

At the request of NFIB/Alaska, Michael Saltsman, research director for the Employment Policies Institute, testified before the Senate Judiciary Committee on March 29 on the minimum-wage ballot initiative this coming November. Below are his draft remarks he worked from.

Senator Coghill, Representative Keller, and members of the Judiciary Committee -- thank you for the opportunity to offer testimony on a proposed ballot initiative to increase Alaska's minimum wage.

My name is Michael Saltsman, and I'm the research director at a Washington, DC-based think tank called the Employment Policies Institute. Founded in 1991, we're a nonprofit that focuses on public policies that impact the entry-level job market. I was invited by the National Federation of Independent Business to testify today.

The group Alaskans for a Fair Minimum Wage is supporting a \$2-an-hour increase in Alaska's minimum wage. It argues that the minimum wage should be used to lift families out of poverty, and that Alaska should seek to match the higher minimum wage rate in west coast states such as Washington. But the evidence paints a very different picture—of a policy that hasn't been effective at reducing poverty, and that's caused considerable pain for vulnerable workers, particularly in states like Washington.

Between 2003 and 2007, there were 28 states—including Alaska—that increased their minimum wages. Proponents argued then as they do now that the policy change would help lift families out of poverty. But economists from Cornell and American universities who studied Census Bureau data from this time period found no associated reduction in poverty rates.

They identified a few problems: First, the majority of people living in poverty—roughly 60%--don't currently have employment and thus can't benefit from the policy. In other words, they need a job, not a raise. A second problem is that, of those who do earn the minimum wage, very few live in poor households. In Alaska, for instance, nearly two-thirds of those workers affected by a minimum wage increase to the \$10 range are living at home with family, or are second- or third- earners in a household. Just 5.5% are single parents. As a result, the average family income of an affected employee is over \$73,000 per year.

That's not to suggest everyone who earns the minimum wage is a teenager living in a middle-class household. But it demonstrates that problem of using a blunt tool like a minimum wage increase to address the complex problem of poverty.

If imprecise targeting was the only problem with raising the minimum wage, the policy might still have merit. But the unintended employment consequences of a higher minimum wage—which were spotlighted recently by a Congressional Budget Office report on President Obama's \$10.10 proposal—must also be considered.

Look at Washington state, which has the highest state minimum wage in the country. Proponents in Alaska point to Washington's minimum wage as an example for your state to emulate. But look at the employment numbers:

- In 2013, both states had similar overall unemployment rates—6.5 percent in Alaska, and 7 percent in Washington.
- But for young adults aged 16-19, the situation was much different. In Alaska, where the minimum wage is \$7.75 an hour, teen unemployment was 17.5%. In Washington state, where the minimum wage is \$9.32 an hour and rises every year, the teen unemployment rate was an astounding 30.6%

Of course, other factors besides the minimum wage can determine teen employment rates. But a careful look at the data shows that a higher minimum wage has played a role. Using data from 2005 through 2011, economists from Miami and Trinity universities estimated that over 4,300 fewer teens had jobs in Washington State due to the higher minimum wage. One article in *Seattle Weekly* provided a striking example of how these jobs are eliminated: Restaurants in the state's largest city have generally stopped hiring bus boys, opting to have servers bus their own tables instead, and are scheduling fewer servers per shift due to the higher cost.

These consequences are broadly consistent with what we see in the economic research on minimum wage increases: Since the early 1990s, roughly 85 percent of the most credible academic studies on this subject show that a higher minimum wage reduces employment for the least-skilled and least-experienced employees. That doesn't mean there aren't outliers, but they're in the distinct minority. The nonpartisan Congressional Budget Office understood this, and that's why it estimated a half-million lost jobs nationwide from a \$10.10 wage hike.

A loss of opportunity at the bottom rungs of the career ladder is concerning not just because teens miss out on spending cash. Teens that miss out on early career experience are at a distinct disadvantage: For instance, research has found that seniors in high school with a part-time job are earning higher wages 6-9 years after graduation than their counterparts who didn't work. Lengthy spells of unemployment have also been shown to increase the risk of future unemployment for young people. In this regard, the last thing Alaska should be trying to do is emulate the youth unemployment rates in Washington state.

I want to close with a note about better alternatives to raising the minimum wage. At the federal level, there's a program called the Earned Income Tax Credit, or EITC, that provides a substantial income boost for low-income families without the unintended consequences of a higher minimum wage. For instance, in Alaska right now, the minimum wage for a single parent with two children is already above \$10 an hour due to a \$5,200 payment this family receives. Many states have chosen to provide a state supplement to this payment, and the results have been impressive: Researchers from the University of Georgia and San Diego State University found a one percent drop in state poverty rates for each one percent increase in the EITC.

If Alaska is truly interested in reducing poverty, it's this policy rather than a minimum wage increase that should be the topic of conversation.

Thank you for your time, and I'm happy to take questions.