



ALASKA

## National Federation of Independent Business Position on Proposition 3 to Increase Alaska's Minimum Wage

Lt. Governor Treadwell, thank you for the opportunity to offer testimony on Proposition 3 on the November ballot.

My name is Kevin Turkington, and I serve on the Leadership Council for the National Federation of Independent Business/Alaska. We represent 2,000 small businesses in Alaska. We oppose Proposition 3, as it is not in the best interest of the Alaskans it is intended to affect.

Make no mistake, should Proposition 3 pass, it would have two immediate effects—but not the ones supporters would have you believe.

First, teenage unemployment will increase over time, reducing their chances of getting valuable work experience; Prop. 3 supporters point to Washington state as an example Alaska should follow. In 2013, both states had similar unemployment rates—6.5 percent in Alaska, and 7 percent in Washington. But for young adults ages 16 to 19, the situation was much different. In Alaska, where the minimum wage is \$7.75 an hour, teen unemployment was 17.5 percent. In Washington state, where the minimum wage is \$9.32 an hour and rises every year because of indexing to inflation, the teen unemployment rate was an astounding 30.6 percent. In Oregon the minimum wage is \$9.10 and the teen unemployment rate is 27.4 percent.

A loss of opportunity at the bottom rungs of the career ladder is concerning not just because teens miss out on spending cash, but also teens who 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 Oregon and Washington State.

Second, the ability of low-skilled workers to earn income, especially those assisting seniors with errands and chores around the house, would be drastically cut—harming two groups of people at once. Elderly Alaskans on fixed incomes will be forced to reduce the amount of goods and services they can afford. This will be particularly devastating to those who are hiring casual helpers to assist with household chores, and personal care givers to assist with the activities of daily living they are no longer able to do for themselves.

The concern is what it will do to the costs of care for those elderly and vulnerable adults who depend on the care they need staying within reach.

Live-in care based on current labor laws and minimum wage creates a cost for a senior to receive in-home care equal to about half what it would cost them to be in a nursing facility and some assisted living homes. Raising the minimum wage would force the cost of care up approximately 34% by 2017, therefore strapping seniors who don't qualify for public assistance with even higher costs. That represents about 65 percent of the senior population in Alaska according to the most recent census. Add to that, the caregiving companion exemption going away January 1, 2015, (See Wage & Hour Fact Sheet #25)

Based on labor laws in Alaska, an individual that works more than 8 hours a day and more than forty hours in a week, regardless of what capacity must be paid overtime. For live-in care that's 8 hours of regular time and 16 hours of overtime for one 24 hour shift. Raising the minimum wage in this scenario means the cost of in-home care must increase accordingly to pay for the increased labor burdens and expenses, about 36% related to providing this care as an employer agency. In other words, the cost of care would rise to what is currently charged clients.

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Bottom line: continually raising the cost of providing products and services for seniors causes them to run out of money much sooner. This totally defeats the value and cost savings of aging in place and forces more on to the Medicaid rolls.

There is overwhelming reporting that makes it clear raising the minimum wage doesn't lift people out of poverty and it dilutes performance based raises meant to encourage entry level workers to move up from those positions. Entry level positions weren't intended as a career choice. (ref; ALEC.org March 2014: Raising the Minimum Wage: The Effects on Employment, Businesses and Consumers.)

Data show that families earning at least three times the poverty level are more likely to benefit than those earning below it, making a minimum-wage increase a lousy anti-poverty initiative.

These results are not a matter of speculation, but economic patterns that have followed every increase in the minimum wage. It is vital voters know the truth about the minimum wage:

- 99 percent of all hourly wage workers in Alaska (all but 3,000 people) already earn above the minimum wage (2012, latest data available).
- More than 50 percent of minimum-wage workers are under age 24, so raising the rate removes the first rung up the economic ladder of life for young adults, as business owners are forced to cut back on hiring in order to meet the cost increase
- After the last federal increase in the minimum wage, one-half million teenage jobs disappeared following six months, and that was in a period of economic recovery when more jobs should have been available.
- The average annual family income of those earning the minimum wage (nationally in 2009) was over \$48,000.
- Significantly more people earning at least three times the poverty level will benefit as those living beneath it.
- 83 percent of minimum wage earners are teenagers living with working parents, adults living alone, or dual income couple.

What happens when minimum wages rise too high? Remember filling station attendants. How about baggers in grocery stores? Or, for older people, ushers in movie theatres. All have been eliminated. Technology may do the same for today's minimum wage jobs. Placing orders through touch screens and the self-checkout is growing in Alaska. Losing these jobs means losing the bottom rung on the career ladder and fewer opportunities for the people who used to fill those jobs.

Of course, other factors besides the minimum wage can determine teen employment rates. But a careful look at the data shows that that a higher minimum wage has played a role. Using data from 2005 through 2011, economists from Miami and Trinity University 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 proposed \$10.10 federal minimum wage hike.

An unfortunate reality we must recognize is that small employers, those most affected by the minimum wage cannot support employees that are not bringing to the business a value equal to their compensation. We are providing unemployment insurance, workers compensation insurance, and Social Security employer tax at a minimum in addition to the basic salary. In addition over half of these employers are providing additional benefits such as health insurance. As these total employee costs increase, businesses must look to mechanization and computerization in order to stay in business and not end employment for all its employees at any compensation level.

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Given the reality of whom the proposed increase in the minimum wage will hurt – the young starting their lives and the seniors in the sunset of their lives, we can only hope and recommend that Alaskans vote NO on this perhaps well meaning proposal. It is not the intention we will be voting on, it is the actual effect on the young and old.

Economist William J. Dennis, who has been studying small business and the minimum wage for nearly 40 years asks: “Employers want experienced workers. How do you get experience when you price people out of the market in the first place?”

Thank you for the opportunity to share our position with you.