HB
199

HFIN
FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: April 28, 2003

FURTHER REFERRALS:

Date of Committee Action: 5/5/03

The FINANCE Committee considered: HB 199

HOUSE BILL NO. 199 — DELETE MINIMUM WAGE INFLATION - PROOFING

"An Act removing the annual adjustment to the minimum wage based on the rate of inflation; and providing for an effective date."

Recomm... 's it be replaced with [ ] HCS *or* **[ ] CS** *for* ______________________(________)
*For Senat... ills with new title: [ ] Technical Title [ ] New Title: HCR*________ [ ] Same Title [ ] New Title

[ ] attach amendments
[ ] add new referral to ____________Committee
[ ] Letter of Intent____________Committee

List of Abbrev for Depts.:
ADM
CED
COR
CRT
EED
DEC
DFG
GOV
HSS
LEG
LAW
LWF
MVA
DNR
DPS
REV
DOT
UA

***NEW* FISCAL NOTES**
*Assigned by Chief Clerk's Office

List by Dept(s):	*FN#	Fiscal	Indet.	Zero
LWF				✓

***PREVIOUS* FISCAL NOTES**

List by Dept(s):	FN#	Fiscal	Indet.	Zero

Signing with recommendations	Printed Last Name	DP	DNP	NR	AM
[signature]	Meyer			✓	
[signature]	Hawker	✓			
[signature]	Stoltze			✓	
[signature]	Joule		✓		
[signature]	Croft		✓		
Carl E. Moses	Moses			✓	
[signature]	Chenault			✓	
[signature]	Whitaker			✓	
[signature]	Foster	×			
Chair: [signature]	Harris		✓		
Chair: [signature]	Williams	✓			

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: **HB 199**
() Publish Date:

Revision Date/Time (Note if correction):
Title: **Delete Minimum Wage Inflation - Proofing**
Sponsor: **Rules Committee**
Requester: **House L&C**

Department: **Labor and Workforce Development**
BRU: **Labor Standards & Safety**
Component: **Wage and Hour**
Component Number: **345**

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: None

Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal: [ ]

POSITIONS

Full-time						
Part-time						
Temporary						

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

This bill would modify AS 23.10.065(a) by removing the provision that requires the department to annually adjust the minimum wage in Alaska for the effects of inflation. The department does not anticipate a financial impact from this legislation.

Prepared by: **Grey Mitchell, Director**
Division: **Labor Standards & Safety**
Phone: **465-4855**
Date/Time: **4/24/03 1:21 PM**

Approved by: **Greg O'Claray, Commissioner**
Agency: **Department of Labor and Workforce Development**
Date: **04/24/03**

For distribution information, call the Governor's Legislative Office

(Rev 1/26/2000 OMB)

House Finance Committee Vote Sheet

DATE: 5/5/03 1^{30} pm

SUBJECT: [illegible] HB 199

MEMBER	YES	NO
CHENAULT	✓	
CROFT		✓
FOSTER	✓	
HAWKER	✓	
JOULE		✓
MEYER	✓	
MOSES		✓
STOLTZE	✓	
WHITAKER	✓	
HARRIS		✓
WILLIAMS	✓	
TOTAL:		

PASSSED: 7 - 4

FAILED: ______

Withdrawn

AMENDMENT \

TO BE OFFERED IN THE HOUSE FINANCE COMMITTEE

OFFERED BY REPRESENTATIVE CROFT

TO: HB 199

Page 1, line 2, after "**inflation**" insert title amendment:
"and providing for a vote;"

Page 2, after line 10, a new subsection is added to AS 23.10.065:
"(b) AS 23.10.065 may not be amended unless the amendment is approved a majority of the voters voting on the question at the next general election."

Renumber accordingly.

Replaced by 4/24

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: HB 199
(H) Publish Date: 4/28/2003

Revision Date/Time (Note if correction):
Dept. Affected: Labor & Workforce Dev

Title: Delete Minimum Wage Inflation-Proofing
BRU: Wage & Hour
Component:
Sponsor: Representative Rokeberg
Requester: House Labor & Commerce
Component No.

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal: [ ]

POSITIONS

Full-time						
Part-time						
Temporary						

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

This legislation has no fiscal impact on state spending.

Prepared by: Representative Tom Anderson
Phone
Division: Chair, House Labor & Commerce Committee
Date/Time: 4/28/03 11:37 AM
Approved by: Representative Tom Anderson
Date: 4/28/2003
Agency: House Labor & Commerce Committee

(Revised 9/2001 OMB)

COMMITTEE COPY

The Unseen Working Poor

Today, you are being asked by supporters of HB 199 to deny to a full-time working person who earns $286 a week, a raise of 14 cents per hour.

Put another way, you would rather pay a penny or two less for a Big Mac® then see Alaska's lowest paid workers maintain what little purchasing power they have.

Those making the minimum wage are real people, people who clean your toilets, process your fish, make your hotel room beds, serve you meals and, yes, flip your burgers. The fact that you may not know any of these people or socialize with them does not make them any less real or human. They are entitled to as much respect and dignity as you or me.

These unseen workers will most likely never know how you will have voted today but you will know, as will our Creator. Please remember the words of his Son: "Amen, I say to you, whatever you did for one of these least brothers of mine, you did for me."

Please vote for justice and against HB 199. Thank-you.

Chip Wagoner
Alaska Catholic Conference

Subject: Wage & Hour Legislative Support is Needed - LC
Date: Wed, 09 Apr 2003 01:32:17 -0400
From: "Frank Rose" <fwr@alaskalm.com>
To: "Rep Norman Rokeberg" <Representative_Norman_Rokeberg@legis.state.ak.us>

Frank Rose
POB 72478
Fairbanks, AK 99707-2478

April 9, 2003

Dear Rep Rokeberg:

I would like to convey our support of the wage and hour legislative issues as outlined below. You will soon see legislation that deals with most of these issues

- We support the elimination of the CPI provision currently in the minimum wage law which increases the minimum wage annually commensurate with cost of living increases.

- We support the elimination of the 80/20 statute currently in place which requires that exempt employees, performing non exempt work greater than 20% of the time, are paid 2 ½ times the minimum wage.

- We support the modification of Alaska's training wage which currently allows an employer to pay the Federal Minimum wage of $5.15 per hour to employees under the age of 17 who work less than 30 hours per week. The proposed modification changes this from 30 to 40 hours per week.

- We support the introduction of a tip credit provision which freezes the min wage at it's current hourly rate and allows employers to forgo future minimum wage increases in recognition of an employees' tips. The Hospitality Industry has been detrimentally impacted by legislation passed in the last several sessions Further eroding bottom line profits and has forced employers to reduce employee benefits and in many cases, lay off workers. Couple this with the two year economic downturn we have experienced, rising insurance costs (by as much as 30% in my case)and occupancy levels in my hotels that will not sustain a seasonal operation-- you have a sure formula for failure.

Alaska's Hospitality Industry is the second largest private sector employer in the state where 78% of our employees are Alaskans. We request your support of these critical wage and hour statutory changes to assure the economic well-being of Alaska's Hospitality Industry.

Sincerely,

Frank W. Rose, President-Alaska Lodging Mgt., Inc.

Subject: Wage & Hour Legislative Support is Needed - LC
Date: Thu, 03 Apr 2003 16:35:25 -0500
From: "Luke Peroni" <lpeorni@alyeskaresort.com>
To: "Rep Norman Rokeberg" <Representative_Norman_Rokeberg@legis.state.ak.us>

Luke Peroni
Box 249
girdwood, AK 99587

April 3, 2003

Dear Rep Rokeberg:

I would like to convey our support of the wage and hour legislative issues as outlined below.

- We support the elimination of the CPI provision currently in the minimum wage law which increases the minimum wage annually commensurate with cost of living increases.

- We support the elimination of the 80/20 statute currently in place which requires that exempt employees, performing non exempt work greater than 20% of the time, are paid 2 ½ times the minimum wage.

- We support the modification of Alaska's training wage which currently allows an employer to pay the Federal Minimum wage of $5.15 per hour to employees under the age of 17 who work less than 30 hours per week. The proposed modification changes this from 30 to 40 hours per week.

- We support the introduction of a tip credit provision which freezes the min wage at it's current hourly rate and allows employers to forgo future minimum wage increases in recognition of an employees' tips.

The Hospitality Industry has been detrimentally impacted by legislation passed in the last several sessions Further eroding bottom line profits and has forced employers to reduce employee benefits and in many cases, lay off workers. Alaska's Hospitality Industry is the second largest private sector employer in the state where 78% of our employees are Alaskans. We request your support of these critical wage and hour statutory changes to assure the economic well-being of Alaska's Hospitality Industry.

Sincerely,

Luke Peroni F&B Director Alyeska Resort

RECEIVED
APR - 3 2003

Subject: Wage & Hour Legislative Support is Needed - LC
Date: Thu, 03 Apr 2003 14:31:08 -0500
From: "Meghan Popely" <cfladmin@ptialaska.net>
To: "Rep Norman Rokeberg" <Representative_Norman_Rokeberg@legis.state.ak.us>

Meghan Popely
800 Venetia Way
Ketchikan, AK 99901

April 3, 2003

Dear Rep Rokeberg:

I would like to convey our support of the wage and hour legislative issues as outlined below.

- We support the elimination of the CPI provision currently in the minimum wage law which increases the minimum wage annually commensurate with cost of living increases.

- We support the elimination of the 80/20 statute currently in place which requires that exempt employees, performing non exempt work greater than 20% of the time, are paid 2 ½ times the minimum wage.

- We support the modification of Alaska's training wage which currently allows an employer to pay the Federal Minimum wage of $5.15 per hour to employees under the age of 17 who work less than 30 hours per week. The proposed modification changes this from 30 to 40 hours per week.

- We support the introduction of a tip credit provision which freezes the min wage at it's current hourly rate and allows employers to forgo future minimum wage increases in recognition of an employees' tips.

The Hospitality Industry has been detrimentally impacted by legislation passed in the last several sessions Further eroding bottom line profits and has forced employers to reduce employee benefits and in many cases, lay off workers. Alaska's Hospitality Industry is the second largest private sector employer in the state where 78% of our employees are Alaskans. We request your support of these critical waje and hour statutory changes to assure the economic well-being of Alaska's Hospitality Industry.

Sincerely,

Meghan L. Popely

RECEIVED
APR - 3 2003

ALASKA STATE LEGISLATURE
House of Representatives

COMMITTEE ASSIGNMENTS

RULES COMMITTEE, CHAIRMAN
LABOR & COMMERCE COMMITTEE, MEMBER
LEGISLATIVE COUNCIL, MEMBER
SPECIAL COMMITTEE ON OIL & GAS, MEMBER
LEGISLATIVE ETHICS COMMITTEE, MEMBER

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FAX: (907) 269-0119

SESSION:
ALASKA STATE CAPITOL
JUNEAU, AK 99801-1182
PHONE: (907) 465-4968
FAX: (907) 465-2040

Representative Norman Rokeberg

e-mail: Representative_Norman_Rokeberg@legis.state.ak.us

SPONSOR STATEMENT FOR HB 199
BY: Representative Norman Rokeberg

Title: An Act removing the annual adjustment to the minimum wage based on the rate of inflation; and providing for an effective date.

In 2002, the 22nd Legislature enacted HB 56 repealing the minimum wage formula, which tied Alaska's minimum wage to the federal minimum wage PLUS $.50 per hour or $5.65. The bill established a base minimum wage of $7.15 per hour, an increase of $1.50 or 27%. In addition, HB 56 created a two-pronged formula annually adjusting the minimum wage by the Consumer Price Index (Anchorage), or increasing it by $1.00 over the federal minimum wage, which ever is greater. Therefore, every January small businesses must increase their labor costs in spite of particular business circumstances, sector trends or economic conditions.

The rational for increasing the minimum wage is to increase income for lower income people and reduce poverty. Indexing is supposed to allow these workers to keep up with inflation, give "certainty" to employers, and keep a divisive issue off the legislature's calendar.

Sound economic analysis argues against such results. Forced wage hikes lead entry-level employers to eliminate jobs or reduce working hours. The evidence suggests that such increases do not help the poor, but on the contrary, increase unemployment, effect only a small percentage of the target group, create inflation and fail to account for worker mobility.

This issue is of such importance that the legislature should be required to periodically take up the issue of the appropriate amount of the minimum wage. By doing so, this will allow the business community to have a seat at the table when bargaining for a change to the wage rate. The principle of collective bargaining requires employees and employers to be at the table when negotiating wage rates and other conditions of employment. However, when the legislature acts unilaterally, the effected employers have no say or input to the amount of the minimum wage.

In the four months since the minimum wage increase has occurred, Alaskan businesses have already reacted in a negative manner to low-income workers. This includes the closing of a business in Anchorage, directly related to the minimum wage increase, and the loss of 54 jobs.

Indexing the minimum wage has failed in its primary objective. I urge your support of this legislation.

2 Consumer Price Index-Urban
U.S. City and Anchorage averages, 1960-2001

Year	U.S. City Average	Percent Change from Prev. Yr.	Anchorage Average	Percent Change from Prev. Yr.
1960	29.6		34.0	
1961	29.9	1.0	34.5	1.5
1962	30.2	1.0	34.7	0.6
1963	30.6	1.3	34.8	0.3
1964	31.0	1.3	35.0	0.6
1965	31.5	1.6	35.3	0.9
1966	32.4	2.9	36.3	2.8
1967	33.4	3.1	37.2	2.5
1968	34.8	.2	38.1	2.4
1969	36.7	5.5	39.6	3.9
1970	38.8	5.7	41.1	3.8
1971	40.5	4.4	42.3	2.9
1972	41.8	3.2	43.4	2.6
1973	44.4	6.2	45.3	4.4
1974	49.3	11.0	50.2	10.8
1975	53.8	9.1	57.1	13.7
1976	56.9	5.8	61.5	7.7
1977	60.6	6.5	65.6	6.7
1978	65.2	7.6	70.2	7.0
1979	72.6	11.3	77.6	10.5
1980	82.4	13.5	85.5	10.2
1981	90.9	10.3	92.4	8.1
1982	96.5	6.2	97.4	5.4
1983	99.6	3.2	99.2	1.8
1984	103.9	4.3	103.3	4.1
1985	107.6	3.6	105.8	2.4
1986	109.6	1.9	107.8	1.9
1987	113.6	3.6	108.2	0.4
1988	118.3	4.1	108.6	0.4
1989	124.0	4.8	111.7	2.9
1990	130.7	5.4	118.6	6.2
1991	136.2	4.2	124.0	4.6
1992	140.3	3.0	128.2	3.4
1993	144.5	3.0	132.2	3.1
1994	148.2	2.6	135.0	2.1
1995	152.4	2.8	138.9	2.9
1996	156.9	3.0	142.7	2.7
1997	160.5	2.3	144.8	1.5
1998	163.0	1.6	146.9	1.5
1999	166.6	2.2	148.4	1.0
2000	172.2	3.4	150.9	1.7
2001	177.1	2.8	155.2	2.8

1982–1984 = 100

Source: U.S. Department of Labor, Bureau of Labor Statistics

Commerce Researchers Association index, information from Alaska Housing Finance Corporation, the web based indexes included at the end of this article, and others.

