

## **NEBRASKA TAXPAYERS FOR FREEDOM ISSUE PAPER: THE CASE AGAINST RAISING THE STATE MINIMUM WAGE.**

**BACKGROUND.** The current minimum wage in Nebraska is \$9.00 per hour, higher than the federal \$7.25 per hour minimum wage. Our low state unemployment rate and plentiful job openings mean that few employees for long earn the minimum wage. The Bureau of Labor Statistics reveals only 1.2% of Nebraskans earned the minimum wage in 2021. The initiative to raise this wage will appear on the Nov. 8, 2022 ballot. If approved by voters, it would increase the state minimum wage to \$15 per hr. by Jan. 2026, a whopping 16% hike each year, higher than the inflation rate. The wage also would increase annually according to the consumer price index increase. State senators repeatedly have soundly defeated bills to raise the minimum wage, preferring free market competition to set wage rates.

**LIBERAL SUPPORTERS AND DONORS.** Supporters include prominent liberals and leftist organizations as follows: State Senators Megan Hunt and Terrell McKinney, ACLU of Nebraska, Nebraska State AFL-CIO, No More Empty Pots, Black Leaders Movement, NAACP Lincoln, OutNebraska (LSBTQ??), Nebraska Appleseed, Women's Fund, Nebraska Poor People's Campaign, Center for People in Need, Planned Parenthood Advocates of Nebraska, Heartland Workers Center, Holland Children's Movement, Power of People Omaha, League of Women Voters of Lincoln/Lancaster, Together Inc., and NE Appleseed Center. Typical sponsor: Fairness Project Executive Director Kelly Hall, "Nebraskans are fighting to qualify this citizen-led ballot measure at a time when extremists want to restrict the ballot measure process and make it harder for voters to pass policies that help people." Major contributors include NE Appleseed Center (\$200,000), the NE AFL-CIO (\$25,000), and NE Civic Engagement Table (\$4,297). The largest contributor to Raise the Wage Nebraska came from a Washington, D.C. leftist group called the Sixteen Thirty Fund, described as a "dark money" organization. It gave \$634,490. Another Washington-based leftist group, the Fairness Project, donated almost \$252,400. Other Nebraska contributors included the ACLU of Nebraska. Contributors benefited from their own donations. The campaign paid the ACLU \$64, NE Appleseed \$15,788, and NE Civic Engagement Table \$2,466.70, handsome paybacks. Labor unions relish the snowball effect of the minimum wage hike by demanding higher wages at specific levels above the minimum wage. Many union contracts indexed to the minimum wage, so union workers gain automatic wage increases without fear of job loss. Liberals crow loudly that their ballot issue will succeed, as it has succeeded in other states. However, NE is a more conservative state, and NTF is widely publicizing the negative effects of hiking the minimum wage.

**ECONOMIC FAILURE.** Many studies examined the impact of raising the minimum wage on those who earn it. Because not all entry-level jobs fall under federal minimum wage laws, less-skilled employees priced out of their jobs after a rise in the state minimum wage can find employment in the uncovered job market but at less pay.<sup>1</sup> A thorough review of 2 decades of economic research on the minimum wage by economists David Neumark and William Wascher from the Federal Reserve Board concluded that increases in the minimum wage reduce job opportunities for the lowest-skilled employees. Economist Joseph Sabia used data from the Census Bureau and Bureau of Economic Analysis to measure Gross Domestic Product (GDP) and employment response to an increased minimum wage. He proves that such hike negatively impacts GDP. For each 10% hike in a state minimum wage, teen employment decreased by 3.6%. Also, there is a 2%-4% decline in the state GDP generated by workers in lower-skilled industries like warehousing.<sup>2</sup> Proponents of raising a state minimum wage base their argument on the belief that only government can raise wages for minimum wage employees, that such employees receive wage hikes only when the mandatory minimum increases, perpetuating the fiction that such workers cannot increase their skill level and corresponding wages without government help. Examining over 2 decades of Current Population Survey data, however, economists found independent wage growth among minimum wage employees very strong.<sup>3</sup> Employees discover that a better way to attain higher pay is to undergo training for more skilled, higher-paying jobs. Minimum wages are a beginning point; 66% of those beginning here earn more within a year. But imagine the rancor among minimum wage employees who have worked for this wage for a year or longer and see new employees earn the same wage. An example of how an increased minimum wage would harm those earning more. If one employee earning \$15 per hour has more education and more experience, therefore engaged in more difficult work or more productive, a worker then making only \$10 per hour but scheduled to earn \$15 per hour under a new state law would mean 2 workers of



