines, and Their History

Go to [Frequently Asked Questions](#) (FAQs).

Return to the main [Poverty Guidelines, Research, and Measurement](#) page.

Last Revised: January 23, 2009

## **Higher minimum wage in Alaska has support**

**SMALL BUSINESS: Poll finds many favor a state differential.**

Anchorage Daily News

*(01/10/08 01:33:14)*

A new poll of Alaska small businesses found about 45 percent favor pegging Alaska's minimum wage to 50 cents higher than the federal minimum, according to the National Federation of Independent Business.

"In any other state, this would have received a 99 percent 'No' response," said Denny DeWitt, the group's Alaska director.

"The reason the 'Yes' vote was so high here was not because employers want to increase costs on themselves, but because of Alaska's history of keeping its minimum wage ahead of the federal level," he said.

Alaska's minimum used to float at 50 cents above the federal rate but it has been flat at \$7.15 an hour since 2003.

The federal minimum wage is \$5.85, but it will rise to \$6.55 this summer and then to \$7.25 in July 2009.

Other poll findings:

- 56 percent said there should be a lower "training wage" if the minimum wage is raised.
- 69 percent said the state's unemployment benefit should not be raised to \$370 a week from \$248 and the maximum wage on which the amount of an unemployment benefit is based, lifted to \$42,000 from \$26,750.
- 78 percent said dependents should not be able to stay on family health-insurance plans until age 26.



## Alaska

January 20, 2009

The Honorable Bill Wielechowski  
Alaska State Senate  
State Capitol Building  
Juneau, Alaska 99801-1182

RE: Senate Bill 1

Dear Senator Wielechowski,

On behalf of the National Federation of Independent Business/Alaska, I wish to express our opposition to Senate Bill 1. The National Federation of Independent Business/Alaska is the largest small-business advocacy group in the state.

NFIB/AK opposes any increase in the minimum wage. Mandatory wage increases hurt not only small businesses, but their employees as well. Big corporations do not have to absorb the cost because most minimum-wage jobs are offered by small businesses. Government manipulation of the starting wage has failed as tool of social and/or economic justice. It has not been proven to reduce poverty or narrow the income gap and puts a stranglehold on Alaska's top job creators: small businesses. The overwhelming majority of economists continue to affirm the job-killing nature of mandatory wage increases. Mandatory minimum-wage increases end up reducing employment levels for those people with the lowest skills.

The minimum wage is an entry-level wage and few remain at that level for an extended time. One study shows that most minimum wage jobs are not career jobs. About two-thirds of minimum wage workers earned more than the minimum wage one year later. In the best longitudinal panel study of entry-level workers, only 14 percent earned less than \$1.00 above the minimum eight years later.

Minimum wage increases hurt small businesses two ways - both direct and indirect. The literature indicates employment losses of 2 percent to 6 percent for each 10 percent increase in the minimum wage. Mandatory wage increases leave small business owners with fewer choices in how to compensate their employees. To cope with minimum wage increases, in addition to job cuts, small business owners reduce hours, leave jobs vacant, reduce wage increases, increase prices where feasible, and take hits in the bottom line.

Senator Wielechowski  
January 20, 2009  
Page 2 of 2

In addition to the specific increase proposed in SB 1, this measure proposes future increases based on decisions external to the legislative process. Given the significance of this issue, we feel it is inappropriate to have future increases tied to the actions of the federal government or a calculation of inflation in Anchorage, which may or may not reflect the wisdom of increasing Alaska's minimum wage.

Sincerely yours,

Dennis L. DeWitt  
Alaska State Director  
National Federation of Independent Business

Cc: Senator Ellis  
Senator Thomas  
Senator Davis

### ***Introduction***

This short research paper examines a number of issues and arguments concerning the minimum wage. Studies of direct and indirect losses by small business owners from minimum wage increases are specifically reviewed. The paper also focuses on who precisely earns the minimum wage. It also briefly covers a number of issues related to the minimum wage: the loss of experience by those who either lose their jobs, or are unable to obtain employment when the minimum wage increases, as well as the demographics of who loses and who gains based upon previous minimum wage increases. Further examination of the literature determines how long workers actually receive the minimum wage.