Caution is important when using these indicators

All measures of cost of living have their shortcomings. Because no two consumers spend their money alike, no index accurately captures all the differences. The average household in Barrow may spend its income quite differently than the average household in Juneau. And how those differences stack up against a household in San Francisco could be dramatic. Comparisons are not easy to make. People's spending habits are also continuously in flux. Technology keeps changing, tastes change and people react differently to changes in consumer prices. Most of the cost-of-living indexes approach the issue by measuring prices from a sample of goods and services that they believe best mimic the "average consumer" or a specific group of consumers. Items such as housing, food, transportation, medical, entertainment, etc., are included in these surveys. This list of items is often referred to as the "market basket." Some indexes go to great lengths to construct these market baskets and others are very simple. What is important is understanding the contents of this market basket and the specific consumers' buying habits it attempts to imitate.

How fast are prices rising?

The Anchorage Consumer Price Index (CPI) is the most important cost-of-living index in Alaska; indeed, it is the only CPI produced in the state. It provides a long-term record of local price changes and it is often treated as the de facto statewide inflation measure. Anchorage is one of 87 urban communities in the country where the U.S. Department of Labor's Bureau of Labor Statistics (the bureau or BLS) tracks consumer prices. In most cases, price changes in Anchorage probably do not differ radically from other communities in the state. However, some people prefer to use the national CPI.

EMPLOYMENT
POLICIES
INSTITUTE

Indexing the Minimum Wage: A Vise on Entry-Level Wages

March 2003

The Employment Policies Institute (EPI) is a non-profit research organization dedicated to studying public policy issues surrounding employment growth. In particular, EPI research focuses on issues that affect entry-level employment. Among other issues, EPI research has quantified the impact of new labor costs on job creation, explored the connection between entry-level employment and welfare reform, and analyzed the demographic distribution of mandated benefits. EPI sponsors non-partisan research that is conducted by independent economists at major universities around the country.

Indexing the Minimum Wage: A Vise on Entry-Level Wages

Employment Policies Institute

Introduction

Indexing the minimum wage is a rising trend at the state and local levels. Whether through a ballot initiative, as in Washington and Oregon, or state legislature, as was the case in Alaska, efforts have increased in the recent years to tie minimum wage increases to specific economic indicators such as the Consumer Price Index (CPI):

Washington, Oregon, and Alaska all have minimum wages exceeding the federal standard that also increase annually based on changes in the CPI. In the 2001 legislative session, 24 other states considered increasing their minimum wages, and 15 of these considered linking those increases to indexing.

The arguments in favor of indexing are deceptively simple. Advocates argue indexing helps low-wage workers keep up with inflation and gives "certainty" to employers about wage increases. And besides, raising the minimum wage every year keeps a divisive issue off the legislative calendar.

But mandated wage increases are proven to be vastly inefficient. Moreover, there is a general consensus that forced wage hikes lead entry-level employers to eliminate jobs or reduce work hours. Even if jobs are not cut, employers respond to higher labor costs by shifting their hiring focus to better skilled employees or more capital-intensive production, leaving the least skilled out of the labor market.[1]

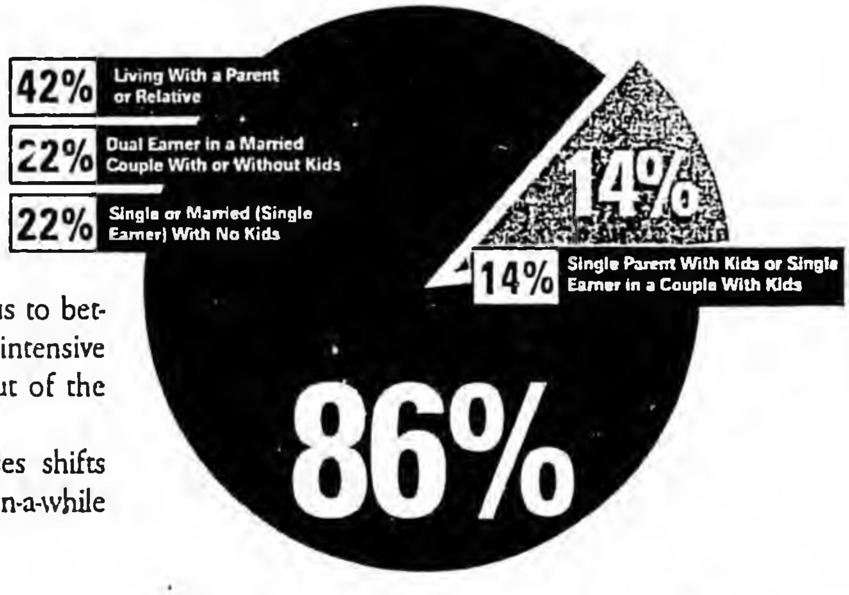
Automating minimum wage increases shifts these negative effects from a once-in-a-while occurrence to an annual event, albeit in an incremental fashion. Indexing is little more than an effort to institutionalize on auto-pilot a cycle of rising labor costs leading to reduced job growth, annual harm to job opportunities for the least skilled, and constant inflationary pressure, all without any measurable reduction in poverty.[2]

1. Targeting the Wrong People

Few people will deny that the stated goal of increasing the minimum wage is to get more money to families who are supported only by a minimum wage earner. However, even a casual examination of recent minimum wage proposals shows that minimum wages fail to target the families they are intended to help.

For instance, as seen in Figure 1, of every 100 workers affected by the $6.65 minimum

Figure 1 Distribution of Workers Affected by a Proposed $6.65 Minimum Wage



wage recently proposed in Congress, only 14 are single parents supporting children with just that low-wage job. The other 86 beneficiaries–who by definition are the actual "target" of the policy–are either teenagers living with their parents, single adults, married adults without children or one of multiple workers in a family with children.[3]

Indexing the minimum wage does not address the poorly targeted nature of the program itself. The overwhelming majority of "new dollars" created by annual wage hikes will still be delivered to people who are neither living in poverty nor supporting children.

2. Failing to Reduce Poverty

The 2001 study *Does the Minimum Wage Reduce Poverty?* conducted by Drs. Richard K. Vedder and Lowell E. Gallaway of Ohio University shows conclusively, "that minimum wage laws cannot be justified as a poverty-reducing device."[4] Their research shows that no matter which groups are examined, how one defines poverty or where in the country you look, minimum wages have had no negative effect on poverty.

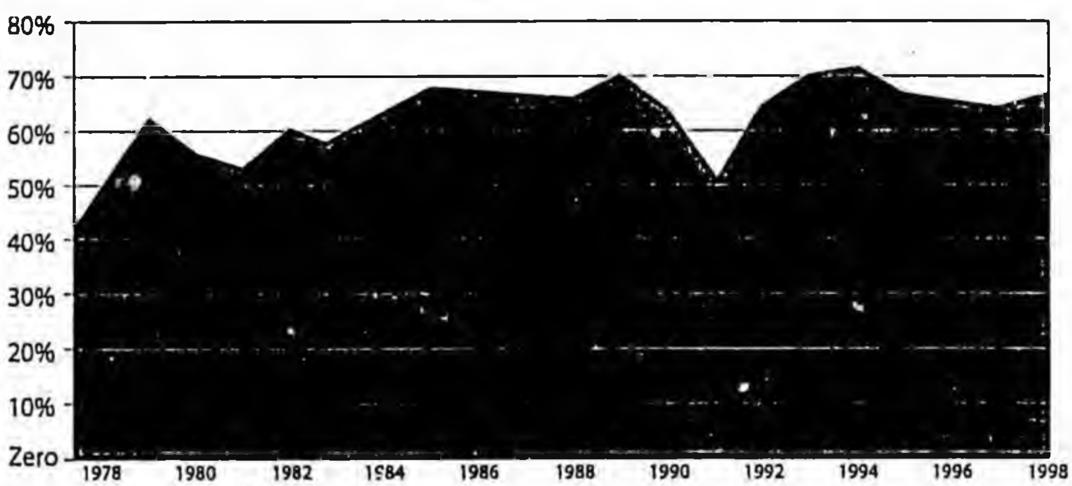
This study examines all poor households, and reveals that poverty exists primarily among nonworkers. In fact, for every full-time poor worker, there are seven who either do not work or only work part time. These people are helped out of poverty through first getting employed, improving their skills and the having increased job opportunities.[5]

3. Ignoring "Natural" Wage Growth

At the heart of the case for indexing is the notion that the bulk of minimum wage workers remain at the minimum wage and experience increasing financial strains brought on solely by annual inflationary pressures. In reality, it is difficult to find employees who stay at the minimum wage year after year. Those who do often have serious skill deficiencies or other problems that will not be solved with an indexed minimum wage.

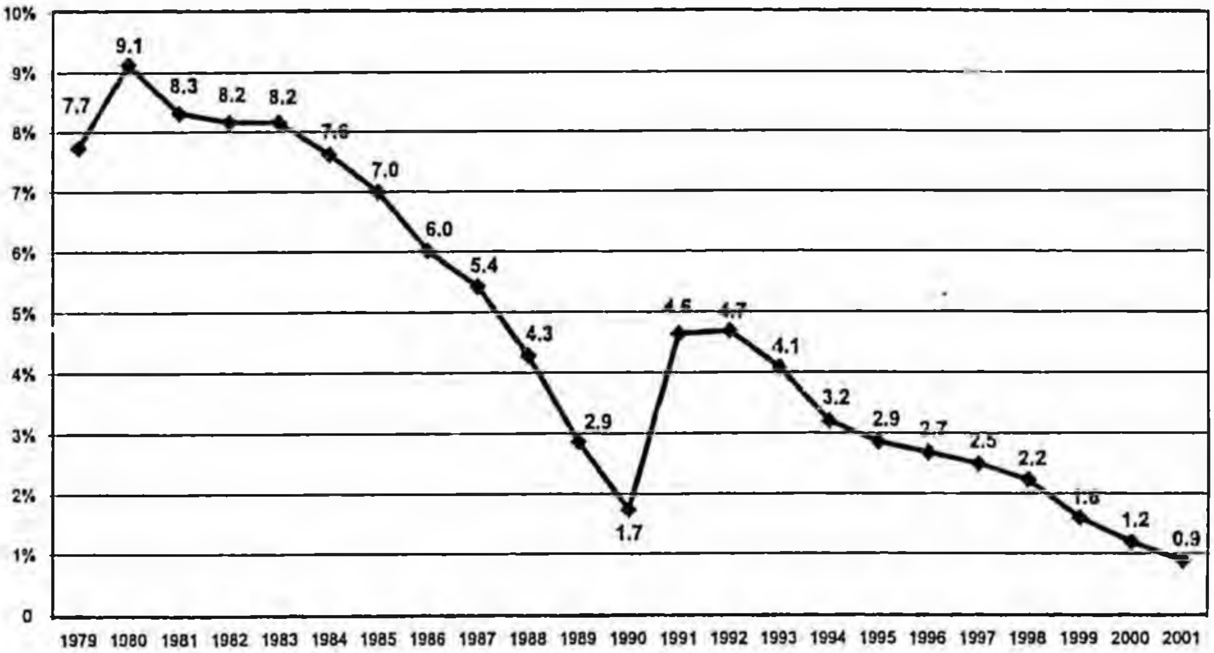
The fact is that wages for most minimum wage workers rise quickly without any intervention from the government. These wage increases come as workers increase their skill and experience levels, switch jobs, take on more responsibility, or improve their educational credentials.

Figure 2 Time Line of Exit Rates* from 1977-1997



* The "exit rate" is defined as the percentage of minimum wage workers that have sufficient wage growth to earn above the minimum wage one year later. If the minimum wage increases over the year, a person's wage must increase beyond the level of the new minimum to be counted as an exit.

Figure 3 Percentage of Hourly Workers Earning the Minimum Wage



*The prevailing Federal minimum wage was $2.90 in 1979, $3.10 in 1980, and $3.35 in 1981-89. The minimum wage rose to $3.80 in April 1990, to $4.25 in April 1991, to $4.75 in October 1996, and to $5.15 in September 1997. Thus, the Federal minimum was $4.25 for the 1992-95 period, and $5.15 in 1998-2001. Data for 1990-91 and 1996-97 reflect changes in the minimum wage that took place in those years.
SOURCE: Unpublished tabulations from the Current Population Survey (CPS), Bureau of Labor Statistics.

Research from Dr. William E. Even from Miami University of Ohio and Dr. David Macpherson from Florida State University shows in Figure 2 that between 1977 and 1997, on average 65% of minimum wage employees made more than that wage the following year, with typical wage growth exceeding 10%.[6] Even the most ardent proponents of indexing have not suggested raising wages by 10% per year, yet this is exactly what most minimum wage workers accomplish on their own.

4. Declining Numbers of Minimum Wage Employees

A corollary to the natural wage growth described above is the well-documented decline in the share of the population that is even affected by the minimum wage. Bureau of Labor Statistics (BLS) data show that the number of workers at the minimum wage has been declining steadily over the past decade as seen in Figure 3. In 1992, 4.7% of the workforce was at the minimum wage, while in 2001 just 0.9% of workers earned the minimum wage.[7]

Between 1980, when 9.1% of the workforce was earning the minimum wage, and 2001, there was an 86% decline in the number of employees working at the minimum wage — a drop of over 4 million workers. During the same time span the workforce added over 21 million more hourly workers.[8]

This decline can be attributed largely to the wage hikes earned by entry-level workers. It also points out the fallacy behind the argument that indexing is necessary if the government is to "help" minimum wage workers.

5. Overstating the Effects of Inflation

Foremost among the faulty arguments cited by indexing proponents is the one referencing the effects of inflation on the real value of the minimum wage.

A representative of the Oregon Center for Public Policy (a left-leaning advocate of indexing) said, "Each year families working at or close to the minimum wage find it harder to make ends meet because prices go up. Indexing the minimum wage to inflation stops the erosion of its value."[9]

Accepting this statement at face value means ignoring the substantial wage growth that minimum wage workers experience each year. The population of minimum wage employees is a constantly-changing mix of labor market entrants. As noted above, to suggest that folks who are earning the minimum wage today are the same people who earned this wage last year or the year before is demonstrably false.