<sup>1</sup> The Erosion of the Entry-Level Job Market, by Walter Wessels and Nicole Coomer.

<sup>2</sup> Failed Stimulus: Minimum Wage Increases and Their Failure to Boost GDP, by Joseph Sabia.

<sup>3</sup> Wage Growth Among Minimum Wage Earners, by William Even.

unequal value making the same wages, very unfair to the employee with the higher skills and abilities.<sup>4</sup> As minimum wages increase, more and more of those with the least abilities cannot find employment, which puts a greater burden on government to care for these people.

**CONSUMER PRICE INCREASES AND INFLATION.** Workers earning a higher minimum wage will only see their higher take home pay eaten by consumer inflation and less buying power from working fewer hours. Many minimum wage workers will see their living standards drop. Pressure on employers to raise the wages of higher-paid employees, wage inflation, will seriously erode profits. Salary compression will force wage hikes throughout a company. Small businesses and fast food and other service industries will raise prices, losing current and potential customers and thus lowering profits. Those who frequent such businesses will see inflationary costs eroding their spending money. Hiking this wage will increase the price of goods and services for all NE consumers, cutting into savings. As of January, 2022, California is the only state with a \$15 minimum wage.<sup>5</sup> The Congressional Budget Office (CBO), in “The Budgetary Effects of the Raise the Wage Act of 2021,” related how increasing the minimum wage would affect employment: Higher wages would increase the cost to employers of producing goods and services. Employers would pass some of those increased costs on to consumers in the form of higher prices, and those higher prices, in turn, would lead consumers to purchase fewer goods and services. Employers would consequently produce fewer goods and services, and as a result, they would tend to reduce their employment of workers at all wage levels.

**WORK FORCE CUTS AND REDUCED HOURS.** Retailers will reduce staff and replace humans with machines, reduce fringe benefits like health insurance, and restrict personal and sick leave options. To cut costs, employers will allow fewer breaks and amenities like free coffee and snacks and other perks. Employees in the hotel, motel, and fast food industries will suffer reduced work hours and job elimination, the very people who have no skills to obtain other employment. Stiff competition in these sectors make it impossible for employers to raise room rates or menu prices.



Many hospitality and retail businesses that pay the minimum wage operate on thin profit margins and will cut staff. Workers employed by small businesses and in restaurants, retail, and hospitality would be disproportionately harmed, as would younger workers beginning their careers, minorities, and those in states with lower relative costs of living. In some cases, employment decreases negate the wage increase. As labor costs rise, employers will replace humans with electronic checkouts at grocery stores and robotics in burger joints and communications, which one notices when calling businesses. Almost 40% of business owners who

now pay the minimum wage stated that they would fire employees to cover the cost of wage hikes.<sup>6</sup> Raising the minimum wage will curtail the amount of work available. Many minimum wage service workers will join the ranks of buggy whip makers from the last century. Minimum wages are a beginning point; 66% of those beginning here earn more within a year. Jobs would flee our state not only because of the higher rate but also from businesses knowing that the rate would rise again. “You know, the question I would ask is are people better off with a higher wage, or better off losing their job having no wage,” said Dr. Art Diamond, Economics Professor at UN-O, “Because for some people that’s gonna be the choice.” Diamond says it is a fundamental law of economics, the law of demand. He cites a congressional budget office study indicating a national increase to \$15 dollars an hour could lead to the loss of over 1 million U.S. jobs. “It’s well-intentioned, I don’t deny that,” he said. “But I think oftentimes people who advocate raising the minimum wage don’t see what the implications are and the effects will be on some people.” However, the businesses that employ the most workers at minimum wage are also the businesses that most poor people frequent. As an example, poorer people eat at fast food restaurants far more frequently than rich people do. So, when the owners of fast-food restaurants increase their prices, it is the poorest people who will suffer the most from those price increases. The minimum wage may temporarily help some workers, but the cost will be born significantly by other low-income earners.<sup>7</sup> The combined evidence is best summarized as indicating that an increase in the minimum wage largely results in a redistribution of income among low-income families, with some gaining and others losing as a result of diminished employment opportunities or reduced hours, and some likelihood that, on net, poor or low-income families are made worse off.<sup>8</sup>