This research note has a national perspective, although state specific examples are provided. As of January 1, 2005, 15 states had increased their hourly minimum wage rates above the federal minimum of \$5.15 per hour. It is likely that many states will continue debating minimum wage increases in the forthcoming 2006 legislative sessions, including refundable *state* earned income tax credits (EITCs).

### **I. Who Earns The Minimum Wage?**

The most recent national data on minimum wage workers is for 2004. It comes from the U.S. Department of Labor, Bureau of Labor Statistics (BLS), and was published in April 2005. The BLS data indicate that 73.9 million workers were paid hourly rates in 2004 (67.2 percent), out of about 110 million workers employed in private establishments. Of those paid by the hour, 520,000 were reported as earning exactly the Federal minimum wage of \$5.15, and another 1.5 million were reported earning wages below the minimum, or about 2.7 percent of hourly workers.<sup>1</sup>

### ***Characteristics of Minimum Wage Workers<sup>2</sup>***

1. Minimum wage workers are quite young. Fifty-one (51) percent were 16-24 years old, and of those, 25 percent were 16-19 years old;
2. About 4 percent of women were paid hourly wages at or below the prevailing Federal minimum, compared with about 2 percent of men;

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<sup>1</sup> U.S. Department of Labor, Bureau of Labor statistics, "Characteristics of Minimum Wage Workers: 2004. Available at [www.bls.gov](http://www.bls.gov). Those paid below the minimum do not indicate violations of the Fair Labor Standards Act, but include many tipped employees working in restaurants, bars, etc. In other cases, these may be employees working on a combination of salary plus commissions.

<sup>2</sup> Except where noted, all of the data come from the 2005 BLS report in footnote 1.

3. Part-time workers (persons who usually work less than 35 hours per week) were much more likely to earn the minimum wage or less than their full-time counterparts (about 7 percent versus 1 percent);
4. About 15 percent of minimum wage workers are single earners with children;<sup>3</sup>
5. By industry, about 62 percent of minimum wage workers were employed in the leisure and hospitality sectors. BLS estimates that a majority of these workers were employed in food services and drinking places, where wages are supplemented by tips. About 10 percent of minimum wage workers were each employed in retail trade and in the health services sectors. The remainder were in other sectors in small proportions;
6. Seventy-one (71) percent of minimum wage workers have at least a high school education;
7. Many minimum wage workers are students living in homes with high family incomes, according to an analysis of Census data;<sup>4</sup>
8. In the late 1990's, about 60 percent of minimum wage workers were employed in small firms with fewer than 500 employees; the remainder were employed in large corporations.<sup>5</sup>

## II. Issues and Arguments

### *The Loss of Jobs and the Loss of Work Experience*

There is a good literature summary on effects of minimum wage increases in a 2003 paper by Daniel Aaronson and Eric French of the Federal Reserve Bank of Chicago.<sup>6</sup> Using a statistical model for food consumed away from the home, the authors estimate a job loss of 2 percent-3 percent for a 10 percent increase in the minimum wage. For example, an increase in the minimum wage by \$1.00 (say from \$5.15 to \$6.15 per hour) represents an increase of 19.4 percent. Therefore, the job loss in the restaurant industry could be as high as 6 percent. There were 9.1 million people employed in the "food services and drinking places sector" in June 2005, and a 6 percent job loss would represent more than half a million jobs.

<sup>3</sup> Craig Garthwaite, "Testimony before the House Subcommittee on Workforce, Empowerment, and Government Programs." U.S. Congress, April 29, 2004.

<sup>4</sup> Bruce Barlett, "The Minimum Wage is Bad Policy." National Center for Policy Analysis, "Policy Brief." (Washington, D.C., February 4, 2005).

<sup>5</sup> Mark C. Berger, Dan A. Black, Frank A. Scott, and Steven A. Allen, "Distribution of Low-Wage Workers By Firm Size in the United States: Final Report. Prepared under contract for the Office of Advocacy of the SBA by Carolyn Loeff and Associates, Lexington, Kentucky, December 9, 1999. Available at [www.sba.gov/research](http://www.sba.gov/research) .

<sup>6</sup> Daniel Aaronson and Eric French, "Product Market Evidence on the Employment effects of the Minimum Wage." Working Papers, Federal Reserve Bank of Chicago, November 3, 2003.