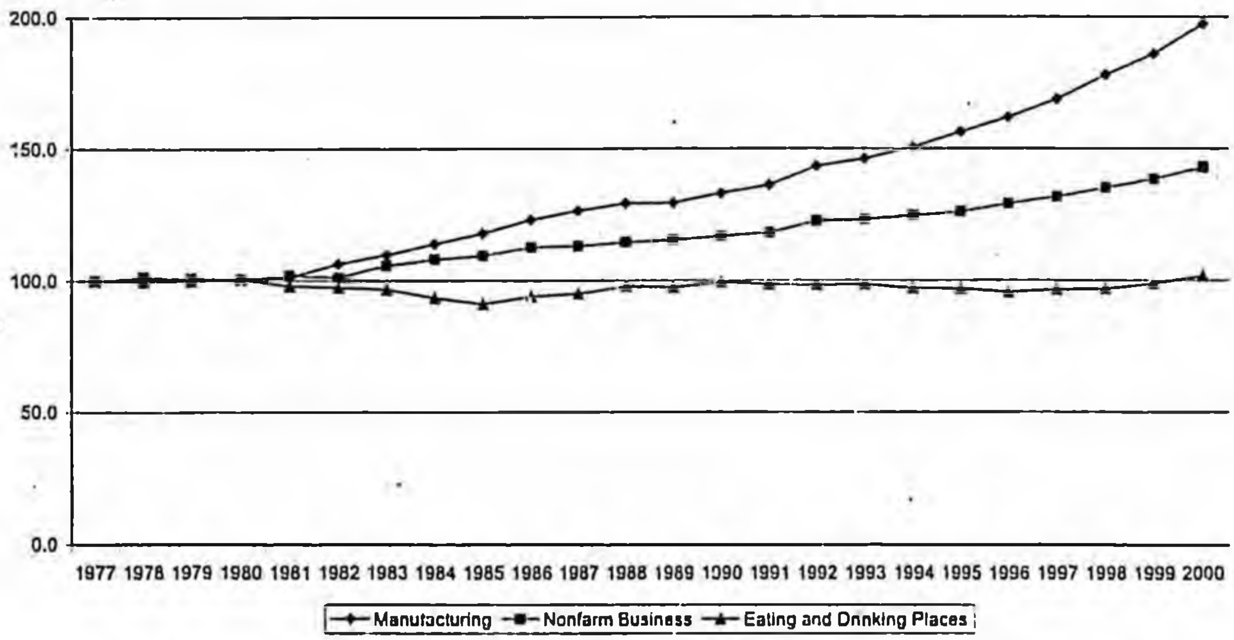
But the pitfalls of the inflation argument go beyond the composition of the minimum wage workforce. Even if one accepts constant inflationary pressures on minimum wage workers, the fact remains that the CPI is a crude tool for indexing because it has been shown to overstate inflation. Even some proponents of minimum wage increases have denounced linking automatic wage increases to the CPI as it does not accurately reflect market-caused price increases.[10,11]

If the CPI overstates inflation as research has shown, then indexed minimum wages based on the CPI would actually cause inflation, creating the need for greater and greater minimum wage increases every year.

6. Productivity of Low-Skill Workers Fails to Justify Indexing

A study by Oren M. Levin-Waldman (1998) proposes to instead link the minimum wage to productivity increases which the BLS has measured

Figure 4 Productivity Indexes for Various Sectors (1977 = 100)



as increasing by an average of 2.7% annually since 1949.[12] Alternatively, this paper suggests adjusting the minimum wages by tying them to the median wages for low-skilled jobs, so minimum wages do not increase too far out of line with wages of the least skilled. Under this scenario, the median wage of the lowest-wage workers is used as a proxy for the productivity of the least skilled workers.

However, this approach also has serious pitfalls. If one examines the Bureau of Labor Statistics measures of productivity in the eating and drinking industry (one of the largest employers of entry-level workers), it is clear from Figure 4 that since 1977 the eating and drinking industry has seen only a negligible increase in productivity.[13] In fact, when Dr. Levin-Waldman uses the median wages of low-wage employees as a proxy for productivity linked to the $3.35 minimum wage of 1983, the estimated minimum wage index was only $0.06 different in 1997 than the current $5.15 minimum wage.[14]

This is hardly a sound basis for arguing the need for indexing. On the contrary, from this analysis, it would seem that suggestions of the "declining value of the minimum wage" are simply untrue.

7. Siphoning Off Wage Increases

Supporters of indexing also rarely mention the lost benefits and additional taxes families incur following mandated wage increases.

In 2002, families supported by a single minimum wage employee with two children could receive $4,140 in refundable Earned Income Tax Credit benefits, about $3,500 annually ($300 monthly) in food stamp benefits, thousands of dollars in Section 8 benefits if they qualify, and free or low-cost health insurance for their children in every state.

Any family taking advantage of all these programs and subsequently "benefiting" from a mandated increase in the minimum wage would lose between 50% and 100% of every extra dollar they earn (up to about $15.00 per hour).[15] This is because eligibility for these well-targeted assistance programs falls rapidly as wages rise. In the end, the overall income available to poor families does not rise at all, or rises just marginally, after an indexed wage hike takes effect.

8. Risks of Economic Uncertainty

In times of economic uncertainty, policymakers are motivated by a desire to enhance job creation and improve the business environment. Thus, minimum wage hikes rarely pass in the midst of a recession. Indexing the minimum wage would change that. Indexing puts minimum wage hikes on automatic pilot, forcing labor costs to rise even during times when no rational public servant would force this kind of mandate, such as periods of high unemployment or otherwise slow economic growth.

Historically, business cycles rise and fall over time. This has become evident (again) in recent years. With an unpredictable economic environment, it is important to remember that the labor market needs a certain amount of flexibility to deal with changing demands.

9. Better Targeted Programs Save Money and Provide More Assistance

For the small number of individuals who are supporting children on a minimum wage income, there already exist a number of tightly-focused programs that are far better suited to delivering income to those in need. These programs can either be better promoted, expanded or combined to provide even more assistance to poor families.

Since 1968 several programs have been created or expanded that are vastly more efficient than the minimum wage at getting money to the poorest and most needy families. However, proponents of wage mandates wrongly criticize these programs as reasons for wage increases. Robert Pollin, often called the father of the living wage movement, said in the December 2002 *Journal of Economic Issues*, "[T]he need for such programs to support families which include full-time workers only emphasizes further the low level to which the national minimum wage has fallen."[16]

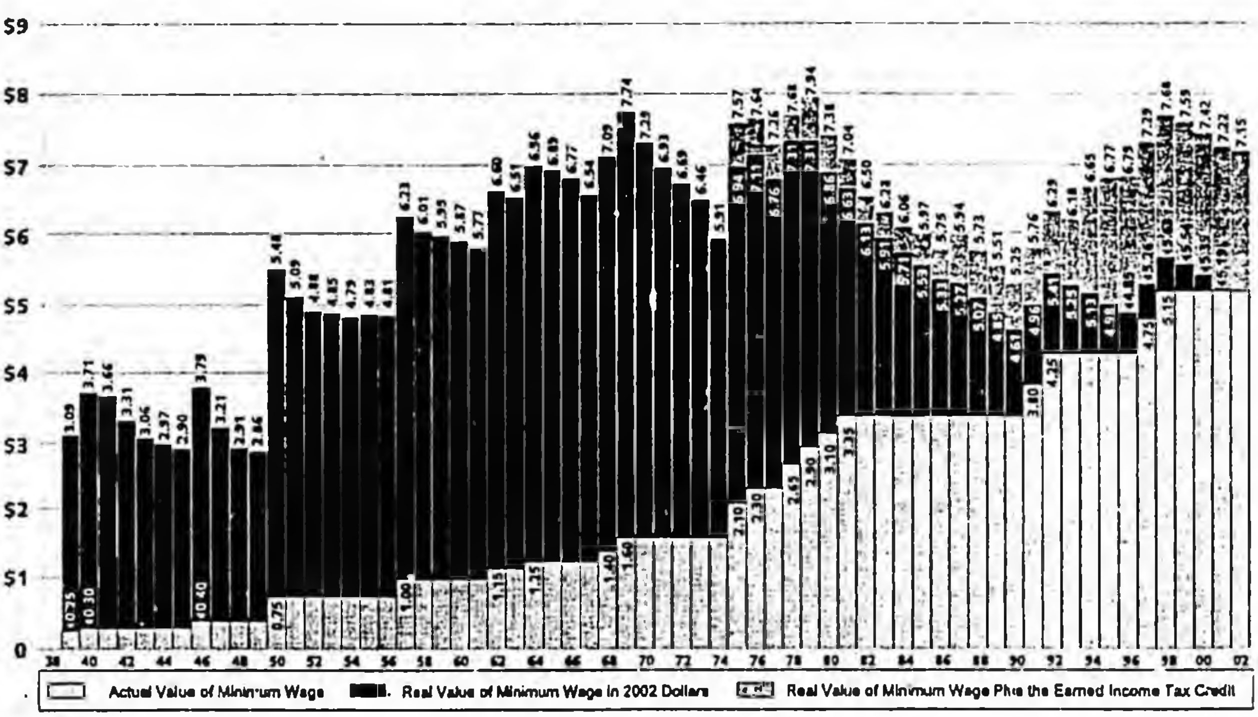
What Mr. Pollin fails to acknowledge is that these programs are not a symptom of the national minimum wage, but well-targeted policies superior to the minimum wage, specifically designed to target poor families with children. The programs that exist are far more efficient and cost effective than the general wage mandates he proposes.

Parents who cannot provide for their children with their earnings now have access to in-kind programs such as food stamps, Section 8 or public housing, Medicaid and state Children's Health Insurance Programs (sCHIP), as well as cash-benefit programs like Temporary Aid for Needy Families (TANF) and the refundable Earned Income Tax Credit (EITC). Funds from each of these programs are targeted solely to low-income families with children, unlike minimum wage increases where a substantial portion of the benefit goes to middle and upper class families or teenagers.

Restricting one's focus to the inflation-adjusted value of the minimum wage fails to take account of the EITC which has expanded greatly over the past 25 years. Expansions of the EITC increase hourly income for a single full-time minimum wage worker by over $2.00 per hour as seen in Figure 5. This $4,000 is delivered directly to families with children, rather than wasted on individuals and families outside of those most in need.

Unfortunately, advocates of indexing would prefer that policymakers consider their proposal in a vacuum, ignoring the reality that poor families have a wide variety of resources available to supplement their incomes until their skill levels rise to a point where they can command higher wages.

Figure 5 Comparison of the Real and Actual Value of the Minimum Wage Plus the Earned Income Tax Credit (as of January 1st each year)



Conclusion

There are several key questions legislators should ask when considering indexing wage mandates:

- Who are we trying to help by indexing wages?

- Is wage indexing an efficient way to deliver assistance to the target population?

- Is the CPI the proper tool for indexing wages, or could using the CPI cause more inflation or exacerbate unemployment?

- How will employers react to automatic increases in the wages they pay? Will they welcome the "certainty" offered by indexation? Or will employers seek out more efficient and productive employees, cut back on jobs and hours or switch to more capital intensive production?

In the balance between government, families and employers, creating an environment where business is challenged annually through an untargeted and unfunded mandate cannot have positive effects for any party. Because it offers few benefits, is foolishly targeted to those individuals who are not in need, and substantially increases risks for low-skill workers, indexing must be viewed for what it is: a politically-motivated tool with no place in a balanced approach to assisting the working poor.

Endnotes

1 See David Neumark, Mark Schweitzer and William Wascher, *The Effects of Minimum Wages Throughout the Wage Distribution*, Working Paper 9919 (Cleveland: Federal Reserve Bank of Cleveland, December 1999), for an overview of current minimum wage research on displacement and substitution effects of minimum wage increases.

2 See Richard K. Vedder and Lowell E. Gallaway, *Does the Minimum Wage Reduce Poverty?* (Washington, D.C.: Employment Policies Institute, 2001), which concludes that changes to the minimum wage have not had an effect on poverty.

3 See Employment Policies Institute, *Winners and Losers of Federal and State Minimum Wages*, October 2002; available from http://www.epi-online.org /50states_all.html; accessed 22 January 2003.

4 Vedder and Gallaway, Minimum Wage, 1.

5 Ibid. 16.

6 See William Even and David Macpherson, *Rising Above the Minimum Wage*, (Washington, D.C.: Employment Policies Institute, 2000).

7 These calculations are based on unpublished data from the U.S. Department of Labor, Bureau of Labor Statistics.

8 Ibid.

9 Jeff Thompson as quoted in Oregon Center for Public Policy, "Good Economic News for the New Year: Thousands of Low Wage Oregonians Will get a Raise on January 1st," 30 December 2002; available from http://www.ocpp.org/2002/nr021230.htm; accessed 22 January 2003.

10 See Michael J. Boskin, et al., "Toward a More Accurate Measure of the Cost of Living," (Washington, D.C.: Advisory Commission to Study the Consumer Price Index, U.S. Senate, 1996).

11 See Dimitri B. Papadimitriou and L Randall Wray, *Targeting Inflation: The Effects of Monetary Policy on the CPI and Its Housing Component*, Public Policy Brief no. 27 (Annandale-on-Hudson, N.Y.: The Jerome Levy Economics Institute, 1996).

12 See Oren M. Levin-Waldman, Automatic *Adjustment of the Minimum Wage: Linking the Minimum Wage to Productivity*, Public Policy Brief no. 42 (Annandale-on-Hudson, N.Y.: The Jerome Levy Economics Institute, 1998).

13 Figures calculated using published statistics by the U.S. Department of Labor, Bureau of Labor Statistics, "Industry Productivity Data Tables," 16 October 2001; available from http://www.bls.gov /lpc/iprdata1.htm; accessed 22 January 2003.

14 Waldman, Automatic Adjustment, 29.

15 Based on unpublished analysis of interactions of tax and benefit programs in a number of states.

16 See Robert Pollin, Mark Brenner, and Stephanie Luce, "Intended Versus Unintended Consequences: Evaluating the New Orleans Living Wage Ordinance," Journal of Economic Issues 36, no. 4 (December 2002), 843-876.

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The Economic Impact of Washington's Minimum Wage Law

By Richard Vedder and Lowell Gallaway
Ohio University

Introduction

On January 1, 1999, the minimum wage for workers in Washington rose as a result of a voter initiative. Subsequent increases have brought the Washington minimum wage to more than 36 percent higher than the national average. As Figure 1 shows, in much of modern history, the Washington state minimum wage was at, or relatively close to, that determined nationally via the Fair Labor Standards Act of 1938 as amended. The 1998 decision of the voters, however, has led to an unprecedentedly high minimum wage in Washington relative to national norms. Today, the Washington state minimum wage is the highest, relative to the national standard, at any time in history.

