What Amendment 42 would do:

Amendment 42 would make minimum wages a Constitutional requirement in Colorado. At present, Colorado's minimum wages are established by Federal law. If Amendment 42 passes, Colorado's minimum wage would increase to $6.85 on January 1, 2007. Each year thereafter, the minimum wage would automatically be adjusted for inflation. According to the Amendment language, the adjustment for inflation shall be "as measured by the Consumer Price Index used for Colorado." The Amendment requires that the Amendment 42 minimum wage be "paid to employees who receive the state or federal minimum wage." It also requires that "no more than $3.02 an hour in tip income may be used to offset the minimum wage for employees who regularly receive tips."

Analysis

Understanding how employers set wages

Minimum wage supporters often mistakenly claim that minimum wages help people by raising all wages. They assert that an increase in the minimum wage improves the welfare of all workers because employers respond to a minimum wage increase by increasing everyone's wage. Employers are said to pay for this by raising the price of the products that they sell. If is true, then it should be possible to eliminate poverty forever by simply legislating a minimum wage of $100.

As an increase of $100 obviously would cause unemployment, supporters of minimum wage increases instead suggest that "moderate increases" have no effect. The problem with this argument is that it assumes that consumers will keep buying the same amount of a product if its price increases. In fact, if an increased minimum wage increases business costs and businesses try to pass cost increases on to consumer by raising prices, consumers generally reduce their purchases. When gasoline prices increased rapidly in 2006, U.S. consumers purchased less gasoline. According to the U.S. Department of Transportation, Office of Highway Policy Information, the volume of gasoline sold in the United States in January-February 2006 was -0.3 percent less than the volume sold during the same months in 2005.

Unable to raise prices, businesses will often respond to increases in labor costs by cutting unprofitable lines of business or by substituting machinery for people. For example, an increase in the minimum wage could encourage a patio contractor to replace several minimum wage workers with a small backhoe when the time comes to dig patio foundations. An increase in the minimum wage might also cut the paid hours available to employees at a pizza parlor if its owner finds that his higher labor costs now outweigh the profits generated by the handful of customers who patronize the business late at night.

Amendment 42 will retard economic development in depressed areas of Colorado

Amendment 42 includes an automatic adjustment for inflation that will boost the minimum wage if prices rise and reduce it if prices fall. The language of the Amendment specifies that the adjustment for inflation shall be "as measured by the Consumer Price Index for Colorado." The problem is that the Consumer Price Index for Colorado does not exist. The Bureau of Labor Statistics, the federal agency that produces the Consumer Price Index, does not produce a consumer price index for all of Colorado. The consumer price index that it does produce that is related to Colorado is the price index for all urban consumers in the Denver-Boulder- Greely Consolidated Metropolitan Statistical Area (CMSA).

This means that the Colorado minimum wage would be adjusted using price changes for a relatively small urbanized section of the state, one that contains roughly half of the state's population. The problem is that price increases in this section of the state may or may not reflect price increases in other sections of the state. If, for example, prices rise more rapidly in the Denver-Boulder-Greely CMSA than in Grand Junction, a minimum wage keyed to price increases in the CMSA could raise the minimum wage in Grand Junction more rapidly than inflation. The result would likely be an increase in unemployment.

Statewide differences in price increases and the cost of living have been documented and they are substantial. Since 1993, the State of Colorado has conducted a statewide survey of the cost-of-living designed to equilibrate state payments to local school districts. Between 2000 and 2002, the labor pool cost of living calculated by the survey rose 4.1 percent in Boulder, 3.5 percent in Denver, and 2.7 percent in Greeley. Over the same period it fell by almost 2 percent in Alamosa, by 3.1 percent in Kit Carson, and by almost 5 percent in Kiowa.

Increasing the minimum wage in an area with falling prices will make struggling employers less likely to hire workers. This will increase unemployment. It also precludes employers from locating in economically depressed areas in an effort to take advantage of less expensive labor. This stymies economic redevelopment.

High minimum wages may also make Colorado less attractive to employers than neighboring states with lower minimum wages.

Amendment 42 will increase unemployment

Professional economists have long believed that an increase in the minimum wage causes unemployment among the least skilled workers, typically teenagers, high school dropouts, and immigrants with low skills and poor English. It does this by blocking access to jobs, by reducing on the job training, and by retarding the normal progression from a low wage job to a better, higher paying job. Supporters of Amendment 42 dispute this finding. They claim that hundreds of economists say that a moderate increase in the minimum wage will have no effect on employment.

The literature on the effects of minimum wage increases spans many decades and many countries. Its general conclusion is that increases in the minimum wage increase unemployment. To the extent that employers respond to minimum wage increases by reducing other job benefits like free meals, lodging, and reduced price educational opportunities, minimum wage increases also reduce opportunity.