The last increase in the federal minimum wage to \$5.15 per hour occurred in two steps- rising to \$4.75 per hour in October 1996 and then to \$5.15 per hour in September 1997. One-third of minimum wage workers were teenagers in the late 1990's, and the National Center for Policy Analysis concluded that the minimum wage hike "may have killed as many as 380,000 jobs for teens."<sup>7</sup> Many of these were likely entry-level jobs for teenagers since about 46 percent of 16-24 year olds in the labor force worked 21-35 hours per week in 2003.<sup>8</sup>

Richard Burkhauser, Kenneth Couch and David Witenberg, writing in the *Journal of Labor Economics* in October, 2000 concluded that the 1997 minimum wage increase caused about a 6 percent loss in jobs, although the effects ranged from 2 percent-6 percent, depending upon the detailed industry studied. These estimates imply elasticity estimates in the -0.2 to -0.6 range.<sup>9</sup>

David Neumark and William Wascher, in a series of three papers written between 1996 and 2003 on increases in the minimum wage, observe about a 2 percent decline in jobs, generally for teenagers and in the fast food industry.<sup>10</sup> Since the last increase in the minimum wage occurred during the Clinton welfare reform period of 1996/1997, it is possible that some of the lost jobs would have been taken by former welfare recipients now unable to find employment.

Other economists that have studied the last increase in the federal minimum wage include the extensive articles and book by David Card and Alan Krueger (1997).<sup>11</sup> Studying the fast-food industry in New Jersey and Pennsylvania, increases in California's 1988 minimum wage, and the 1990-1991 federal minimum wage increase, the authors first concluded that minimum wage increases caused few changes in employment. They were subsequently challenged by the Neumark and Wascher team above, and finally concluded that "the New Jersey minimum wage

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<sup>7</sup> Perspective: A New Minimum-Wage Hike?" *Investors Business Daily*, January, 30, 1998. Quoted in National Center For Policy Analysis, "Idea House." Online at [www.ncpa.org/hotlines/min/jan98c.html](http://www.ncpa.org/hotlines/min/jan98c.html)

<sup>8</sup> Based upon 2003 Current Population Survey data. For further details, see Bruce D. Phillips, "The Future Small Business Workforce: Will Labor Shortages Exist?" *Business Economics*, October, 2004, pp. 19-23.

<sup>9</sup> Richard Burkhauser, Kenneth Couch and David Wittenberg, "A Reassessment of the New Economics of the Minimum Wage Literature with Monthly Data from the Current Population Survey." *Journal of Labor Economics*, October, 2000, 18(4), pp. 653-680.

<sup>10</sup> David Neumark and William Wascher, "Reconciling the Evidence on Employment Effects of Minimum Wages: a Review of Our Research Findings." In Marvin Kosters, ed. *The Effects of Minimum Wages on Employment* (American Enterprise Institute, 1996), pp. 55-86.; David Neumark and William Wascher, "Minimum Wages and Employment: A Case Study of the Fast Food Industry in New Jersey and Pennsylvania: Comment." *American Economic Review*, December, 2000, 90 (5), pp. 1362-1396; David Neumark and William Wascher, "Minimum Wages, Labor Market Institutions and Youth Unemployment: A Cross-National Analysis," Working Paper, Federal Reserve Board of Governors, 2003.

<sup>11</sup> David Card and Alan Krueger, *Myth and Measurement: The New Economics of the Minimum Wage*. (Princeton, New Jersey, 1997).

increase did not reduce total employment, but it did slightly reduce the average number of hours worked per employee.”<sup>12</sup>

While not all of the cited authors agree, there is consensus that perhaps half a million workers during the past few years could not obtain employment in entry level jobs due to minimum wage increases. Since research indicates that about 60 percent of entry-level jobs are generally provided by small business owners, it is likely that small business owners would not or could not hire these workers when the minimum wage rose (Schiller, 1986)<sup>13</sup>.

### **III. Winners and Losers From Minimum Wage Increases**

Identifying winners and losers from minimum wage increases varies according to the time frame used (i.e. the length of time that has passed since the minimum wage increase was enacted), and the specific point in the business cycle. There is virtually no literature on impacts of minimum wage increases measured by the point in the business cycle. Within these limitations, some generalizations are possible.