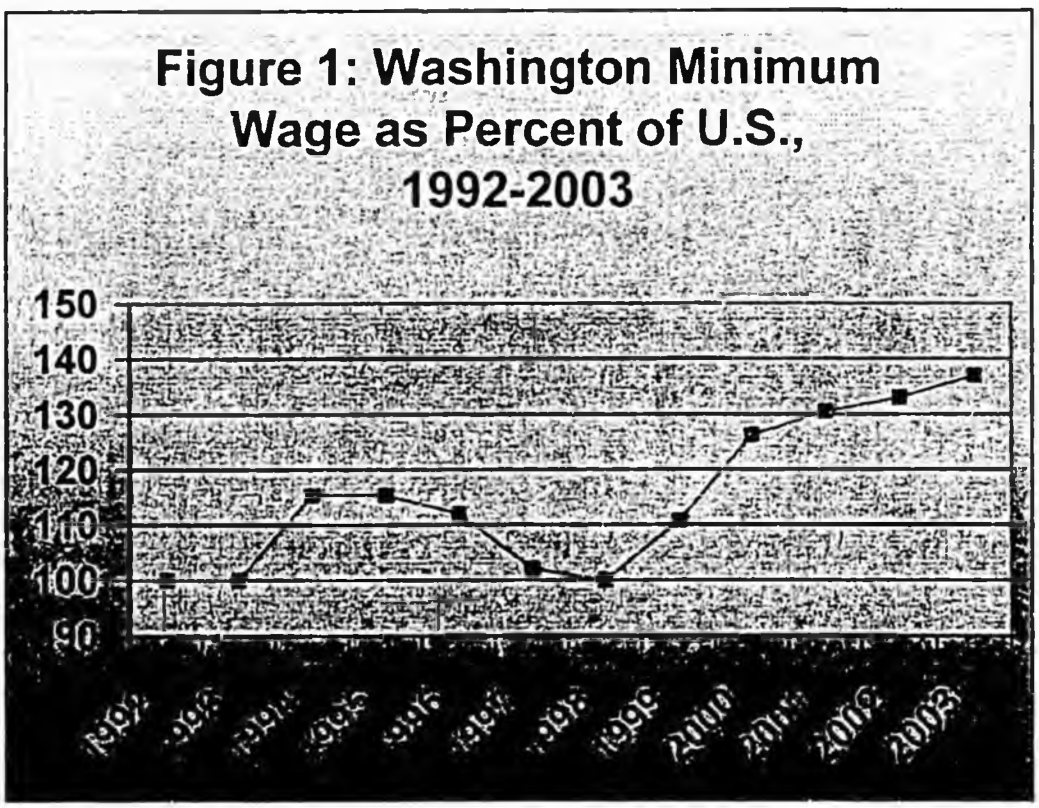

Figure 1: Washington Minimum Wage as Percent of U.S., 1992-2003

The increase in the minimum wage approved by the voters was presumably motivated by a desire to create income for lower income people. The hope was that it would reduce poverty. Yet the Law of Demand suggests that when the price of something rises, the quantity the people wish to purchase falls. Government mandated higher minimum wages mean the price of labor is being increased, which should induce some reduction in the amount of workers who will be hired[1]. Thus the income-generating effect of higher wages might be offset by the income-destroying impact of falling employment opportunities arising from higher wages. The Nobel Prize winning economist Jospeh Stiglitz, who was Chair of the Council of Economic Advisers under President Clinton, put it well: "a higher minimum wage does not seem to be a particularly useful way to help the poor. Most poor people earn more than the minimum wage when they are working; their problem is not low wages."[2] Secondarily, if a significant percentage of low paying jobs were held by persons from non-poor families, the minimum wage might be ineffective in achieving its objective even if the unemployment effects of higher wages are small. [3]Moreover, the longer term ability to increase worker income is closely tied to experience and training, and if the minimum wage hike were to lead to reduced training, and if unemployment lowered opportunities to gain experience, the longer term prospects of lower skilled workers would be further reduced.[4]

The first empirical question, then, is: have economic conditions for lower income citizens of Washington improved since the enactment of the high state minimum wage? Is, for example, the rate of poverty higher or lower? Does Washington's poverty experience in recent years mirror that of the nation? If no, is it plausible to argue that the minimum wage law has played a role in the deterioration in the income position of relatively disadvantaged Washingtonians?

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[1] The evidence in this respect is persuasive. A review of earlier studies is found in Charles Brown, Curtis Gilroy and Andrew Kohen, "The Effect of the Minimum Wage on Employment and Unemployment," *Journal of Economic Literature* 46(1), October 1982, pp. 487-528. For a more recent review, see Charles Brown, "Minimum Wages, Employment and the Distribution of Income," in Orley Ashenfelter and David Card, eds., *Handbook of Labor Economics*, 3B, 1999, pp. 2101-2163. On the impact of changes in the federal minimum wage instituted in 1990 and 1991, see Donald Deere, Kevin M. Murphy and Finis Welch, "Employment and the 1990-1991 Minimum Wage Hike," *American Economic Review*, 85(2), May 1965, pp. 232-237. David Neumark and his colleagues have also performed much valuable recent research. See, for example, David Neumark and William Wascher, "A Cross-National Analysis of the Effects of Minimum Wages on Youth Employment, National Bureau of Economic research (NBER) Working Paper No. 7299, August 1999, Neumark's "The Employment Effects of Recent Minimum Wage Increases: Evidence from a Pre-Specified Research Design," NBER Working Paper No.7171, June 1999, and David Neumark, William Wascher and Mark Schweitzer, "The Effects of Minimum Wages Throughout the Wage Distribution," NBER Working Paper No. 7519, February 2000. For the NBER studies, go to http://www.nber.org. See also Richard V. Burkhauser, Kenneth A. Couch and David C. Wittenburg, "Who Minimum Wages Bite: An Analysis Using Monthly Data," *Southern Economic Journal* 67(1), 2000, pp. 16-40; David Macpherson, "The Effects of the Proposed California Minimum Wage Hike," Employment Policies Institute, October 2000. The only major dissenting voice to the consensus that minimum wages cause unemployment comes from David Card and Alan Krueger, whose research are discussed below.

[2] See his *Economics* (New York: W.W. Norton, 1993), pp. 130-133.

[3] For statistics on work experience and earnings of poor and near-poor persons, see U.S. Department of Commerce, Bureau of the Census, Current Population Reports No. 219, *Poverty in the United States:2001* (Washington, D.C.: Government Printing Office, 2002), available at www.census/gov/hhes/www/poverty.html.

[4] Empirical evidence that minimum wages reduce training is provided in Masanori Hashimoto, "Minimum Wage Effects on Training on the Job," *American Economic Review*, 72(5), December 1982, pp. 1070-1087. For a more recent affirmation of that evidence, see David Neumark and William Wascher, "Minimum Wages and Training Revisited," NBER Working Paper, W6651 available at www.nber.org.

Rising Poverty in Washington

Despite rising incomes in the late 1990s and into the new century, the poverty rate has gone up in the state of Washington. Table 1 looks at the poverty rate in 1998, the year prior to the beginning of the state's higher minimum wage, and 2001. Note that in Washington, the rate rose by 1.9 percentage points, going from 8.9 to 10.8 percent, implying an increase of the actual number of poor persons of substantially over 20 percent. By contrast, nationally, the poverty rate fell by a percentage point, and in the neighboring states of Idaho and Oregon the decline was even greater. Whereas in 1998, the poverty rate was dramatically lower in Washington than in Oregon (8.9 vs. 15.0 percent), by 2001, the rate was actually *higher* in Washington.

Table 1
Changes in the Poverty Rate, Washington and the Nation, 1998-2001

State or Area	1998 Poverty Rate	2001 Poverty Rate	Change, Poverty Rate, 1998-2001
Washington	8.9%	10.8%	+1.9%
U.S.	12.7	11.7	-1.0
Oregon	15.0	10.6	-4.4
Idaho	13.0	11.2	-1.8

Source: U.S. Bureau of the Census, authors' calculations.

The use of single year poverty rate data is somewhat hazardous, however, because the samples on which poverty rates are calculated at the state level are rather small. To reduce that problem, the Bureau of the Census prefers to use averages of the poverty rate over two or more years. We can compare 1997 and 1998, the last two years prior to the implementation of the voter mandated minimum wage increase, with 2000 and 2001, after the law had been fully in effect. The results, presented in Table 2, are similar to those derived from the single year data. Poverty rates are falling elsewhere, but rising in Washington during the period following the implementation of the higher state minimum wage.

Table2
Changes in the Poverty Rate, Washington and the Nation, 1997-98 to 2000-01

State or Area	1997-98 Poverty Rate	2000-01 Poverty Rate	Ch., Pov. Rate, 97-98, 2000-01
Washington	9.1%	10.8%	+1.7%
U.S.	13.0	11.5	-1.5
Oregon	13.3	11.3	-2.0
Idaho	13.8	12.0	-1.8

U.S. Bureau of the Census, authors' calculation

Moreover, Table 2 looks only at Washington, two bordering states, and the aggregate figure for all Americans. A detailed examination of changes in the two-year poverty rate from 1997-98 to 2000-2001 reveals that *the poverty rate rose far more in Washington than in any other state in the Union.* Indeed, only six of the 50 states had rising poverty rates during this period of general prosperity (despite the mild 2001 recession), and the second highest increase in the poverty rate, 1.1 percentage points in Oklahoma, was more than one-third smaller than in Washington.

It is at least conceivable that Washington's rise in poverty happened coincidentally with the introduction of sharply higher minimum wages. That possibility would be strengthened if the period in question was one of economic stagnation and decline in Washington. The evidence, however, does not support that possibility. Real per capita personal income rose 9.65 percent from 1997 to 2001, which, other things equal, should have led to some reduction in poverty. Moreover, the real income growth in Washington exceeded the national average for the same period. The median real per capita income growth for the 50 states and the District of Columbia was 7.96 percent, suggesting that Washington's real per head income growth was more than one-fifth larger than the typical state. In most of the rest of the U.S., poverty rates were falling as real income was rising – but not in Washington.

More sophisticated statistical analysis confirms the descriptive statistical evidence. We regressed the 2000-01 poverty rate for the 50 states plus the District of Columbia against the 1997-98 poverty rate and against the growth in real personal income per capita. As expected, there was a positive observed relationship between the recent poverty rate and the earlier rate, and a negative relationship observed between the 2000-01 poverty rate and the rate of economic growth. From the model, we can estimate what the 2000-01 poverty rate in the state of Washington would have been. The actual rate, 10.8 percent, was almost precisely one-third higher than the predicted rate of 8.14 percent. Why the big error (for a model that explained well over 82 percent of the interstate variations in the poverty rate)? The unique event in Washington was the sharp increase in the minimum wage, not observed in the typical other state.

Why would poverty rates rise in a state that had significantly rising income levels and a simultaneous increase in the state minimum wage? While several factors are no doubt at work, the minimum wage increase would only reduce poverty if the "income effect" on higher wages is greater than the "substitution effect" associated with reduced employment arising from higher wages. Elaborating, proponents of minimum wages would argue that increasing pay to relatively low paid workers often would increase their income sufficiently to raise them above the poverty level. This income effect, however, may be completely offset by the substitution effect that arises when the increased minimum wage leads to behavioral changes on the part of employers.

What are these behavioral changes? First, employers respond to the Law of Demand – when the price of something rises, people want to buy less of it. In the case of labor, workers are hired for the revenues that their efforts provide to the firm. If the extra cost to a firm of hiring another worker is less than the extra revenue that worker will provide, it is profitable to hire the worker, and employment will be increased. For example, suppose a worker's effort is expected to add $6 per hour in revenue to the firm. If the wage is, say, the federal minimum wage of $5.15 per hour, the firm will hire the worker because she or he is expected to enhance the firm's profitability. If, however, the wage is mandated under state law to be over $7 (as is currently the case in Washington), the decision will be made not to employ the worker, as her addition to the payroll of the business would actually lower profits.

If the unemployment effects of the minimum wage are sufficiently large, than one would expect the reduction in poverty associated with some workers receiving a higher wage would be offset by the loss of income from reduced employment among lower skilled workers. Moreover, the employment decision is not simply a "yes" or "no" one where workers either work fulltime or are unemployed. There is considerable evidence that increases in real minimum wages lead to reductions in hours worked. Consider a worker who works 40 hours a week at $5.15 per hour for 50 weeks a year, providing him or her with $10,300 income. Suppose the minimum wage goes up to $6.25, but the employer, feeling cost pressures, reduces the hours of employment to 30 hours per week. Annual compensation of the worker would fall to $9,375, or by nine percent, which might actually work to bring the worker into poverty from non-poverty status (that depends on the income of other members of his or her household).[5]

There are other ways in which increases in the mandated minimum wage could increase worker poverty. First, employers, to reduce costs, might eliminate certain fringe benefits, such as health insurance or company subsidized retirement plans. Second, the firm might cut back on worker training, reducing the probability of the worker gaining on the job skills that would increase earnings over the long run.

This brings us to two other problems with using minimum wages as a means of eliminating poverty, or more generally, to redistribute income. First, most poor persons (over 88 percent in 2001) do not work full-time, and a large percent (over 61 percent in 2001) do not work at all. The poverty rate among full-time workers is a paltry 2.6 percent.[6] Thus, most adult poor people have no wage income, so minimum wage laws can have but a marginal impact. Moreover, a significant percentage of persons working minimum wage jobs are second or third wage-earners in a household which often has income levels substantially above the poverty levels (e.g., teen-age children from two parent middle class families). Thus there is a significant targeting problem with the minimum wage as a poverty reduction strategy.

The second problem relates to income mobility. Today's poor are tomorrow's non-poor. There is a good deal of movement of persons up and down the income distribution. While there may be some long-term poor who have little opportunity to improve their lot because of various disabilities (a group for which minimum wages are largely irrelevant), most poor move out of the poverty condition as job opportunities present themselves.[7] If minimum wages deny individuals opportunities for initial employment, they retard the move up the job ladder that provides a means out of poverty for many.

We have previously estimated statistically the relationship between state minimum wages and poverty rates using data for the 50 states and the District of Columbia.[8] To summarize our findings, we consistently found *positive* relationships between the presence of state minimum wages above the federally mandated level and the rate of poverty. While the results were not always robust statistically, the opposite contention that state minimum wage laws help reduce poverty is completely rejected. This is consistent with several studies using federal data, including some by us, that show either no relationship between the minimum wage and poverty or even a positive one – higher minimum wages are associated with greater poverty.

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[5] Consistent with this argument are the findings of David Neumark and William Wascher, "Do Minimum Wages Fight Poverty?" NBER Working Paper No. W6127, August 1997, available at www.nber.org. See also their paper with Mark Schweitzer, "Order from Chaos? The Effects of Early Labor Market Experiences on Adult Labor Market Outcomes," *Industrial and Labor Relations Review*, 51(2), January 1998, pp.299-322.

[6] This is for persons 16 years of age or over. The statistics are from the U.S. Census Bureau, Current Population Survey 2002, annual demographic supplement. Available on the Internet at www.census.gov.

[7] William Even and David Macpherson, *Rising Above the Minimum Wage* (Washington, D.C.: Employment Policies Institute, January 2000); web address: www.epionline.org/even-macpherson.htm.

[8] Richard K. Vedder and Lowell E. Gallaway, *Does the Minimum Wage Reduce Poverty?* (Washington, D.C.: Employment Policies Institute, June 2001); see also our "The Minimum Wage and Poverty Among Full-Time Workers," *Journal of Labor Research* 23(1), Winter 2002, pp. 41-47.

In conclusion, the actual evidence of the past four years along with the findings for other states leads us to reject the major rationale for the Washington state minimum wage law, namely that it helps alleviate financial distress among the poorest members of the population. If anything, the evidence suggests that the state minimum wage law is a cruel albatross around the necks of Washington's poor, preventing them from participating in the market economy in a way that can alleviate their economic situation.

Unemployment Effects

If it is true that the increase in the Washington minimum wage has not brought about its intended objective of improving conditions for low income persons, and indeed, likely had the opposite effect, then this is strong circumstantial evidence that the state's minimum wage is causing some unemployment and job loss. What is the actual unemployment experience in Washington in the years since the institution of the high minimum wage?

