Dr. Aaron Yelowitz Testimony – 10/30/2014 – Louisville, KY

It is my pleasure to speak to the Louisville City Council today, and I am grateful that you have given me this opportunity to share my thoughts on the proposed minimum wage ordinance.

I thought I'd start off by briefly telling you a little bit about myself. My name is Aaron Yelowitz, and I am an Associate Professor in the Department of Economics at the Gatton College of Business at University of Kentucky. I also have a joint appointment in UK's policy school – the Martin School of Public Policy, and as well, serve as an adjunct scholar at Cato Institute. I am also the Director of Graduate Studies for the Ph.D. program in Economics at UK, and have guided the professional growth of many, many students over the last 13 years that I've lived in the Commonwealth. I have a great affinity for Louisville and a great concern for the Commonwealth. I got married just down the street from here at a bed-and-breakfast on 4th Street, and my in-laws live a few blocks away from here. My 3 kids were all born in Lexington and my wife Beth is a native Kentuckian. Before coming to Kentucky in 2001, I worked as an Assistant Professor at UCLA, and before that, received my Ph.D. in Economics from MIT in 1994.

My work on minimum wages goes back more than a decade, and in particular, I've focused on the impact of citywide minimum wages, like what we're considering today. I testified as an expert witness on the minimum wage ordinance in Santa Fe. I've also published peer-reviewed papers and policy-oriented papers on minimum wages. I've served as a referee in the peer review process on these kinds of issues in academic journals, and I come at them through the lens of an economist, not an advocate.

My assessment of Louisville's minimum wage ordinance relies deeply on my own academic research. I've studied how citywide minimum wages have played out in both Santa Fe and San Francisco. I've also studied the effects of statewide minimum wages in Kentucky and Missouri.

Based on my work, there are a number of issues I'd like to discuss today. First, citywide minimum wages are fundamentally different from federal or statewide minimum wages because of the ability of businesses to move across city borders. Second, there is consistent and compelling evidence that raising the citywide minimum wage increases unemployment and harms the labor market. Third, the concerns about businesses relocating and unemployment rising are amplified in Louisville. And finally, if your goal is really to improve the lives of working families, a citywide minimum wage doesn't solve that problem.

Now, I'll go into these points in more detail. First, it is extremely uncommon for cities to enact a minimum wage. When I originally studied this issue in 2004, the only cities with minimum wages were Santa Fe, San Francisco, and Washington DC. March forward 10 years, and you can add Seattle to the list, along with a handful of other localities in California, New Mexico, and around DC. Voters have explicitly rejected minimum wage ordinances at times. Why are citywide minimum wages uncommon? The answer is that some businesses can escape the minimum wage by moving outside of city lines. In Santa Fe, for example, a business at the center of the city could have relocated less than 4 miles away to avoid the ordinance, at least in the time that I was studying it. Even if businesses don't relocate, customers do, by shopping elsewhere. In Santa Fe, less than half the residents in the metro area live in the city proper. If people can do their shopping outside of city lines, it restricts the ability of businesses to pass along the higher labor costs of the minimum wage through higher consumer prices. In turn, that means that businesses adjust in other ways – like cutting hours, laying off workers, or not hiring when someone leaves – in order to maintain their bottom line.

Citywide minimum wages put those businesses operating within city limits at a competitive disadvantage compared with businesses outside of city lines that don't have to play by the same rules.

Second, the evidence shows these labor market effects are substantively important. Dr. Robert Pollin of University of Massachusetts has stated about citywide minimum wages that "A rise in unemployment or business flight from the city would obviously be unintended and undesirable consequences of passing such a measure into law." My work convincingly illustrates these negative labor market consequences. In my September 2005 study for Employment Policies Institute, I found that Santa Fe's ordinance, which increased the minimum wage from $5.15 to $8.50 per hour, was responsible for a 3.2 percentage point increase in the city's unemployment rate. The adverse effects were extremely large and entirely concentrated among those with a high school education or less. Among this group, usual hours of work fell by 3.5 hours per week, an important reduction in full time equivalent employment.

Third, this research suggests these labor market effects would ultimately be more dramatic in Louisville. Although the proposed minimum wage hike – from $7.25 to ultimately $10.10 per hour – or a 39% increase, is less than what Santa Fe's increase was. Louisville has three key disadvantages. The first is that Louisville is fairly small in geography, and therefore the ability of customers to shop around elsewhere is more pronounced. Shopping around makes it difficult for businesses to raise their prices. Thus, the main avenue of adjustment would be through the labor market rather than consumer prices. The second is the cost of living in Louisville is much different than these other cities. Hiking the minimum wage in San Francisco to $10.74 per hour isn't that dramatic because the cost of living is so high. Hiking it to $10.10 per hour in Louisville has a real impact on a business' operating costs, however. Finally, San Francisco, Seattle and Santa Fe all have citywide minimum wages in states where the surrounding areas have higher minimum wages too. In contrast –the rest of Kentucky, as well as Indiana, have the federal minimum wage of $7.25 per hour.

The final issue to consider is whether minimum wages improve the lives of working families. The answer is "no." In an analysis of Kentucky, I found two important things that matter for today's discussion. First, just 12% of low earners are single earners with children. The largest group, 28%, live with parents or relatives. Second, poverty among the working poor is really about hours of work, not wages. Full-time, full-year work leads to greater reductions in poverty than raising the minimum wage. It's about hours, it's not about wages.

In summary, I've carefully evaluated the evidence. And based on this evidence, enacting a minimum wage in Louisville will do more harm than good. Thank you for listening and I look forward to your questions.

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