Losers from minimum wage increases can be divided into both workers and small business owners. Among low-skilled workers, teenagers with below average education suffer most. To quote from a recent 2005 press release of the Employment Policies Institute:

...“Increasing the minimum wage hurts low-skill employees. Most economists agree that increasing the minimum wage destroys jobs. This job loss is concentrated on the least skilled employees in the economy. Research from Duke University, the University of Wisconsin, and Michigan State University indicates that increases in the minimum wage hurt low-skill employees. Cornell University economists found that groups such as high school dropouts and black young adults suffer four times more employment loss from a minimum wage increase than their non-black and more educated counterparts.”<sup>14</sup>

**David Macpherson of Florida State University and Craig Garthwaite of the Employment Policies Institute do not understand why the California legislature**

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<sup>12</sup> David Card and Alan B. Krueger, “Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania: Reply.” *American Economic Review*, December, 2000, pp. 1397-1420.

<sup>13</sup> Bradley R. Schiller, “Early Jobs and Training: The Role of Small Business.” Prepared under contract for the Office of Advocacy of the SBA by Capitol Research, Inc, 1986

<sup>14</sup> “Proposed Minimum Wage Hike Would Harm Albuquerque’s Least Skilled Employees.” Employment Policies Institute, Press Release, May 25, 2005.

continues to propose minimum wage increases—originally scheduled to rise to \$7.75 per hour, effective January 2007, but vetoed by the governor last summer<sup>15</sup>. They estimate that at least 19,000 more California workers would become unemployed.<sup>16</sup> Between May, 2004 and May, 2005, while California's unemployment rate fell from 6.6 percent to 5.8 percent, the number of unemployed teenagers increased from 136 thousand to 154 thousand.<sup>17</sup>

In an earlier analysis in the *Monthly Labor Review* (1990), Linda Martin and Demetrios Giannaros argue that newly employed women are also at great risk from minimum wage increases.<sup>18</sup> The authors emphasize that women are already over-represented in the low wage labor market, and further increases in the minimum wage are likely to exacerbate this situation by denying them jobs or having business owners reduce their hours of employment.

Losses to small business owners from minimum wage increases may be direct losses, such as cutting jobs or hours, or indirect losses—such as rising numbers of job vacancies, profit declines from increased costs, and price increases by small firm owners. Depending upon the stage of the business cycle, and specific industry/area conditions, these price increases may or may not stick and result in a loss of business. They further reduce owner flexibility depending upon the stage of the business cycle.

In recent months, according to NFIB's Small Business Economic Trends, somewhat less than one third of owners have been increasing prices, with increases more likely in financial services, health services, real estate and management and engineering services.<sup>19</sup> But many owners in the hospitality industry have also been able to raise prices somewhat faster than employee compensation, generating reasonable profits. But add a minimum wage increase to this equation and employee compensation may increase faster than prices. The result will be profit declines if the price increases cannot stick. And inflation (excluding energy) seems more likely to be well behaved in the near future based upon the consensus of economic forecasters and the changing global labor market.<sup>20</sup>

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<sup>15</sup> "California Labor Market Review," May, 2005 (Sacramento, California), page 2.

<sup>16</sup> David A. Macpherson and Craig Garthwaite, "The Effects of the Proposed California Minimum Wage Increase." Published online by the Employment Policies Institute, [www.epionline.org](http://www.epionline.org), May, 2005.

<sup>17</sup> "California Labor Market Review," Ibid.

<sup>18</sup> Linda R. Martin and Demetrios and Giannaros, "Would a higher minimum wage help poor families headed by women?" *Monthly Labor Review*, August, 1990, pp.33-37.

<sup>19</sup> The monthly Small Business Economic Trends report may be found on-line at [www.nfib.com/research](http://www.nfib.com/research)

<sup>20</sup> Joel Popkin and Company, "Wage Trend Indicator," Prepared for the Bureau of National Affairs and the monthly newsletter of the Popkin Company, "The CPI's Future."