<sup>4</sup> Michael Manahan, Ten Logical Arguments Against the Minimum Wage, Jan. 25, 2021.

<sup>5</sup> How Many States Have a \$15 Minimum Wage?, by Kris Janisch, July, 2022.

<sup>6</sup> Express Employment Professionals survey.

<sup>7</sup> Michael Manahan, Ten Logical Arguments Against the Minimum Wage, Jan. 25, 2021.

<sup>8</sup> John Phelan, 5 Reasons Raising the Minimum Wage Is Bad Public Policy, March 25, 2019.

**TEEN EMPLOYMENT RISKS.** The NE youth unemployment rate currently is 6.5%.<sup>9</sup>, much higher than our overall rate of 1.9%. Universities, which employ thousands of teens, said an increase could trigger tuition hikes or result in their offering fewer employment opportunities. Teens will suffer most. Many workers earning the minimum wage are high-school kids needing entry-level work in order to obtain work experience and training; these workers would suffer higher job losses, as employers cannot afford to pay them higher wages. Fast food businesses have trained generations of teens in job basics, but that training will lessen. After France raised its minimum wage, McDonalds replaced its teen cashiers with kiosk machines. A teen employment study looked at the employment impact of the 40% hike in the federal minimum wage between 2007-2009 for those 16-19. In states impacted, teen employment fell by 6.9%, factoring in the recessive economy. Overall, 114,000 teens lost their jobs.<sup>10</sup> teens and youths exposed to higher minimum wages have lower wages and earnings when they are in their late twenties, consistent with reduced skill acquisition.<sup>11</sup>

**STYMIED JOB CREATION.** A raise will curtail the number of entry level jobs created. Machines in fast food and other restaurants now can slice toppings like tomatoes and pickles and place them on burgers, assemble custom meat grinds of burger and pork, and utilize gourmet cooking techniques. Machines are more consistent, sanitary, and can make 360 hamburgers per hour. Machines take no sick days, require no health care, do not come to work loaded on drugs, and happily work 24 hours 7 days per week. Machines require only routine cleaning and maintenance. Pres. George W. Bush stated that raising the minimum wage would harass millions of small businesses that create most new jobs. Increased



labor costs mean lower business profits, which offers these businesses less money to invest in job creation and business expansion. Employers will be unable to afford to hire those with little education or experience, because their value is less than their cost, though many minimum wage jobs translate into higher opportunities, after employees become trained. A lobbyist for the Nebraska Federation of Independent Business says raising the minimum wage hurts employment and often results in the lowest-paid employees losing their jobs. He cautions that an increase in the minimum

wage, particularly during high inflation and a looming recession, adds cost to the bottom line for already struggling small businesses. According to a Federal Reserve Bank of Chicago study, a “10 percent increase in the minimum wage, lowers low skill employment by 2 to 4 percent and total restaurant employment by 1 to 3 percent”.