Table 3

Changing Unemployment Rates, Washington and 10 Other Western States, 1998-2001

State or Area	1998 Unemp. Rate	2001 Unemp. Rate	Change, Unemp. Rate
WASHINGTON	4.8%	6.4%	+ 1.6%
UNITED STATES	4.5	4.8	+ 0.3
Arizona	4.1	4.7	+ 0.6
California	5.9	5.3	- 0.6
Colorado	3.8	3.7	- 0.1
Idaho	5.0	5.0	0.0
Montana	5.6	4.6	- 1.0
Nevada	4.9	5.3	+ 0.4
New Mexico	6.2	4.8	- 1.4
Oregon	5.6	6.3	+ 0.7
Utah	3.8	4.4	+ 0.6
Wyoming	4.8	3.9	- 0.9

Source: U.S. Department of Labor, Bureau of Labor Statistics

Table 3 shows that from 1998, the last year before the minimum wage increase, to 2001, unemployment showed little change in the nation as a whole or in the 10 other contiguous Western states. Nationally, the unemployment rate rose by a modest 0.3 percentage points, and in five of the other western states it rose, in four it fell, and in one it remained the same. No state had an increase in its state unemployment rate of over 0.7 percentage points – except Washington. The increase in the unemployment rate in Washington was more than double for any other state in the region. By 2001, Washington had the highest unemployment rate of any American state, whereas in 1998 its unemployment rate was exactly the median (middle) of the states in the region.

We asked ourselves: what would the Washington unemployment rate have been if it had followed the pattern, relative to the U.S. or its neighbors, that it did in the years prior to the adoption of the new Washington minimum wage? We estimated two regression equations, both using monthly data for the 84 months prior to the effective date of the new law (the years 1992 through 1998). In one, we estimated the Washington unemployment rate based on the national rate, and in the second, we estimated the Washington rate based on the average of its two bordering states, Oregon and Idaho. In both regressions, there was a highly significant statistical relationship between the national or neighboring unemployment rate and that in Washington – Washington typically followed national and regional patterns.

We then took the estimated coefficients from the regression equations and forecast what the Washington unemployment rate should have been in September 2002, the last month for which data were available at the time of this analysis. That forecast implicitly assumes that the historic (1992-98) pattern of relationship between the Washington and national (or neighboring) unemployment rates still existed. The actual unemployment rate in September 2002 was 7.4 percent. The rate predicted from the model using national data was 6.04 percent, and with neighboring (Oregon and Idaho) data was 6.63 percent. Thus unemployment in Washington was 0.77 percent points higher than expected using neighboring states as the guide, and 1.36 percent points higher using national data to do the calculation.

Given the fact that the September 2002 labor force in the state of Washington was 2,979,000, the implied loss of jobs arising from Washington's unemployment rate exceeding what historical patterns would predict was 22,930 jobs using neighboring state data, and 40,499 using national data. Using a mid-range estimate, we would opine that the Washington unemployment rate is slightly over one percentage point above what might be expected, implying a loss of over 31,000 jobs.

It is true that this surge in Washington unemployment after 1998 may be caused by factors other than the increase in the Washington minimum wage, notwithstanding the fact that there are voluminous scholarly studies showing that minimum wages causes unemployment. One might note that the dot.com collapse in 2000 and beyond hit Washington hard, and that the slowdown in aviation since the recession began and especially after September 11, 2001, has reduced employment at Washington's largest employer, Boeing. According to this view, the rising unemployment was caused by these factors, not the minimum wage increase.

It should be pointed out, however, that the deterioration in Washington's unemployment situation began well before the September 11 tragedy – when the minimum wage hike was already operative. Indeed, the full impact of the rise in the minimum wage in Washington was probably felt by the summer of 2000. From December 1998 to September 2000, the unemployment rate fell by 0.5 percentage points nationally, and by 0.3 percentage points in Idaho and a rousing 1.1 percentage points in Oregon. Yet it *rose* by 0.4 percentage points in Washington. If Washington's rate had responded as it did nationally after December 1998, it would have been 0.9 percentage points lower in September 2000. If it had responded at the average of Washington's two neighbors, it would have been 1.1 percentage points lower. It would appear that the Washington unemployment rate in September 2000 was about one percentage point higher than what the 1999-2000 labor market situation would have predicted – *before the onset of the recession and fully a year before the September 11 tragedy.* This supports the notion that the minimum wage hike may have boosted the state's unemployment rate by about one percentage point, meaning the loss of roughly 30,000 jobs.

To learn more about the *immediate* impact of the increase in the minimum wage in January 1999, we did a comparison of employment growth rates in Washington and its two neighbors, Oregon and Idaho, in the periods immediately before and immediately after the minimum wage increase. Specifically, we looked at total nonagricultural job growth as well as that in eight specific employment categories for the six months April through October of 1998, the last six months before the voters approved the minimum wage increase in November 1998. Then we looked at job growth from December 1998 (the last month prior to the increase in the minimum wage) and June 1999. The results are shown in Table 4.

Looking at total job growth, it declined from 3.19 to 0.75 percent as Washington moved into the higher minimum wage era. By contrast, there was little change in growth in the neighboring states. If we take the average of Oregon and Idaho, employment growth in the 1998 period was 1.18 percent, compared with 1.22 percent in the 1999 period. Growth stayed the same, roughly, while it fell sharply in Washington. Whereas in 1998, before the minimum wage change, job growth was sharply higher in Washington than in either Idaho or Oregon (where it was almost nonexistent), in the post-minimum wage increase period growth was far higher in Idaho than in Washington, and almost 95 percent of the huge differential between Washington and Oregon had been eliminated.

Table 4
Percent Growth in Employment, Washington and Neighbors: 6 Months Before and 6 Months After the Implementation of the Minimum Wage Increase

	Before Minimum Wage Change:			After Minimum Wage Change:		
Sector	Wash.	Oregon	Idaho	Wash.	Oregon	Idaho
Total Emp.	3.19%	0.21%	2.15%	0.75%	0.60%	1.85%
Services	2.16	0.56	2.46	1.72	2.12	2.70
Manufact.	-0.99	-1.54	-0.13	-4.97	-0.32	0.66
Trade	1.18	-0.31	1.37	0.41	0.55	1.72
Government	0.95	2.34	2.08	0.64	-0.96	1.63
Finance	2.55	0.74	3.56	0.22	-0.63	-0.42
Transport.	0.44	-0.13	3.19	0.95	2.64	3.47
Construction	5.35	-0.61	3.15	3.91	1.84	4.20
Mining	0.00	0.00	-6.67	-9.09	0.00	-7.41

Source: Authors' calculations from data from the U.S. Department of Labor, Bureau of Labor Statistics

Individual sectors show the same pattern. Excepting transportation, every single employment category had reduced growth in Washington after the minimum wage hike. For example, in trade (retail and wholesale), job growth had been 1.18 percent; it fell by nearly two-thirds to an anemic 0.41 percent. By contrast, in both Oregon and Idaho, a majority of sectors had higher growth in 1999 than in the 1998 period. *A sharp decline in employment growth coincides exactly with the implementation of the new state minimum wage law in Washington.*

A Tale of Two Cities

Looking at interstate comparisons in unemployment may be questioned because geographic differences in economic conditions are often profound, and the observed results may therefore reflect factors other than the Washington minimum wage experience. Accordingly, an alternative approach is to compare communities geographically close to each other that have relatively similar economies.

Accordingly, an interesting dimension of much recent minimum wage research has been the use of the methodology of making before and after comparisons of employment and unemployment in comparable geographic areas where one of the locales has experienced a change in the minimum wage rate. This is especially applicable where state minimum wage rates are involved.

A highly publicized example of the use of such a technique is the Card-Krueger analysis of the impact of an increase in the New Jersey state minimum wage rate in 1991.[9] Their strategy was to contrast changes in employment in selected fast-food restaurants in central New Jersey with employment movements in a panel of selected fast-food outlets in Southeastern Pennsylvania, where the minimum wage had not changed. Unfortunately, their data collection techniques, which were based on telephone surveys, were fatally flawed, rendering their conclusion (denying an impact of minimum wages on unemployment) meaningless. Where their analysis was replicated using actual payroll record information, significant negative employment effects were observed in New Jersey fast-food restaurants.[10]

Despite the shortcomings of the initial Card-Krueger analysis, their methodology is quite useful for our purposes by providing a way of conducting an alternative assessment of the employment effects of the 1999 increase in minimum wage rates in Washington. Our choice of an area to analyze in this fashion is the Spokane, Washington-Coeur'dAlene, Idaho region.

Coeur d'Alene is the central city in Kootenai County Idaho, a county with well over 100,000 population and a per capita income level in 2000 of $23,456, within 10 percent of that in Spokane County (per capita income $25,550), a county with over 400,000 residents.[11] Thus these two counties, physically adjacent to each other, each have reasonably similar economies and relatively large population bases. The experience of Kootenai County will serve as a control for evaluating events that transpired in Spokane County in the wake of the 1999 minimum wage increase in Washington.

We begin by describing the unemployment experience in the Idaho area, Kootenai County. In 1998 (the year before the Washington minimum wage change went into effect), the unemployment rate was 7.7 percent. The rate remained stable thereafter, falling slightly by 2000 to 7.4 percent (and rising again to 7.6 percent in 2001). At the same time, a very different pattern of events was emerging in Spokane County. The 1998 unemployment rate (according to the Washington Employment Security Department) was 4.8 percent.

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[9] David Card and Alan Krueger, "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania," *American Economic Review*, 84(4), September 1994, pp. 772-793, and "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania: Reply," *American Economic Review*, 90(5), December 2000, pp. 1397-1420.

[10] See 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*, 90(5), December 2000, pp. 1362-1396.

[11] The income data in this section come from the Web site of the Bureau of Economic Analysis, U.S. Department of Commerce (www.bea.gov). The unemployment data are obtainable from the Web site of the Bureau of Labor Statistics, U.S. Department of Labor (www.bls.gov).

It rose consistently after the new minimum wage law took effect, going to 5.2 percent in 1999, 5.6 percent in 2000, and 6.3 percent in 2001. The combined effect of these changes was to dramatically reduce the gap between the unemployment rates in Kootenai and Spokane counties. In 1998, the unemployment differential was 2.9 percentage points; it was reduced by more than half (to 1.3 percentage points) by 2001.

Probably the primary difference between 1998 and 2001 in the labor market milieu facing the two counties was the Washington minimum wage increase. This suggests that the impact of increasing the state minimum wage was to increase the Spokane County unemployment rate by about 1.6 percentage points (assuming that in the absence of the minimum wage increase, Spokane would have followed the pattern prevailing in Coeur d'Alene). Given the labor force in Spokane County of about 200,000, this implies a loss of about 3,200 jobs in the county attributable to the upward movement in Washington's minimum wage rate. While that impact seems relatively small, if a proportionate impact were felt state-wide, it implies a job loss of nearly 48,000 jobs. Thus, this finding employing the Card-Krueger methodology is quite consistent with our other findings, and indeed suggests a somewhat greater unemployment impact.

The Simple Theory of Unemployment

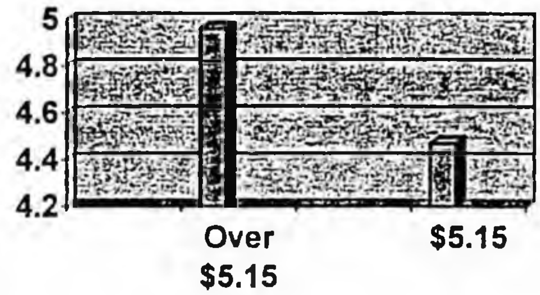
While the evidence appears strong that the 1999 minimum wage hike significantly impacted unemployment, it is circumstantial evidence. For the minimum wage hike to have unemployment effects, labor markets have to be impacted. In particular, if, as expected, the minimum wage increases heightened labor costs, this should have led to some reduction in the demand for labor, and probably also some modest increase in labor supply, both occurrences that would increase unemployment.

By definition, unemployment exists when the quantity of persons seeking jobs exceeds the number that employers wish to hire. Put differently, the quantity of labor supplied exceeds the quantity of labor demanded at the existing wage rate. Other things unchanged, an increase in wages mandated by governmental authority will reduce the quantity of labor demanded as some workers become unprofitable to hire, and increase the quantity of labor supplied, increasing unemployment. That is why economists generally believe minimum wage laws cause unemployment.

The extent to which this happens depends of the sensitivity of employers and workers to wages. While the precise response varies no doubt considerably, it is typical that when wages of workers rise by, say, one percent, the quantity of workers that employers wish to hire will also fall by almost 1 percent as well, say 0.90 percent... Economists would say that "the price elasticity of demand for labor is 0.90." By contrast, the empirical evidence suggests that the supply of labor is more inelastic – less sensitive to wage changes. Typically, a one percent increase in wages will increase the quantity of labor supplied by perhaps 0.15 percent. Thus a one percent increase in wages might well lead to a 0.90 percent decline in the number of workers employers wish to hire, but to a 0.15 increase in the number wanting to work. The combined effects would be to raise the rate of unemployment by about 1.05 percent.

A minimum wage increase obviously impacts mainly on occupations where it changes wages from what they otherwise would be, namely relatively lower skilled jobs. Restaurants, agriculture, and retail trade are three areas that employ large numbers of workers who would be impacted by mandated wage changes, whereas minimum wage laws should impact professional and managerial workers relatively little.

Figure 2: Unemployment Rates-States at $5.15 and States with Higher Wage



Before turning to wage data specific to Washington, we would note that research that we previously performed provides empirical evidence that state minimum wage laws raise unemployment by raising wages. Figure 2 compares the 11 jurisdictions that throughout 2001 had minimum wage rates at the state level above the federal minimum, with the 40 states that either had no state minimum wage law or had rates at or lower than the federal standard of $5.15. The average unemployment rates in the high minimum wage states was almost exactly one-half of one percentage point greater than that in the other states (4.96 vs. 4.47 percent). The four jurisdictions that had unemployment rates in excess of six percent all had minimum wages above the federal level – District of Columbia, Washington, Oregon and Alaska. By contrast, all five states with unemployment rates less than 3.5 percent (Maine, Iowa, Nebraska, North Dakota, South Dakota) had no minimum wage above the standard at the beginning of 2001.

The similar comparisons of unemployment rates, however, does not control for other factors that might cause unemployment. Using 1997 data, in an earlier study we observed a statistically significant (at the one percent level) positive relationship between the presence of state minimum wage laws above the federal level and the incidence of unemployment, controlling for several other possible causes of unemployment (e.g., immigration, unionization, government transfer payments). The results suggested that on average states with higher than federal minimum wage mandates had about one-third of one percentage point higher rates of unemployment. The study failed, however, to distinguish between states that had minimum wages only modestly in excess of the federal norm as opposed to states (such as contemporary Washington) where the minimum wage far outdistances the national standard. The same study also showed a positive relationship between state minimum wages (in excess of the federal mandate) and average annual pay of workers, suggesting, even using aggregate data, that state minimum wage laws raise labor costs.