### *Indirect Losses From Minimum Wage Increases*

The direct employment losses from minimum wage increases were discussed above. Much of the remaining literature on the indirect losses suffered by small business owners from minimum wage increases concern increased job vacancies, lost productivity, pressures for raises by non-minimum wage workers, and lost business (leading to) lost profits. The national data on job vacancies does not indicate whether a job is vacant due to a minimum wage increase, supply limitations, business cycle considerations, unqualified applicants or local conditions. NFIB's Small Business Economic Trends Survey indicates that every month, about 40 percent of small business owners report "few or no qualified applicants" for available jobs.<sup>21</sup>

The little data available on job vacancies and minimum wage increases comes from a few states that have a minimum wage rate higher than the federal rate and have also measured job vacancies. Consider Massachusetts. The state's Department of Workforce Development estimates that 70 percent of job vacancies—increasing according to the most recent survey—are in small firms with less than 250 employees. The highest vacancy rates are in the health care and food-service preparation industries.<sup>22</sup> With Mass' current minimum wage rate of \$6.75 per hour, (with proposals to increase it to \$8.25 by 2007), high and increasing job vacancies are not surprising: owners simply cannot afford the workers at those rates, or refuse to pay those rates for unqualified individuals.<sup>23</sup>

Washington state indexed its minimum wage rate to the annual change in the CPI in 1998 and as of 2005, it had the highest minimum wage rate in the nation at \$7.35 per hour. In July 2005, the state's Department of Employment Security reported that job vacancies were the highest in the three-year history of the survey. The majority of positions were available in healthcare, finance, leisure services and hospitality.<sup>24</sup> While no literature is available to statistically prove that the high minimum wage rate is causing job vacancies to increase, it is likely that many small employers, particularly in the labor-intensive leisure services, hospitality and healthcare sectors, are simply trying to do more with fewer workers. Add in annual

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<sup>21</sup> William C. Dunkelberg and Holly Wade, "NFIB Small Business Economic Trends." July 2005, page 9 (NFIB Research Foundation, Washington, D.C., July, 2005).

<sup>22</sup> Massachusetts Job Vacancy Survey: Hiring trends by Industry and Occupation, second quarter, 2004." Massachusetts Department of Workforce Development, Division of Unemployment Assistance, Revised, November 2004.

<sup>23</sup> Economists' Statement Supporting an Increase in the Massachusetts Minimum Wage" May 31 2005. Massachusetts Budget and Policy Center, available on-line at [www.massbudget.org/list/php?topic=3](http://www.massbudget.org/list/php?topic=3).

<sup>24</sup> Employment Security Department, State of Washington, "Job Vacancies Highest in survey's Three Year History, July 5, 2005. Available at [www.fortress.wa.gov.esd/portal/news\\_tem2005-07-06.07287-46475](http://www.fortress.wa.gov.esd/portal/news_tem2005-07-06.07287-46475).

health care increases of over 10 percentage points, and price pressures are likely thwarting additional hiring.<sup>25</sup>

### *Price Increases*

In a 2000 paper, James MacDonald and Daniel Aaronson used BLS data from January 1995 to December 1997 to construct the Food Away from Home component of the CPI (Consumer Price index). They compared price changes over two month periods.<sup>26</sup> They found that restaurant prices rose by 3 percent- 6 percent, on average, within a 6- month period following imposition of the minimum wage increase. Not every price on every menu increased, and some prices were increased very selectively, depending upon the owners' perception of demand. Very low priced food (say menu items at 99 cents) may not have increased at all.

In some additional work, Card and Krueger found that between 1989 and 1992, prices increased more in cities with higher proportions of low-wage workers.<sup>27</sup> It is not clear whether small firm owners were more adversely affected in those areas; it depends whether the price increases could be made permanent. No such data exists over time to answer this question.

In an updated paper in 2004, Aaronson, French and MacDonald verified their earlier 2000 results, and learned that price increases following minimum wage increases are larger for establishments that are more likely to pay the minimum wage.<sup>28</sup> (Such establishments may not be small firms, but part of larger firms). Small restaurant owners may not have been able to pass along these price increases, depending upon their individual situations. Small business owners unable to increase prices may well have lost profits, but data to verify this outcome is lacking.

### *Who Gains From Minimum Wage Increases?*

In theory, even with adverse employment effects, higher minimum wages might benefit poor families if the wage gains were concentrated among low- income workers in low- income families.<sup>29</sup> And it would be useful to assume that all

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<sup>25</sup> Katherine Baicker and Amitabh, "The Labor market Effects of Rising Health Insurance Premiums," NBER Working Paper 11160, August, 2005.