**BUSINESSES YOKED.** Nebraska businesses already face too many burdensome regulations and taxes, particularly from the EPA and National Labor Relations Board. A mandate on employers with 50 or more full-time employees to provide health insurance or pay a fine of \$2,000 per employee. A federal top corporate income tax rate hike of 35%, a rate most small businesses pay. This corporate income tax is the highest in the industrial world. Businesses trying to recover from the pandemic will suffer a setback from this new state mandate. Small businesses employ most Nebraskans and create the most jobs. Hiking the minimum wage would cancel the option by individual businesses to hire labor in a more open market, potentially reducing the number of small businesses opening, and limiting economic growth.<sup>12</sup> Big corporate firms can more easily absorb these mandated costs and can invest in new technologies that make them less dependent on human labor. The same cannot be said of the small businesses competing with these firms, so big businesses ultimately can benefit when governments raise costs.<sup>13</sup>

**BOGUS LIBERAL ARGUMENTS.** Two leading economists measured the impact of a higher minimum wage on several hardship scenarios, like financial, housing, health and food insecurity, using the Census Bureau Survey of Income & Program Participation. They found no statistically significant evidence that a higher minimum wage helped reduce these insecurities for all employees, including the less-educated and less-experienced. Moreover, many of the poor youth that liberals are attempting to help will not benefit regardless, because they are not working.<sup>14</sup> Another study examined the wages and other employment characteristics of adults who earn the minimum wage. Contrary to liberal arguments, only a small percentage of these adults are family primary breadwinners. Among those with kids, almost 50% had a spouse who earned over \$40,000 annually. 16% had spouses who earned from \$30,000-\$40,000 annually. In 80% of all these families, the minimum wage totaled less than 20% of household income.<sup>15</sup> A Nebraska minimum wage employee

<sup>9</sup> Where Youth Unemployment Is Highest and Lowest, by Michael Maciag.

<sup>10</sup> The Teen Employment Crisis, by William Even and David Macpherson.

<sup>11</sup> John Phelan, 5 Reasons Raising the Minimum Wage Is Bad Public Policy, March 25, 2019.

<sup>12</sup> Michael Manahan, Ten Logical Arguments Against the Minimum Wage, Jan. 25, 2021.

<sup>13</sup> The Hill. Jarrett Skorup, Six reasons to oppose a \$15 federal minimum wage, Jan. 1, 2021.

<sup>14</sup> Can Raising the Minimum Wage Reduce Poverty and Hardship?, by Joseph Sabia and Roger Nielsen.

<sup>15</sup> Just Getting By?, by Bradley Schiller,

working full-time earns wages above the federal poverty line, despite liberals whining that these workers wallow in poverty. Extra pay will not help these poor, because the income boost would not lift families who are not in poverty out of poverty. The Congressional Budget Office notes that many low-wage employees are not in poor families, that less than 20% of workers who would benefit reside in households that earn less than the federal poverty line. Income tax credits for low-wage workers and tax policies that encourage asset development and savings for the poor seem better alternatives. The Earned Income Tax Credit gives incentive to work, because it targets only working households. Liberals ignore that some they supposedly champion lack the will and initiative to access higher-paying jobs. Likewise, liberals who claim that a higher minimum wage would impel people to abandon welfare ignore that some welfare recipients enjoy that lifestyle and would never abandon it.

**WINNING AT THE BALLOT BOX.** Liberals boast that minimum wage increases have won handily in many state elections, e. g, Arizona, Florida. However, they fail to acknowledge that these victories were for wage increases tied to the inflation index, a ploy more accepted by voters. The Montana ballot initiative, not tied to this index, failed. The American Enterprise Institute compared the earnings of low-wage workers in states that boosted their minimum wage with those that did not and found **little or no difference** in pay growth between the different sets of states. In other words, the earnings in low-pay jobs grew just as fast in states that did not raise their minimum wages as they did in states that did. Wages tend to rise because of broad-based economic growth, not government mandates.



**TAKE ACTION NOW.** Besides the reasons listed above, understand that liberal proponents will use this initiative petition to solicit signers to go to the polls in November and vote for liberal Democrat candidates. Remember that the minimum wage is 0, if one is unemployed. Talk to your neighbors, relatives, co-workers, and those with whom you socialize on a regular basis to vote NO on a minimum wage hike on Nov. 8. To join our NTF effort, email [netaxpayers@gmail.com](mailto:netaxpayers@gmail.com).

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