The national data are supported in the Washington example. The Department of Labor data for "average annual pay" showed an unusually large upsurge in 1999, the year of the implementation of the new state minimum wage law. The average annual pay measure rose by 8.04 percent in Washington, more than double the national increase of 3.71 percent. A large part of that difference is explained by a productivity surge in Washington that outdistanced the national norm. But our estimate is that the productivity-adjusted real wage in Washington rose by 0.91 percent in 1999 – compared with a mere 0.22 percent nationally. We have documented at great length that unemployment varies directly with the adjusted real wage.[12] The differential increase in the adjusted real wage in Washington alone can explain a 0.7 to 0.8 percentage point increase in the unemployment rate in Washington relative to the nation in that year. That is close to the suggested unemployment effects based on the national and regional labor market situation discussed above.

Case Study: The Restaurant Industry

The restaurant industry has been the focal point of much of the research dealing with the issue of the impact of minimum wage rates on employment. This stands to reason, because there are a disproportionately large number of employees in this industry earning wages at or very near the minimum wage level. Therefore, it is appropriate for us to analyze the effect on employment in this industry after the 1999 increase in the Washington minimum wage.

To set the stage for such an analysis, we collected data describing aggregate wage and salary employment and employment in eating and drinking establishments in Washington for the three years 1995, 1998, and 2001. They are shown in Table 5. The 1995-98 period is the last three years prior to the enactment of the new higher Washington state minimum wage, while the 1998-2001 period reflects activity after that mandated change.

The data displayed in Table 5 indicate that wage and salary employment in the aggregate grew much more rapidly between 1995 and 1998 – 9.51 percent – than it did from 1998 through 2001 – 3.83 percent. Not all of this decline in employment growth, however, represents the impact of the increase in the minimum wage. During that period, employment levels were adversely impacted by the national business cycle downturn. For example, if one were to assume a loss of 40,000 jobs in Washington because of the minimum wage hike, the number of those employed in 2001 in the state would have been 2,967.7 thousand, suggesting a percentage growth in jobs from 1998 and 2001 of 5.26 percent, still well below the growth in the earlier period, reflecting the business cycle downturn.

Table 5
Aggregate Wage and Salary Employment and Employment in Eating and Drinking Establishments, Washington, 1995, 1998, and 2001

Employment Category	1995	1998	2001
All Wage and Salary Employment (000s)	2,564.7	2,819.5	2,927.7
Eating and Drinking Establishments (000s)	172.8	187.2	192.7

Source: U.S. Department of Labor, Bureau of Labor Statistics

[12] See Richard K. Vedder and Lowell E. Gallaway, *Out of Work: Unemployment and Government in Twentieth-Century America*, Updated Edition (New York: New York University Press, 1997).

Turning to restaurant employment (the eating and drinking establishment category in the table), there is evidence of an even greater impact on employment. Between 1995 and 1998, for every additional 100 wage and salary jobs created, 5.97 of them were in eating and drinking places. By contrast, over the interval 1998 through 2001, the incremental restaurant employment per 100 jobs statistic drops noticeably to 4.86 – a decline of about 19 percent. The difference of 1.11 may be considered a measure of the disparate impact of the increase in the minimum wage in Washington on restaurant employment. Given the actual aggregate wage and salary employment increase of 108,200, this factor accounts for a loss of employment in the restaurant sector of about 1,200 jobs.

In addition to this impact on restaurant employment, there also is a loss of jobs that is attributable to the overall slowing of employment growth induced by the minimum wage increase. In 1998, employment in eating and drinking places account for 6.64 percent of all wage and salary jobs. Assuming the total job loss from the minimum wage legislation is 40,000, as suggested above, this indicates a decline in restaurant employment of about 2,650 than can be explained by minimum wage-induced slower employment growth. Adding the two factors together gives a job loss of 3,850, which is proportionally about one-half larger than the average for other industries.

Yet this estimate of adverse employment effects is quite conservative. The data records only the number of jobs, not the number of hours worked. If, as national empirical evidence suggests is likely, the minimum wage change induced some reduction in hours for continuing employees, the total loss of hours of employment could be far greater than suggested by the two percent drop in the number of workers. In any case, the minimum wage law had a significant adverse impact on employment in the restaurant industry.

Agriculture

Agricultural workers are typically paid far less than the average for non-agricultural workers, so this is a sector that is particularly vulnerable to laws mandating minimum wages. From 1998 to 2001, the growth in farm employment virtually stopped, falling 90 percent from 2.80 percent in the 1995-98 period, to 0.28 percent in the years after the institution of the new higher state minimum wage. Since proprietors in agriculture produce in international highly competitive markets and are "price takers" that have no control over the price of the goods sold, in the short run the minimum wage hike has a particularly egregious impact on their investment return. Accordingly, it is not surprising that there was a 2.80 percent decline in what the Bureau of Labor Statistics refers to as "farm proprietors" from 1998 to 2001, whereas from 1995-98 the number had increased substantially. Although circumstantial, the evidence strongly suggests that the cost squeeze imposed by the minimum wage may have been a major factor in a reversal in agricultural entrepreneurial activity after 1998.

Conclusions

The passage of the referendum in 1998 that has dramatically raised the state minimum wage in Washington is a quintessential example of the Law of Unintended Consequences. The goal was to improve the lot of the disadvantaged in Washington, but the effect has been for poverty to rise, not fall, and rise far more than income trends would suggest should happen. The Washington minimum wage law created not eliminated poverty. It did it largely by creating unemployment and reduced hours for workers. While various estimates of job loss were calculated, the true figure likely is not less than 24,000 (0.8 percent of the labor force) and may be as high as 48,000 – after correcting for the impact of the business cycle turndown. The job losses were found in virtually every sector of the Washington economy. Some occupations relying heavily on relatively less skilled labor were particularly impacted. The restaurant industry suffered more job losses than most industries, and if the shortening of hours is taken into account, the employment effects may well be double or triple as severe as was typical of other industries. Agriculture, competing in highly competitive markets where farmers have no control over price, probably suffered not only from job loss, but from the profit squeeze that the minimum wage imposed, as evidenced by a noticeable drop in the number of farm proprietors (unlike in earlier periods, where the number had grown).

The Washington minimum wage, then, has failed in its primary objective. Rather than a relatively cheap way to alleviate poverty, the law has cruelly and capriciously brought about job and income loss to workers and small entrepreneurs. Had the voters known this would happen, it is difficult to believe they would have endorsed this well intended but truly economically destructive mandate.

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WA Highlights

Small Business News and Issues

Vedder Study: Economic Impact of Washington's Minimum Wage Law

Release Date: 02/03/2003

by Richard Vedder and Lowell Gallaway, Ohio University

In the fall of 1998, the voters of Washington approved a large increase in the state's minimum wage. Four years have passed since its inception. It was designed to improve economic conditions for the poorer and less advantaged members of the population. Has it achieved its objective? The evidence strongly suggests the answer is "NO" - and indicates the law has had adverse consequences.

Some specific points:
Coincident with the implementation of the new law, poverty in Washington began rising; Washington has had the greatest increase in poverty of any state in the nation since 1998.
The Washington minimum wage has caused considerable unemployment. Various estimates were made, suggesting a loss of not less than 20,000 o. more than 48,000 jobs. It is a reasonably safe estimate that the law has raised the unemployment rate by at least one percentage point.
While unemployment in the Pacific Northwest has actually declined since 1998, it rose sharply in Washington. Much of the increase comes after the implementation of the minimum wage increase, but before the 2001 recession or the September 11 tragedy.
A tale of two cities: Coeur d'Alene, Idaho, unhampered by the new Washington law, has had far more robust employment growth than adjacent Spokane, Washington.
Some industries have had disproportionately large unemployment impacts from the law. The restaurant industry is a good example.
In low wage/highly competitive industries like farming, it is impossible for farmers to shift higher labor costs to consumers. It is no accident that there was a significant decline in farm proprietors after 1998, in marked contrast to robust growth in earlier years

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This law is a perfect example of the Law of Unintended Consequences, achieving the opposite results to that intended - at great human cost.

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Rich Owens
2114 McKenzie Drive
Anchorage AK 99517

Representative Norman Rokeberg
State Capitol, Room 214
Juneau, AK 99801

April 25, 2003

Dear Representative Rokeberg,

After reviewing HB 199, I would like to make several short comments. I agree, that at this time an automatic cost of living adjustment to the minimum wage on an annual basis is unneeded. The huge wage increase in January of 2003 did not just affect those that were eligible (18 and older). Whether intended or not, that increase put a large upward pressure on the wages paid to 14 – 17 year olds as well. Some might think this is progress, but as a small business owner, I've seen a declining profit over the past few years, become even smaller.

As the owner of Jewel Lake Tastee-Freez for the past 9 years, I cannot compete with McDonald's, Burger King, Taco Bell and the other large chains, that are selling items for 99 cents. They buy in huge volumes, and have mass media campaigns to help sell their products. The small business owners, which probably hire and train the bulk of all teenagers, are having a difficult time. I certainly was not able to raise my food prices the same amount that minimum wage increased. Businesses that hire the younger first time workers, have a higher turnover rate and lower productivity level than older employees. The majority of them are not working to support a family or go to college. Movies, video games, stereo systems, and computers, probably rank high on the list of items they can't live without. I'm happy to report that I also have employees that have straight A's, save money for college, and invest in the stock market. They are a small minority. In the past 9 years, I've hired hundreds of first time employees. I can guarantee, there is not a direct correlation between a higher minimum wage and an improved level of productivity with teenagers.

Part of the problem here was communications. Everyone was so busy only talking about the "new minimum wage going to $7.15", that for the most part the State, TV, radio, and newspaper reporters failed to even mention to thousands of employees out there, that there were exemptions to the wage as well. That late breaking news story was left to the business owners, so we could be the "bad guys". Maybe for future reference we don't make the fine print so fine.

I feel that the current minimum wage ($7.15) is adequate for now, and can be revisited in the next couple of years. Having an automatic cost of living adjustment (COLA) is unnecessary. All the small business owners are getting is an automatic cost of living decrease (COLD) under the current plan. Any regulations that are enacted need to be fair to both sides. Running a bunch of us out of business is not the way to encourage economic growth and create jobs. The products we sell are not our most important asset, our most important asset is the employees that sell those products. Employers that don't compensate their employees fairly, deserve to loose them to employers that do.

Rich Owens, Owner- Jewel Lake Tastee-Freez

RED ROBIN ALASKA, INC.
4450 Cordova Street
Suite 200
Anchorage, AK 99503
907.563.7777
907.561.2525 FAX

April 23, 2003 SENT BY FAX TO: 907-465-2040

Rep. Tom Anderson
Chair Labor & Commerce Committee
State Capitol
Juneau, AK 99801

Dear Representative Anderson,

I am writing in support of HB199 which eliminates the CPI increase provision currently in minimum wage statute.

As the owner of the Red Robin restaurants in Anchorage, I can attest first hand to the impacts that the recent 27% minimum wage increase has had on my business. In order to accommodate this increase, I have had to lay off workers, have eliminated over 14,000 man-hours per year [equivalent to 16 employees working a 35 hour workweek], increased menu prices and cut employee benefits. I also had to close one of my restaurants. This closure resulted in the loss of over 50 jobs

All these changes hurt our business, the employees and the consumer public. Additionally, the current economic downturn and declining tourism numbers in our state has created a climate of uncertainty in my operation for which I must prepare with plans for further layoffs and cuts.

The CPI increase provision threatens to further erode my bottom line and the quality of service I provide in my business. Alaska is only one of three states that ties the CPI to it's minimum wage. It is both unreasonable and inappropriate to weigh our industry down with yet another financial burden.

I urge you to pass HB199 out of committee.

Sincerely,

Fred Rosenberg
President

CC: Rep Crawford
Rep Dahlstrom
Rep Gatto
Rep Guttenberg
Rep Lynn
Rep Rokeberg

March 31, 2003

An Open Letter to State of Alaska Legislators,

It has been in the newspapers and every industry's publications, on radio and television, and people have been talking about it for some time. The cost of conducting business has been going up and up and up. In addition, many industries are suffering a decline in business or, at a minimum, it is not increasing fast enough to keep up with the increase in expenses. The economy in Anchorage and most of the State of Alaska is not doing well, similar to the rest of the US. This past January was the worst for some businesses in Anchorage in almost 20 years. The restaurant industry was hit very hard. The country is concerned about terrorism and the prospect of going to war. The stock market has declined to its lowest levels, eroding the net worth and equity of individuals and companies all across the United States, and Alaska is no exception.

With all of this going on, the State of Alaska Legislature has seen fit to increase the minimum wage effective January 1st over 26% all at one time. Virtually all of these increases go to servers who are already making a substantial hourly income. In our company, servers typically earn tips of $14 to $22 per hour plus the minimum hourly wage of $7.15. This brings their hourly income to between $21 and $29 per hour. Over 40 other states provide employers with a "Tip Credit" to allow them to offset some of these increases. We now have the highest minimum wage in the United States and do not have a Tip Credit that could be used to increase other wages.

In October of last year, the State of Alaska Legislature also saw fit to raise the taxes on all alcoholic beverages in the amounts of 128% on spirits, 194% on beer, and 205% on wine, resulting in the highest taxes of its kind in the United States. The insurance on our buildings, our liability coverage, and worker's compensation has gone up over 29% in one year. Virtually every other expense in our business has also gone up as a result of these same circumstances.

We have been absorbing these types of increases for some time, but there is a limit at which it can't be done. As a result of the current situation, we have been forced to reduce the number of hours that our employees can work. In our schedules, **we have eliminated over 14,000 man-hours** per year at two of our restaurants. This is the equivalent of 16 employee's jobs, each working a 35-hour workweek, being eliminated. In addition, with our business not increasing at our Midtown location, we can no longer afford to operate it. So, it has become necessary to close it. We certainly regret that most all of our Team Members will be terminated as a result of this action. **This is a loss of 54 jobs in addition to the 14,000 man-hours eliminated**. This is the tough part, especially with the other layoffs in town.

The K-Marts are closing, Alaska Regional Hospital just announced the layoffs of about 60 people, and there have been numerous other jobs that have been lost recently. These things are beyond our control. However, they are within the control of the Legislature. We hope and trust that the Legislature considers these types of circumstances in the future when they create increases in the expenses of businesses that provide jobs to Alaskans. Done properly, these measures will allow the economic base to grow reasonably, not be hampered.

We strongly suggest that the **Legislature consider a Tip Credit provision** with **guidelines similar to the federal standards** during this legislative session so that our industry, which provides in excess of 17,000 jobs in the State of Alaska, can offset some of these expenses in a most difficult economic environment. Had a Tip Credit provision been available, those 54 jobs would not have been lost. The fate and jobs of many Alaskans rests in your judgment. I encourage you to support HB 199 and HB 255 as two small steps in the effort to strengthen our economy and maintain jobs for Alaskans. These are tough times and they call for strong leadership.

Thank you for your time and consideration.

Red Robin Alaska, Inc.

Fred Rosenberg

Fred Rosenberg, President

4450 Cordova Street, Suite 200 • Anchorage, AK 99503 • 907.563.7777 • Fax 907.561.2525

Comfort Inn
BY CHOICE HOTELS

SENT BY FAX TO: 907-465-2040

April 23, 2003

Rep. Tom Anderson
Chair Labor & Commerce Committee
State Capitol
Juneau, AK 99801

Dear Representative Anderson,

I am writing in support of HB199 which eliminates the CPI increase provision currently in minimum wage statute.