<sup>26</sup> James M. MacDonald and Daniel Aaronson, "How Do Retail Prices React to Minimum Wage Increases?" Federal Reserve Bank of Chicago, Working Paper, WP2000-20, December, 2000.

<sup>27</sup> Ibid.

<sup>28</sup> Daniel Aaronson, Eric French and James MacDonald, "The Minimum wage, Restaurant Prices, and labor Market Structure." Federal reserve Bank of Chicago, working Paper 2004-21.

<sup>29</sup> David Neumark, Mark Schweitzer and William Wascher, "Will Increasing the Minimum Wage Help the Poor?" Federal Reserve Bank of Cleveland, February 1, 1999.

employment losses occurred to young persons from more affluent families. This however, is not the case.

The lack of demographic time series data on minimum wage effects makes it difficult to precisely measure who gains from minimum wage increases. The scant evidence available seems to indicate that two general classes of workers gain from minimum wage increases. About seventeen (17) percent of beneficiaries are single heads of households living in poor families, while the remaining 83 percent are relatively affluent young people living in middle class or upper income families, dual earner couples, or adults living alone.<sup>30 31</sup>

According to the Economic Policy Institute, poor women—disproportionately represented in low income households—are most likely to be helped by a minimum wage increase. However, because it takes almost \$17,000 to lift a family of four out of poverty, the amount of the minimum wage increase is likely to be insufficient to eradicate poverty by itself.<sup>32</sup> This idea was also recently expressed by Joseph Sabia and Richard Burkhauser of the Employment Policies Institute when commenting on New York's proposed increase in the minimum wage: only a small fraction of New York's<sup>33</sup> poor families would be lifted out of poverty from minimum wage increases. (The governor vetoed the proposed increase in July, 2004 that would have increased the state's minimum wage in steps from \$5.15 per hour to \$7.15 per hour).

Back in 1985, when the poverty rate was considerably higher, a BLS study found that one in five hourly wage-workers paid at or below the federal minimum wage lived in households with incomes below the poverty level.<sup>34</sup> The Employment Policies Institute estimated that the average family income of non-poor beneficiaries of the 1996 and 1997 minimum wage increases was over \$44,000 (or about \$55,000 in 2005 dollars).<sup>35</sup> Jeffrey Cornwall of Belmont University, quoting

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<sup>30</sup> Richard Burkhauser, "Testimony before the House Committee on Education and the Workforce, U.S. congress, April 27, 1999.

<sup>31</sup> David A. Macpherson and Craig Garthwaite, "The Effects of the Proposed California Minimum Wage Increase." Employment Policies Institute, available at [www.EPIonline.org](http://www.EPIonline.org)

<sup>32</sup> Jared Bernstein, "The Minimum Wage Increase: A Working Women's Issue" Economic Policy Institute, Working Paper, 2005 cited on [www.ncpa.org/bothside/krt/krt100799a.html](http://www.ncpa.org/bothside/krt/krt100799a.html).

<sup>33</sup> Joseph Sabia and Richard Burkhauser, "Raising New York's Minimum Wage: A Poor Way to Help the Working Poor." Employment Policies Institute, July 2004.

<sup>34</sup> Ralph E. Smith and Bruce Vavrichek, "The minimum wage: its relation to incomes and poverty." *Monthly Labor Review*, June, 1987, pp. 24-30.

<sup>35</sup> Employment Policies Institute, "Who Benefits From a Minimum Wage Hike: A State by State Profile:2004 Edition." Presented in testimony before the U.S. Congress, Subcommittee on Workforce, Empowerment, and Government Programs, April 29, 2004. Available at [www.house.gov/smbiz/hearings/databaseDrivenHearingsSystem/displayTestimony](http://www.house.gov/smbiz/hearings/databaseDrivenHearingsSystem/displayTestimony).

Richard Burkhauser in 2005 Congressional testimony, states that 51 percent of the teenagers impacted by a minimum wage increase lived in families whose income was three or more times above the poverty line.<sup>36</sup> The unambiguous conclusion of this literature is that minimum wage increases are poorly targeted toward the real folks who most need them. There is not a single study that does not favor the Earned Income Tax Credit (EITC) to better target employed poor people (see below).