A summary of the older research written for non economists was done by Deere, Murphy and Welch in a 1995 edition of *Regulation.* An extensive bibliography from the Joint Economic Committee also summarizes the findings of 50 years of minimum wage research. Neumark and Wascher, 2003, find that minimum wage increases also increase unemployment in countries other than the United States. The OECD reached the same conclusion in its summary of minimum wage effects for the Irish minimum wage commission. Abowd, Kramarz, and Margolis (1999) find that change in minimum wage has "very strong" effect on workers employed at minimum wage in France and the United States. They find that a minimum wage increase decreases the probability of future employment by around 1 percent.

Deere, Murphy, and Welch provide an excellent description of the minimum wage controversy ignited by the publication of a series of studies by Card and Krueger. These studies are the major references for those who claim that minimum wage increases do not affect employment. The most famous

Card/Krueger study was of fast food restaurants in Pennsylvania and New Jersey when New Jersey raised the minimum wage and Pennsylvania did not. They contacted 500 fast-food outlet managers to check on hiring how many part and full-time employees were working at the restaurants before and after the minimum wage increase. They concluded that restaurant employment in New Jersey rose while restaurant employment in Pennsylvania fell.

A pointed critique of the fast-food Card/Krueger study is available from Senate Joint Economic Committee economist Reed Garfield. In brief, when Neumark and Wascher repeated the Card/Krueger survey using actual payroll data for a similar sample of restaurants, they arrived at the opposite conclusion — hours worked in New Jersey fell. The Card/Krueger methodology did not account for the fact that employers could respond to the minimum wage increase by giving the same employees fewer hours. A summary of the entire Card/Krueger minimum wage debate, with extensions, appeared in the Economist.

Amendment 42 supporters assert that "hundreds of economists" believe that a moderate increase in the minimum wage has no effect on employment. The American Economic Association has more than 25,000 members. In view of the extensive literature by professional economists who find that minimum wage increases increase both unemployment and poverty, the claim that hundreds of unidentified people disagree is less than impressive.

On balance, Amendment 42 will likely to increase poverty

Although some low wage workers benefit from minimum wage increases because they both keep their jobs and enjoy a pay raise, the data suggest that more low wage workers are harmed when minimum wage increase because they lose their jobs or have their hours cut as employers adjust to an arbitrary increase in labor costs. Employers may often cut valuable fringe benefits for low wage workers when labor costs increase. These fringe benefits can include things like company training, housing, free meals, childcare, and English lessons. A summary of research on this subject is available in a 1999 Federal Reserve of Cleveland commentary by Neumark, Schweitzer, and Wascher titled "Will Increasing the Minimum Wage Help the Poor." The authors conclude that "on balance, our estimates suggest that" the employment losses caused by a minimum wage increase outweigh the higher incomes associated with it.

Additional evidence that minimum wages are more likely to cause poverty than to eliminate it comes from a 2000 paper by Page, Spetz, and Miller. They examined the effect of the minimum wage on welfare caseloads. Spetz testified before the House committee on Education and the Workforce on October 7, 1999, explaining that as one would expect if minimum wage increases disproportionately disadvantage the poor and unskilled, their work showed that minimum wage increases appear to increase welfare caseloads.

In July 2004, Neumark and Nizalova, found that minimum wages also have long run effects and that they lower future wages, and result in less training. This is consistent with the theory that suggests that having a job teaches important lessons about work and that on the job training in minimum wage jobs has significant value for low wage workers. There is also evidence from 1994 that suggests that a minimum wage increase tends to increase the probability that teens will leave school. A summary is available at SSRN.

Amendment 42 benefits union labor at the expense of the lowest income workers

The major beneficiaries of minimum wage increases are union members. High minimum wages reduce the cost difference between low skilled minimum wage workers and more highly paid union labor. Reducing the cost difference makes employers less likely to substitute lower skilled, less expensive, workers for more highly skilled, more expensive union labor. This reduces the incentive for municipalities and other governmental entities to contract with the private sector and increases the probability that they will have more jobs for unionized government employees. Neumark and Wascher explain the ways in which labor markets adjust to minimum wage increases and these adjustments cause low-wage union members gain at the expense of the lowest income workers.

In 2005, Colorado had an estimated 34,000 workers who earned less than the federally mandated minimum wage of $5.15 an hour. National statistics suggest that more than half of these people were under 25 years old and that more than half of those earning the minimum wage worked part time. The BLS report on 2005 minimum wage earners is the document from which I drew the number of people in Colorado who earn the minimum wage and the characteristics of minimum wage earners. Details on the Colorado population are available in Table 3 of the PDF version.