As the General Manager of the Comfort Inn in Fairbanks, Alaska, I can attest first hand to the impacts that the recent 27% minimum wage increase has had on my business. In order to accommodate this increase, I have had to lay off workers, cut back on my deluxe continental breakfast and cut employee benefits. All these changes hurt the employer, the employee and the consumer public. Additionally, the current economic downturn and declining tourism numbers in our state has created a climate of uncertainty in my operation for which I must prepare with plans for further layoffs and cuts.

The CPI increase provision threatens to further erode my bottom line and the quality of service I provide in my business. Alaska is only one of three states that ties the CPI to it's minimum wage. It is both unreasonable and inappropriate to weigh our industry down with yet another financial burden.

I urge you to pass HB199 out of committee.

Sincerely,

Donna Harrison

CC: Rep Crawford
Rep Guttenberg
Rep Dahlstrom
Rep Gatto
Rep Rokeberg
Rep Lynn

Chena River
1908 Chena Landings Loop
Fairbanks, Alaska 99701
Phone: 907.479.8080
Fax: 907.479.8063

Wendy's

April 23, 2003 **SENT BY FAX TO: 907-465-2040**

Rep. Tom Anderson
Chair Labor & Commerce Committee
State Capitol
Juneau, AK 99801

Dear Representative Anderson,

I am writing in support of HB199 which eliminates the CPI increase provision currently in minimum wage statute.

As the Owner/Operator of Wendy's in South-Central Alaska, I can attest first hand to the impacts that recent 27% minimum wage increase has had on my business. In order to accommodate this increase, I have had to lay off workers, increase menu prices and cut employee benefits. We are also looking at new technology to replace employees because the new wage has made this equipment a viable alternative. All these changes hurt the employer, the employee and the consumer public. Additionally, the current economic downturn and declining tourism numbers in our state has created a climate of uncertainty in my operation for which I must prepare with plans for further layoffs and cuts.

The CPI increase provision threatens to further erode my bottom line and the quality of service I provide in my business. Alaska is only one of three states that tie the CPI to its minimum wage. It is both unreasonable and inappropriate to weigh our industry down with yet another financial burden.

I urge you to pass HB199 out of committee.

Sincerely

Jay W. Sutherland
President North-Wend Foods

CC: Rep Crawford
Rep Guttenberg
Rep Dahlstrom
Rep Gatto
Rep Rokeberg
Rep Lynn

NORTH-WEND FOODS, INC. / 3709 SPENARD ROAD, SUITE 200, ANCHORAGE, AK 99503 / 907-562-7275 FAX: 907-562-1251

GLACIER BREWHOUSE GB

Ristorante O·R·S·O·

Brews Brothers, LLC
737 West 5th Ave., Suite 110
Anchorage, AK 99501
Phone (907) 792-3761 Fax (907) 792-3740

Date: April 22, 2003
To: Representative Norman Rokeburg
Subject: **H-B 199 Removal of the annual adjustment to the minimum wage**

As co-owner of the Brews Bros. L.L.C. (the Glacier BrewHouse, ORSO) I am a strong supporter of this legislation to remove the annual CPI adjustment to minimum wage.

- The Brews Bros. L.L.C. employs 235 full and part time Crewmembers.
- The Federal Government defines *income* as all earnings, to include reported tips and paid wages.
- 65% of our staff has an *income* that includes both tips and wages.
- Service staff (Servers and Bussers) typically earn an average hourly *income* that is 1 1/2 – 3 times the minimum wage on an hourly basis.
- The Federal Government recognizes tips as *income*, thus personal income taxes are paid on all reported tips and wages.
- The business is responsible to accurately report tips and to pay its portion of taxes on that *income*.
- In 2002 the Brews Bros.L.L.C. tipped Crewmembers worked an excess of 135,000 hours.
- The cost of the increase in the minimum wage ($5.65 to $7.15) is projected to cost the business $188,245 in wage increases, including payroll taxes and overtime cost increases.
- These additional wages did not go to any crewmember who had an *income* that was equal to the minimum wage of $5.65, but rather to crewmembers whose *income* was $6.65-$20.00 per hour due to tips they earned. Of these additional wages 70% went to servers whose average *income* was $19.00.
- Our actual minimum hourly *income* for a tipped Crewmember as legislated in 2002 is now $8.15 per hour ($7.15+$1.00, minimum wage plus minimum reported tips) NOT $7.15.

- The Brews Bros. L.L.C. agrees that a minimum *income* of $7.15 per hour should be paid to all Alaskan Workers. As you can see we have always exceeded that standard.

- After September 11th the Alaskan economy along with the National economy was in decline. In 2002 visitor numbers were down, and for the first time since the 1980s industry wide sales throughout the state were also in decline. To further complicate these issues smoking bans were imposed, liquor taxes were raised, statewide tourism marketing dollars were reduced, minimum wage increased, local property and government taxes and fees increased, production caps were implemented on part of my business thus reducing potential sales. The real cost to my business in 2002 was in excess of $250,000 in new costs to a company that already exceeded all wage and benefit standards. It seems to me that the reward for running a great business in Alaska, one that exceeds in wages, crew benefits, community support and Downtown developments is a quarter million dollar unfair increase in operating expenses.

In summary I support this legislation, however it is time for the state to get it's head out of the sand and recognize total *income* as the minimum *income* level required throughout the state. I am confident that total *income* is what the intension of the legislators was when crafting minimum wage legislation. I support this legislation until we can implement a fair and balanced tip credit that can be supported by the industry, the staff, and labor. Further increases to the minimum wage will only make an unfair situation worse.

Sincerely,

Chris Anderson
Managing Member

NFIB.
The Voice of Small Business

ALASKA

01937
Fax Transmittal Memo

Date 3/28 # of pages ▸ 1	
To Heather Norbress	From Thyes
Co./Dept.	Co./Dept.
Phone #	Phone #
Fax # 465-2040	Fax #

March 6, 2003

Representative Norman Rokeberg
State Capitol Room 214
Juneau, Alaska 99801-1182

Dear Representative Rokeberg,

As you know, last year the legislature passed a bill to increase the minimum wage from $5.65 to $7.15. The legislation also indexed future increases to inflation. NFIB members were opposed to the increase as well as the automatic indexing.

We are now concerned about a third aspect to this issue that wasn't clearly apparent in discussions on minimum wage last year. The increase in the minimum wage not only impacts what employers pay to hourly workers but also increases the minimum amount paid to salaried workers.

The Alaska Wage and Hour Act exempts salaried employees that meet certain criteria. In order for an employee to be exempt from the wage and hour law they must be paid at least two and one-half times the Alaska minimum wage per hour during the first 40 hours of employment each week. Based on the current minimum wage, the minimum salary would be $715 for the first 40 hours worked each week. That equates to $37,180 per year.

It is our understanding that you are considering legislation to remedy some or all of these issues. We encourage you to do so and will support your efforts.

The NFIB/Alaska Leadership Council will be meeting March 14 in Juneau and the wage and hour issues will be on our agenda.

You have long been a supporter of small business. We look forward to working with you and greatly appreciate your advocacy for business.

Sincerely,

Thyes Shaub, NFIB Alaska Lobbyist

National Federation of Independent Business – ALASKA
217 Second St., Suite 206 • Juneau, AK 99801 • 907-463-5118 • Fax 907-462-5128 • www.nfib.com

NFIB.
The Voice of Small Business

ALASKA

National Federation of Independent Business

Statement of Support for HB 199

Removal of Automatic Inflation Adjustment for Minimum Wage

April 21, 2003

The Alaska Chapter of the National Federation of Independent Business has 2,500 members, making it the largest small-business advocacy group in the state. The legislative agenda of NFIB is determined by ballot. The ballot is a poll of the membership on a series of issues.

Following are the ballot results in response to the following question: Should the minimum wage be indexed for inflation?

17% YES 76% NO 7% Undecided

NFIB members are in strong support of removing the automatic indexing of the minimum wage to inflation as provided in House Bill 199. Some members are struggling as it is with the recent increase in the minimum wage from $5.65 to $7.15. Alaska now has the highest minimum wage in the nation.

Future minimum wage increases should be determined by the legislature after careful review of the current economic conditions that exist in Alaska.

Vote YES on House Bill 199

Submitted by Thyes Shaub on behalf of NFIB/Alaska.

National Federation of Independent Business – ALASKA
217 Second St., Suite 206 • Juneau, AK 99801 • 907-463-5118 • Fax 907-462-5128 • www.nfib.com

Headquarters:
217 2nd Street, Suite 201
Juneau, Alaska 99801
(907) 586-2323 FAX 463-5515

ALASKA
★STATE★
CHAMBER
OF COMMERCE

April 4, 2003

Representative Norm Rokeberg
Alaska State Capitol
Juneau, Alaska

Re: Alaska Wage and Hour Act Revisions

Dear Representative Rokeberg:

The minimum wage bill that was passed into law last session contained provisions that the members of the Alaska State Chamber of Commerce believe to be detrimental to business. We request your support and assistance to amend the current law in the following manner:

1. We urge the elimination of the Consumer Price Index (CPI) provision that increases the minimum wage annually commensurate with cost of living increases. There are many factors that impact the cost of doing business that businesses cannot automatically pass on to the consumer or marketplace. The elected representatives of the people are able to evaluate the economic environment and assess the ability of the economy to sustain mandatory wage increases. Responsibility for adjusting the minimum wage should be returned to the legislature.

2. We urge elimination of the provision that mandates that the Alaska minimum wage be $1.00 over the federal minimum wage. The cost of doing business is already greater in Alaska than elsewhere in the nation. A mandate of this sort results in employers having fewer employees or reducing the benefits they offer to employees.

3. We urge elimination of the 80/20 statute, which requires that exempt employees performing non-exempt work greater than 20% of the time be paid twice the minimum wage.

We also seek introduction of a training wage consistent with that that is federally allowable. This will result in employers having the ability to afford to hire untrained workers and provide them with on-the-job training. It will mean more jobs for inexperienced workers and development of a stronger workforce for the state.

Sincerely,

Pamela LaBolle

Pamela La Bolle
President

Subject: **Minimum Wage impact**
Date: Fri, 28 Mar 2003 14:39:27 -0900
From: "Bernadette Bradley" <berni@alaskabradleyhouse.com>
To: <Representative_Norman_Rokeberg@legis.state.ak.us>

Dear Representative Rokeberg:

The Bradley House is a restaurant in South Anchorage with approximately 62 seats. This past year we have been hit with a multiple number of increases that are beyond our control.

In September of 2002 our liability insurance for general & liquor increased from $9,000 to 19,100!! Then in October the medical insurance rates skyrocketed from $1,400 per month to $2,100 per month. We were also tasked with the liquor excise tax increase and decided to raise the minimum wage early to avoid changing menus twice for price increases. I am sure you are aware of the recent utility rate increases the past years and to top it off property taxes are higher again.

In the last few years with competition many restaurants have allowed themselves to be sucked into price wars to get customers through the door. I have priced goods at the Bradley House according to standards within the industry according to what my costs are. Although customers have noted the higher prices with one even calling us "unethical" I have no choice if I expect to get my bills and payroll paid. Unfortunately despite the price increases sales have remained the same to last year yet our higher overhead still needs to be paid.

The war has impacted business greatly due to the public being mesmerized by the News and need for safety at home. I have seen Carlos the restaurant next door to us close down at 8pm because he had no customers.

Anything you can do to help, especially by eliminating the CPI on the minimum wage I believe will give many restaurateurs some desperate relief.

Thanks for your consideration.

RECEIVED
MAR 28 2003

Sincerely,

Bernadette Bradley

Owner

Subject: Minimum Wage Going up?!?!
Date: Sat, 29 Mar 2003 00:49:45 -0900
From: "Valley Center" <valleycenter@mosquitonet.com>
To: <Representative_Norman_Rokeberg@legis.state.ak.us>

Greetings,
At this time I would like to say a few things about the minimum wage increase you folks had in mind while you are up there on the government plateau.
I for one cannot in good faith tell you that I will be able to stay in business much longer as a convenience store.Should you raise the wage base again. With more than 7 employees at one time--before the increase, now I am down to three as it is. That includes myself.
I sell gas-(pay @30% State and Federal) now this year. and I sell liquor- (Taxed AGAIN this year-raised by 30%) and groceries-(cost of living increase) this year. I can tell you There isnt enough here to work for the Government ---I have to at some point show a profit even if its a little I am behind the eight ball enough without a wage icrease....my advise is why dont the folks who make over 7.15 an hour take a pay cut in the goverment jobs and then we can get down where most folks really are. I know that most polititians make a good amount of $$ just on perdiem. Reach into your pocket. Not mine this time.
SO far this industry I am in has been hit 4 times this year hard.....Once with the gas increase/TAX increase. as of late ....Liquor Tax ....Wage Increase...TAX Increase. When will you burden my checkbook so that I will have to close it. Next month, Next year. I fear so.....Please give us a chance to do what we can with the increase that is in place without another increase again.
Thanks for listening.

Sue Strech
Valley Center Store.
7291 Chena Hot Springs Road
Fairbanks Alaska
99712
907-488-9501

Anchor Point
Chamber of Commerce

* P.O. Box 610, Anchor Point, Alaska 99556 * Mile 156 Sterling Hwy * (907) 235-2600 *

March 17, 2003

Representative Norman Rokeberg
Alaska State Capitol
Juneau, AK 99801-1182

Re: Minimum Wage, Consumer Price Index (CPI)

Dear Representative Rokeberg:

A major portion of the membership of Anchor Point Chamber of Commerce is the small, family owned businesses. For the most part, these businesses employ a few employees in addition to family members and operate on a small profit margin.

The minimum wage tied to the CPI or having to increase it each year would place an unfair burden on these, and all, businesses by their not knowing what their wage scale would be from one year to the next. How can a business be expected to make plans for the coming year when one of their largest expenses is an unknown?

Anchor Point Chamber of Commerce believes in a fair and equitable minimum wage, one which an employee is able to reap benefits from his hard work; however, that wage must be one that employers can factor into their business plans with some certainty of constancy.

For these reasons, we request you introduce legislation to remove the above provision from the statute.

If you have any questions, please do not hesitate to contact me either at the Chamber Office number or at my business number, 235-2411.

Sincerely,

Kathy Toms
President

KT/jac

Alaska Cabaret, Hotel,
Restaurant & Retailers Association

CHARR
STRENGTH THROUGH UNITY

1111 East 80th Ave., Suite 3 • Anchorage, Alaska 99518
(907) 274-8133 • Fax: (907) 274-8640
Toll Free In Alaska: (800) 478-2427

The Honorable Norman Rokeberg
House of Representatives
Alaska State Capitol
Juneau, Alaska 99801-1182

March 21, 2003

Dear Representative Rokeberg,

On Behalf of the Alaska Cabaret, Hotel, Restaurant and Retailer's Association Board of Directors, our Members and Associates, we respectfully request your assistance in formulating a bill to remove the adjustment clause of the annual consumer price indexing included in last years minimum wage legislation.

During the past few months I have spoken at length with many of our restaurateurs and have received numerous negative comments about the devastating effects the unprecedented dollar and-a-half minimum wage jump has had on their businesses. The repercussions of this legislation have begun in reducing hours, limiting and/or removing benefits, laying off employees and ultimately, closing businesses.