#### IV. Length of Time Earning the Minimum Wage

There is a short literature that concludes that most minimum wage workers do not earn the minimum wage very long.<sup>37</sup> For example, Ralph Smith and Bruce Vavrichek found that 63 percent of minimum wage workers in their sample were employed at higher-than-minimum-wage jobs one year later.<sup>38</sup> Bradley R. Schiller, using the ten year National Longitudinal Survey of Youth of the Department of Labor, found that only 15 percent of 1980 labor force entrants still had any (minimum wage) experience after three years, "which suggests that long-term minimum wage experience is rare."<sup>39</sup> And Carrington and Fallick (2001) concluded that even by the eighth year of their career, roughly 14 percent of the sampled workers in the 1979 National Longitudinal Survey of Youth had jobs paying less than the minimum wage plus \$1.00.<sup>40</sup>

The approximate 15 percent of workers still working at or near the minimum wage at least five years after joining the labor force corresponds fairly closely to the 17 percent of workers in poor families who earn the minimum wage in the studies reviewed above. The authors indicate that there are disproportionate numbers of women and African Americans continuing to earn the minimum wage, but cannot account for periods when these workers are out of the labor force, and what influence these absences have on the final results.

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<sup>36</sup> Jeffrey Cornwall, "The Entrepreneurial Mind," January 5, 2005. Online at [www.forum.belmont.edu/cornwall/archives/2005/01/minimum\\_wages\\_g.html](http://www.forum.belmont.edu/cornwall/archives/2005/01/minimum_wages_g.html)

<sup>37</sup> Most of this literature is summarized in William J. Carrington and Bruce C. Fallick, "Do some workers have minimum wage careers?" *Monthly Labor Review*, May, 2001, pp. 17-27.

<sup>38</sup> Ralph E. Smith and Bruce Vavrichek, "The Wage Mobility of Minimum Wage Workers," *Industrial and Labor Relations Review*, October, 1992, pp. 82-88. The authors obtained similar results using Census' Survey of Income and Program Participation (SIPP) Data.

<sup>39</sup> Bradley R. Schiller, "Moving Up: The Training and Wage Gains of Minimum Wage Entrants," *Social Science Quarterly*, September, 1994, pp. 622-636.

<sup>40</sup> Carrington and Fallick, op. cit., pg 21.



## **V. The Earned Income Tax Credit Plus the Minimum Wage: Perhaps the Best Solution**

The federal Earned Income Tax Credit (EITC) began in 1975 as a cash refund to help the working poor compensate for the burden of the Social Security payroll tax.<sup>41</sup> Low wage workers with children—such as a single parent who works full-time at the minimum wage—can receive (in current dollars) up to \$4,026 in tax refunds—even if they owe no tax. The EITC limits were increased slightly by the tax act signed by President Bush in 2001. In most cases, the extra income is sufficient to lift the minimum wage worker and dependents above the federal poverty line.<sup>42</sup>

Since 1993, 17 states and the District of Columbia have built on the federal framework by enacting their own versions of the EITC. The majority of those states have adopted a refundable model, including CO, DC, IL, IN, KS, MA, MI, NJ, NY OK, VT and WI. Four other states—IA, ME, OR, and VA have a credit that offsets state taxes. Uniquely, Maryland and Rhode Island offer taxpayers a choice of a refundable or non-refundable credit. In addition to the states, Denver, Colorado and Montgomery County Maryland offer additional assistance from county funds.<sup>43</sup>

Without any formal analysis, it would seem that targeting federal refundable tax credits, supplemented by state refundable tax credits, might negate the need for further minimum wage increases by reaching the precise low wage audience for whom the credits are intended. There has been little academic research in this area, but a 2000 evaluation study by the Joint Center for Poverty Research at the University of Chicago found that the federal EITC has increased employment among single mothers by 4-7 percentage points.<sup>44</sup> And an earlier 1994 paper by Burkhauser and Glenn concluded that the EITC is a far more efficient mechanism for targeting low-income workers “than are increases in the minimum wage.”<sup>45</sup>

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<sup>41</sup> Tax Policy and the Working Poor: The Earned Income Tax Credit.” *Focus*, Institute for Research on Poverty, University of Wisconsin, Madison, (15) 3, Winter 1993-1994, pp1-13.

