



Raising the Minimum Wage Eliminates Opportunity **by Dick Clark**

This Platte Chat summarizes the findings of a forthcoming Platte Institute policy brief detailing the effects of raising Nebraska's minimum wage.

Nebraska voters will be asked to weigh in on the minimum wage this coming November. Petitions submitted on July 3rd¹ were verified by the Secretary of State as having met constitutional requirements,² and voters will be presented with the question of whether or not to increase the state's minimum wage from \$7.25, the current federal minimum wage, to \$8.00 in 2015 and then to \$9.00 at the beginning of 2016.³ Nebraska's current minimum wage for most hourly workers is \$7.25,⁴ the same as the current federal minimum wage. Although recent state legislative proposals included changes for both the general minimum wage and the minimum wage for employees primarily compensated through gratuities, petition sponsors did not propose changing the latter in language that will be presented to voters in November.

The State of Nebraska first enacted its own minimum wage in 1967, when legislators passed the state's Wage and Hour Act.⁵ The purpose of the act in establishing a minimum wage was to "safeguard existing minimum wage compensation standards which are adequate to maintain the health, efficient and general well-being of workers against the unfair competition of wage and hours standards which do not provide adequate standards of living."⁶ In today's popular parlance, its stated purpose was to mandate a "living wage" for workers.

But regardless of legislative intent, there are economic factors in play that prevent minimum wage laws from being a guarantee that all workers will earn a living wage. Ultimately, no job can exist for very long if pay exceeds the income the employee produces for the business. The

¹ Stoddard, Martha "Petition drive to raise Nebraska's minimum wage has more than 130,000 signatures." *Omaha World-Herald*. July 4, 2014. [URL: http://www.omaha.com/news/metro/petition-drive-to-raise-nebraska-s-minimum-wage-has-more/article_d7093fe8-02f0-11e4-9596-0017a43b2370.html]

² Chokshi, Niraj. "A minimum wage hike makes the Nebraska ballot, after qualifying in South Dakota and Alaska, too." *Washington Post*. August 15, 2014. [URL: <http://www.washingtonpost.com/blogs/govbeat/wp/2014/08/18/a-minimum-wage-hike-makes-the-nebraska-ballot-after-qualifying-in-south-dakota-and-alaska-too/>]

³ Initiative Petition. Received May 6, 2014. Nebraska Secretary of State.

⁴ Neb. Rev. Stat. § 48-1203 (2007).

⁵ Currently codified as Neb. Rev. Stat. § 48-1201 to 48-1209.

⁶ Neb. Rev. Stat. § 48-1201 (2007).

economics of the minimum wage are therefore very clear: any price floor for wages that is set above the market rate costs jobs and slows new job creation. The Law of Supply and Demand provides that when prices rise, demand will decline as a result.

Besides putting some people out of work and preventing new workers from getting jobs to begin with, minimum wage laws also create negative externalities for the general population. Raising the minimum wage reduces overall economic productivity, causes consumer prices to rise, hurts exports, slows population growth, weakens real estate values, and reduces economic competitiveness with neighboring jurisdictions with lower labor costs.⁷

Among its neighbors, Nebraska's current minimum wage presents a relatively low hurdle for workers. Nebraska, Iowa, Kansas, South Dakota, and Wyoming all have an effective minimum wage identical to the federal minimum wage of \$7.25 per hour. Missouri's minimum wage is currently \$7.50 per hour, and its minimum wage law provides for cost-of-living adjustments. Colorado's minimum wage is \$8.00 per hour and also features cost-of-living adjustments.⁸

If voters approve the November ballot question, Nebraska's minimum wage would jump to a higher level than all of its neighbors except Colorado starting January 2015, and would move even higher than Colorado's current minimum at the beginning of 2016. Because Nebraska is a low cost-of-living state with low labor costs compared to other states, the adverse effects of a minimum wage increase will be more pronounced in Nebraska than in states with relatively high market wages and high costs of living.

And while the impact of minimum wage laws is felt across the economy, the most acute effects are on the population for which the laws are supposed to provide relief: low-skill workers whose limited work productivity does not justify higher market wages. However, contrary to the promises of advocates for minimum wage hikes, the net effects are negative, not positive, for these workers.

A survey of economics literature by David Neumark and William Wascher revealed virtually no published research indicating that minimum wage laws have a positive effect on employment. The same review found that studies focusing on the impact of minimum wage laws on the most vulnerable segments of the workforce present "overwhelming evidence" that minimum wage hikes result in serious disemployment effects for laborers with the least valuable skills.⁹ Enacting a higher minimum wage did not reduce poverty, but instead redistributed income among low-income families.¹⁰ Perversely, higher minimum wages also tended to discourage completion of

⁷ Fuller, Stephen S., Parker Bedsole, and Scott Nystrom. "The Impact of Raising the Minimum Wage on the Maryland Economy." Regional Economic Models, Inc. January 2014. pp. 20–21.

⁸ "Minimum Wage Laws in the States." Wage and Hour Division. United States Department of Labor. January 1, 2014. [URL: <http://www.dol.gov/whd/minwage/america.htm>]

⁹ Neumark, David and William L. Wascher. "Minimum Wages and Employment: A Review of Evidence from the New Minimum Wage Research." Working Paper 12663. National Bureau of Economic Research. November 2006. [URL: <http://www.nber.org/papers/w12663>]

¹⁰ Fuller *et al.*, citing Neumark, David and William L. Wascher. *Minimum Wages*. MIT Press. 2010.

high school and technical training programs.¹¹

It is only a combination of work experience and education that can sustainably raise low-skill workers' standards of living, by boosting their productivity and their personal earning potential. Legally prohibiting the employment of lower-skill workers means blocking opportunities for vital work experience that can grow a worker's productivity. Because of the demographics of minimum wage earners, these lost opportunities will disproportionately hurt young workers, those with lower education attainment, women, and racial and ethnic minorities.¹²

Workforce development is critically important for Nebraska, which is already confronting demographic challenges relating to out-migration and an aging workforce.¹³ As the minimum wage discussion continues, Nebraskans should be mindful of the benefits of a competitive labor market. Raising the minimum wage would hurt the most vulnerable workers first, but it would ultimately mean higher prices for consumers, less competitive exports, and a less productive state economy.

¹¹ *Ibid.*, p. 4.

¹² "Characteristics of Minimum Wage Workers, 2013." United States Bureau of Labor Statistics. Report 1048. March 2014. [URL: <http://www.bls.gov/cps/minwage2013.pdf>]

¹³ "State Taxation and Migration." Platte Chat. Platte Institute for Economic Research. January 15, 2014. [URL: <http://www.platteinstitute.org/research/detail/state-taxation-and-migration>]