Although removing the CPI clause will not significantly change this situation, it would be a positive starting point.

I will be encouraging our members to provide written back-up documentation to your office.

Thank you for your continued interest in Alaska's second-largest private employer, the hospitality industry.

Best regards,

Kacé McDowell

Kac cDowell
Executive Director, AK CHARR

SOUTHSIDE BISTRO, INC.

1320 Huffman Park Drive
Anchorage, Alaska 99515
(907) 348-0088

04/01/03

Representative
Norman Rokeberg
State Capitol
Juneau, AK 99801-1182

Dear Mr. Rokeberg

Thank you for supporting our concerns about the minimum wage increase. At the Southside Bistro we have 45 employees. Over half of them work for minimum wage. Everyone in this group are tipped employees and make between $15 and $25 per hour. This is more than any of the non tipped skilled laborers we have working here, including management.
I am for people earning good money, however, making a living in the restaurant business is hard enough with all the various taxes and regulations we already have. The resent 26% wage increase was a bit much to accept, without some form of "tip credit" to compensate small business owners.
With the previous wage it was far easier to justify hiring young adults, many of them going to work for the first time without experience.
In order to offset the current wage we have had to trim our service staff down. This could become a double edged sword as we are known for great service.
In other words, not only is it much more expensive to operate now, but the overall long term success of my business is in jeopardy.
The CPI tie-in will continue to undermine our business and drive our prices up and our ability to serve down.

Mr. Rokeberg, I fully support your efforts to remove the CPI tie-in. As mentioned I also believe a tip credit should be implemented. The minimum wage increase was intended for people earning <u>only</u> that, and their W-2 should reflect that at the end of the year. It is hard for me to accept paying someone 26% more in payroll when they actually make 2-3 times the minimum wage.
My goal is to continue employing young Alaskan's and keep our economy going. I look for your support in Juneau, to keep my small family business afloat.

Thank you for looking out for me.

Respectfully yours,

Jens Nannestad
Proprietor

SENT BY FAX TO: 907-465-2040

April 23, 2003

Rep. Tom Anderson
Chair Labor & Commerce Committee
State Capitol
Juneau, AK 99801

Dear Representative Anderson,

I am writing in support of HB199 which eliminates the CPI increase provision currently in minimum wage statute.

As the food and beverage director at Alveska Resort I can attest first hand to the impacts that recent 27% minimum wage increase has had on my business. In order to accommodate this increase, I have had to increase menu prices and increase other wages. All these changes hurt the employer, the employee and the consumer public. Additionally, the current economic downturn and declining tourism numbers in our state has created a climate of uncertainty in my operation.

The CPI increase provision threatens to further erode my bottom line and the quality of service I provide in my business. Alaska is only one of three states that ties the CPI to it's minimum wage. It is both unreasonable and inappropriate to weigh our industry down with yet another financial burden.

I urge you to pass HB199 out of committee.

Sincerely, Luke J Peroni
Director of Food & Beverage
Alyeska Resort
Gridwood,Alaska.

CC: Rep Crawford
Rep Guttenberg
Rep Dahlstrom
Rep Gatto
Rep Rokeberg
Rep Lynn

Subject: Minimum Wage
Date: Wed, 9 Apr 2003 16:01:28 -0500
From: "Justine Polzin" <justine@soldotnachamber.com>
To: <representative_norman_rokeberg@legis.state.ak.us>

Representative Norman Rokeberg<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

Alaska State Capitol

Juneau, AK 99801-1182

Dear Representative Rokeberg:

As a non-profit membership organization that represents 635 businesses, we would like to express our concern with regards to the minimum wage legislation that went into effect this year.

The adjustment clause that requires the Department of Labor to adjust the minimum wage for inflation each calendar year and then requires that the businesses would have to adjust their rate January 1st of the next year will cause an undue hardship to businesses by not knowing what to budget for wages, as well as the cost of the increase. Our area's economy is very unpredictable for businesses already since tourism is our city's major industry. It would help our businesses if they at least knew the certainty of their wage expense.

On behalf of the Soldotna Chamber of Commerce, I would like to request that the legislature remove that portion of the legislation that annually adjusts minimum wage to inflation.

Thank you for considering our request. Please feel free to contact me if you have any questions.

Sincerely,

Justine Polzin
Executive Director
Soldotna Chamber of Commerce
44790 Sterling Hwy.
Soldotna, AK 99669
(907) 262-9814

Land's End Resort®

SENT BY FAX TO: 907-465-2040

April 24, 2003

Rep. Tom Anderson
Chair Labor & Commerce Committee
State Capitol
Juneau, AK 99801

Dear Representative Anderson,

I am writing in support of HB199 which eliminates the CPI increase provision currently in minimum wage statute.

How would the Legislature feel if 40% of the State's budget increased automatically every year according to the CPI index? This is precisely what the Legislature has done to restaurants in Alaska.

Establishing minimum wage has always been a prerogative of the Legislature, for good reason, and it should remain so. Simply allowing a major cost component of many businesses to rise automatically is inflationary, contributes to the loss of jobs and economic growth, and is not warranted from the standpoint of helping those at the poverty level.

As the owner and operator of Land's End Resort in Homer, I can attest to the impacts that recent 27% minimum wage increase has had on my business. In order to accommodate this increase, I have had to lay off workers or reduce their hours. Why, you ask? Because every restaurant runs on thin margins, and labor is budgeted as a fixed percentage of revenue. Therefore, as wages increase, the hours and benefits of employees must be cut back in order to meet fixed weekly payroll budgets. Anyone familiar with restaurants knows they are subject to extreme competition, and the profit margins are not there to "absorb" increases such as this from profit.

Approximately 25 – 50% of restaurant revenue is spent directly on labor, for us it depends on the time of year. For such a major cost component to rise with inflation is, by its very definition, inflationary. It will cause prices to increase and demand for our services to go down. More restaurants will fail.

Does annual CPI increases in the minimum wage help poor people struggling to feed their families? Perhaps it helps a few, but it hurts many more than it helps. Why? Restaurants must keep payroll costs at specific levels; for every dollar in hourly rate increases we must cut a dollar from hours or employee benefits.

4786 Homer Spit Road, Homer, Alaska 99603
(907) 235-0400 Outside Alaska • (800) 478-0400 Reservations within Alaska • Fax (907) 235-0420
www.lands-end-resort.com • landsend@alaska.net

April 24, 2003
Rep. Tom Anderson
Page 2

Of far greater negative impact to those at minimum wage is the fact that most server's real source of income is not wages—its is tips—and restaurant owners are tired of seeing unreported tip income and parsimonious tip-out practices by servers—both of which hurt the business. When restaurants are squeezed by inflation-adjusted wage increases, designed to help those earning, on average, three times the minimum wage, we pay more attention to accurate reporting of tip income and appropriate levels of server "tip-outs" for key personnel within the restaurant. This focused attention will hurt minimum wages earners far more than any gains from CPI inc.eases in minimum wage.

In conclusion, HB 199 will increase jobs among those who need them; it will reduce inflationary pressure, and w[illegible] benefit, not hurt, minimum wage earners. I urge you to pass HB199 out of committee.

Sincerely,

Jon Faulkner, Owner
Land's End Resort

CC: Rep Crawford
Rep Guttenberg
Rep Dahlstrom
Rep Gatto
Rep Rokeberg
Rep Lynn

SUBWAY

SUBWAY OF ALASKA, INC.
4228 LAUREL ST.
ANCHORAGE, AK 99508
(907) 563-4228
FAX (907) 563-4288

SENT BY FAX TO: 907-465-2040

April 23, 2003

Rep. Tom Anderson
Chair Labor & Commerce Committee
State Capitol
Juneau, AK 99801

Dear Representative Anderson,

I am writing in support of HB199 which eliminates the CPI increase provision currently in minimum wage statute.

As the Vice President of Subway of Alaska in Anchorage, in which we locally own and operate 15 locations, I can attest first hand to the impact that the recent 27% minimum wage increase has had on our business. In order to accommodate this increase, I have had to increase menu prices and cut employee benefits. All these changes hurt the employer, the employee and the consumer public. Additionally, the current economic downturn and declining tourism numbers in our state has created a climate of uncertainty in our operation, which I must prepare with plans for further cuts. This also compromises future expansion plans we have planned over the next three years.

The CPI increase provision threatens to further erode my bottom line and the quality of service I provide in my business. Alaska is only one of three states that ties the CPI to its minimum wage. It is both unreasonable and inappropriate to weigh our industry down with yet another financial burden.

I urge you to pass HB199 out of committee.

Sincerely,

CC: Rep Crawford
Rep Guttenberg
Rep Dahlstrom
Rep Gatto
Rep Rokeberg
Rep Lynn

Sent by Fax To: 907-465-2040

Friday, April 25, 2003

Rep. Tom Anderson
Chair Labor & Commerce Committee
State Capitol
Juneau, AK 99801

MILLENNIUM
ALASKAN HOTEL
ANCHORAGE

Dear Tom,

I am writing in support of HB199, which eliminates the CPI increase provision currently in minimum wage statute.

As the operator of the Millennium Alaskan Hotel in Anchorage I can attest first hand to the impacts that recent 27% minimum wage increase has had on my business. In order to accommodate this increase, I have had to lay off workers, both salaried and hourly, increase menu prices, cut employee benefits and defray capital improvement projects. All of these changes have hurt the employer, the employee and the consumer public. Additionally, the current economic downturn and declining tourism numbers in our state has created a climate of uncertainty in my operation for which I must prepare with plans for further layoff and cuts. (SARS-Iraq War)

The net effect on my operating expenses to accommodate the minimum wage increase was in excess of $180,000 annually. The CPI increase provision threatens to further erode my bottom line and the quality of service I provide in my business. Alaska is only one of three states that ties the CPI to its minimum wage. It is both unreasonable and inappropriate to weigh our industry down with yet another financial burden.

I urge you to pass HB199 out of committee.

Sincerely,

Max J. Lowe

Max J. Lowe, CHA
General Manager

cc: Rep Crawford
Rep Guttenberg
Rep Dahlstrom
Rep Gatto
Rep Rokeberg
Rep Lynn

4800 Spenard Road
Anchorage, Alaska 99517-3236 USA
Telephone 907.243.2300
Fax 907.243.8815
Reservations 866.866.8086
www.millenniumhotels.com

Denali Park RESORTS

McKinley Chalet Resort • McKinley Village Resort • Denali National Park Hotel • Wildlife Tours • Cabin Nite Dinner Theater • Rafting • Lynx Creek Pizza

SENT BY FAX TO: 907-465-2040

April 23, 2003

Rep. Tom Anderson
Chair Labor & Commerce Committee
State Capitol
Juneau, AK 99801

Dear Representative Anderson,

I am writing in support of HB199 which eliminates the CPI increase provision currently in minimum wage statute.

As the Vice President/Operations of Denali Park Resorts in Denali Park, AK, I can attest first hand to the impacts that recent 27% minimum wage increase has had on my business. In order to accommodate this increase, I will have to re-evaluate my scheduling practices, increase menu prices and cut employee benefits. All these changes hurt the employer, the employee and the consumer public. Additionally, the current economic downturn and declining tourism numbers in our state has created a climate of uncertainty in my operation for which I must prepare with plans for further layoffs and cuts.

The CPI increase provision threatens to further erode my bottom line and the quality of service I provide in my business. Alaska is only one of three states that ties the CPI to its minimum wage. It is both unreasonable and inappropriate to weigh our industry down with yet another financial burden.

I urge you to pass HB199 out of committee.

Sincerely,

Jack K. Reiss

Jack G. Reiss
Vice President/Operations

CC: Rep Crawford
Rep Guttenberg
Rep Dahlstrom
Rep Gatto
Rep Rokeberg
Rep Lynn

P.O. Box 72478
Fairbanks, Alaska 99707-2478
250 Cushman St., Suite 4C
Phone 907-474-8555
Fax 907-474-8557
Email:fwr@alaskalm.com

ALM Alaska Lodging Management, Inc.

April 23, 2003

SENT BY FAX TO: 907-465-2040

Rep. Tom Anderson
Chair Labor & Commerce Committee
State Capitol
Juneau, AK 99801

Dear Representative Anderson,

I am writing in support of HB199 which eliminates the CPI increase provision currently in minimum wage statute.

As the owner of Alaska Lodging Management., Inc. in Fairbanks, I can attest first hand to the impacts that the recent 27% minimum wage increase has had on my business and the seasonal hotel properties that I manage. We are struggling to survive in an environment where occupancies have plummeted over 20% during the last two years; insurance has skyrocketed 40%; and wage expense is at the highest level that I have experienced over the seven years the properties I manage have been in operation. All these cost have increased but our operating season has not expanded—just over 120 days to bring a profit to the bottom line, though many of the expenses continue throughout the year. We are cutting everywhere—consolidating positions, raising menu prices, etc. but it is not enough to compensate for the increased expense in the current economic downturn. The CPI increase provision threatens to further erode my bottom line and the quality of service I provide to may patrons. Alaska is only one of three states that ties the CPI to it's minimum wage. It is both unreasonable and inappropriate to weigh our industry down with yet another financial burden.

I urge you to pass HB199 out of committee.

Sincerely,

Frank W. Rose

Frank W. Rose
President, Alaska Lodging Mgt., Inc.
General Manager
Grande Denali Lodge
Denali Bluffs Hotel

CC: Rep Crawford
Rep Guttenberg
Rep Dahlstrom
Rep Gatto
Rep Rokeberg
Rep Lynn

ALYESKA PRINCE HOTEL
ALYESKA RESORT, ALASKA

SENT BY FAX TO: 907-465-2040

April 25, 2003

Rep. Tom Anderson
Chair Labor & Commerce Committee
State Capitol
Juneau, AK 99801

Dear Representative Anderson,

I am writing in support of HB199 which eliminates the CPI increase provision currently in minimum wage statute.

As the Director of HR/Risk Mgmt for Alyeska Resort in Girdwood, I can attest first hand to the impacts that the recent 27% minimum wage increase has had on my business. In order to accommodate this increase, we have had to reduce hiring, leave positions unfilled, increase menu prices and cut employee benefits. All these changes hurt the employer, the employee and the consumer public. Additionally, the current economic downturn and declining tourism numbers in our state has created a climate of uncertainty in our operation for which I must prepare with plans for further controls and reductions.

The CPI increase provision threatens to further erode our bottom line and the 4-diamond quality of service we provide at the Resort. Alaska is only one of three states that tie the CPI to its minimum wage. It is both unreasonable and inappropriate to weigh our industry down with yet another financial burden.

I urge you to pass HB199 out of committee.

Sincerely,

Richard Dowd
Director of HR/Risk Mgmt

CC: Rep Crawford
Rep Guttenberg
Rep Dahlstrom
Rep Gatto
Rep Rokeberg
Rep Lynn

Alaska's Premier Resort, Hotel, Ski Area and Golf Course
1000 Arlberg Avenue • P.O. Box 249, Girdwood, Alaska 99587 • Phone (907) 754-1111 • Fax (907) 754-2200
Reservations 1-800-880-3880 • www.alyeskaresort.com