<sup>42</sup> “Earned Income Tax Credit Can Mean a Fat Refund for Washington Workers.” Washington Work First, March, 2004. Available on-line at [www.workfirst.wa.gov/eitc/childcredit.htm](http://www.workfirst.wa.gov/eitc/childcredit.htm)

<sup>43</sup> Democratic Leadership Council, “Helping ensure no full-time worker lives below the poverty line,” July 7, 2005. Online at [www.dlc.org/ndol\\_ci.cfm?contentid=3670&kaid=139&subid=277](http://www.dlc.org/ndol_ci.cfm?contentid=3670&kaid=139&subid=277).

<sup>44</sup> “Policy Brief,” Joint Center for Poverty Research, X(10), University of Chicago. Online at [www.jcpr.org/policybriefs/vol3\\_num1.html](http://www.jcpr.org/policybriefs/vol3_num1.html).

<sup>45</sup> Center for Policy Research, Syracuse University, Income Security Policy paper No. 8, “Public Policies for the Working Poor: The Earned Income Tax Credit Versus Minimum Wage Legislation.” February, 1994.



## **VI. Summary and Implications**

- 1. Minimum wage workers are likely to be young, part-time entry-level workers under 25 years of age. They are also more likely to be female. Only about 15-20 percent of these workers are likely to be single wage earners with children.**
- 2. When the minimum wage rate increases, relatively affluent young folks, dual earner couples and teenagers in middle income and upper income households are the largest beneficiaries.**
- 3. Minimum wage workers are concentrated in the leisure and hospitality sectors, which employ almost two-thirds of them; many of these workers are employed in restaurants and drinking places. Such workers are also employed in the retail trade and health care sectors, but in smaller proportions.**
- 4. Minimum wage increases hurt small business owners in two ways—both direct and indirect. Many of the direct employment effects occur in those sectors most likely to employ them. The literature indicates employment losses of 2 percent-6 percent, especially in restaurants, for each 10 percent increase in the minimum wage.**
- 5. To cope with minimum wage increases, in addition to job cuts, small business owners reduce hours, leave jobs vacant, reduce wage increases, increase prices where feasible, and take hits in the bottom line.**
- 6. In states with the highest minimum wage rates in the nation, job vacancies are currently at record levels in sectors such as leisure services, hospitality services and healthcare. Apparently small firm owners cannot or will not hire workers at these rates.**
- 7. Most minimum wage jobs are not career jobs. About two-thirds of minimum wage workers earned more than the minimum wage one year later. In the best longitudinal panel study of entry level workers, only 14 percent earned less than \$1.00 above the minimum eight years later.**
- 8. Small business owners in leisure and hospitality services remain the big losers and face continuing competitive disadvantages from further minimum wage increases: costs cannot often be passed on to final consumers and businesses. The latter varies with the rate of inflation, stage of the business cycle, and price sensitivity to the particular product or service.**
- 9. A combination of the federal earned income tax credit (EITC) along with supplements provided by various states best target the single earners with dependents who need assistance. A combination of the two refundable tax credits has been shown in the literature to lift such persons out of poverty, and eliminate the need for further minimum wage increases.**
- 10. On a pragmatic basis, many state officials and legislators seem to be questioning the need for teen-aged based minimum wage increases. The governors of two states—New York and California—states among those that are the most expensive in which to do business—have recently vetoed minimum wage bills passed by their respective legislatures. On the other**

hand, the governor of New Jersey recently signed a bill to increase the minimum wage.

11. It is likely that the 2006 legislative session will see a resurgence of many attempts to increase the minimum wage. Small business advocates need to be vigilant in opposing such increases because they target the wrong population and increase the likelihood that more small firms will go out of business.
12. Funds spent on minimum wage increases would be better used to increase the education and training opportunities of workers who most need it and cannot afford it. Many underutilized training grants are available at both the federal and state levels. Our community colleges need to be better utilized to increase the skill levels of the 15 percent of minimum wage workers who need assistance and probably do not know how to get it because of the complex ways in which many programs are administered.