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Thank you for the opportunity to testify in support SB 256, a proposal to increase the minimum wage and introduce a refundable Earned Income Tax Credit. By way of background, Ohio currently has a minimum wage of $10.45 for non-tipped employees and $5.25 for tipped employees. There are some exceptions, allowing for a sub-minimum wage, and those may be found here: https://com.ohio.gov/divisions-and-programs/industrial-compliance/wage-and-hour/guides-and-resources/minimum-wage-posters. The minimum wage increases with inflation and is outlined in the Ohio Constitution, while the federal minimum wage is $7.25. As for the EITC, Ohio currently has a non-refundable credit that is 30% of the refundable federal credit. For clarity, a non-refundable credit can only ever decrease tax liability, while a refundable credit can result in a tax refund.

The legislation aims to increase the minimum wage to $15 by January 1st, 2028 for non-tipped employees, and it does this by increasing the minimum wage by a dollar each year after the first increase to $12 on January 1st, 2025. In order for this to take effect in time, there is an emergency clause attached to the bill. The minimum wage for tipped employees will be half of the non-tipped wage, so $7.50 by January 1st, 2028. A refundable EITC is included as an option for taxpayers alongside of the current non-refundable EITC: the option will be given to take whichever credit is more valuable, which makes sense as taxpayers at the higher end of the EITC eligibility range may be able to more fully utilize the higher percentage credit, as they may have a tax liability that it can work against. The refundable EITC is 9% of the federal credit generally, and is 12% for families with dependents under three years of age. The refundable EITC is based on current law in Oregon. Though I have some research on the EITC and its costs, it's over a year old and had the refundable EITC costing around $200M and the non-refundable portion costing about $80M. Since it's an option on which one to take, I would hazard a guess that the cost will be around $250M, though obviously we'll have the actual fiscal analysis for this bill soon enough.

To provide further context, there is a ballot initiative underway to increase the minimum wage. Briefly, it takes the minimum wage to $15 by January 1st, 2026 for non-tipped employees, while the tipped wage will eventually match the non-tipped wage by January 1st, 2029. It does this by saying that the tipped wage is $4 less than the non-tipped wage, then $3 less the next year, and so on. It is a Constitutional amendment. I would also be remiss if I didn't mention SB 146, sponsored by Senators Smith and Craig. It's similar to the legislative proposal, though the timeline is faster and tipped wages are treated like the ballot initiative.

As mentioned previously, the minimum wage is found in the Ohio Constitution having been amended in 2006. That's an important year because it coincides with the height of our last housing bubble. I fully understand what reformers are trying to do and why they're trying to do it: real wages have fallen significantly due to inflation, particularly asset inflation in the real estate world, as housing costs are easily the highest costs to low and middle income families. We can squabble over the causes, but I hope we can agree that the issue is real and forms the impetus for reform. In the long run, getting home prices and rents down to a much healthier multiple of median income would absolutely alleviate pressure to increase the minimum wage, as if this were to occur real wages would increase significantly, even if nominal wages did not. As an example, a wage of $15 is one thing when rents are $1300 per month, and quite another when rents are $800 per month.

A case can also be made for the minimum wage in light of monopsony power, or an imbalance in power between employers and workers. You've likely heard much about monopolies, but probably not a lot about monopsonies. The classic example, from our good friend Wikipedia (https://en.wikipedia.org/wiki/Monopsony), is that of a mining town where the mining company is the only buyer of labor. Due to multiple sellers of labor with only a single buyer, it follows that the employer can set wages below the theoretical competitive wage, leading to higher profits. However, this gain in profit is less than the loss inflicted upon workers and leads to deadweight loss, which is the net social loss. Minimum wages and anti-trust enforcement can minimize monopsony power and, if the minimum wage is extremely low, a modest boost can result in higher employment, however counterintuitive that may sound at first blush. It would be a mistake to dismiss these concerns and not offer solutions. This is why I've introduced SB 256, as I believe it is a better alternative to the ballot initiative to target aid to low and middle income families.

I have said in interviews and my editorial that I believe the minimum wage is a blunt instrument to deliver aid to lower income individuals. Though economic thinking has evolved on the minimum wage over time – today, economists are less convinced that slow increases drive unemployment – fast increases in the minimum wage arguably lead to unemployment and cause the average income of low wage families to go down. This is intuitively obvious as those who keep their jobs will be better off economically, but those who lost their jobs are obviously worse off, thus it stands to reason that average wages can go down due to the minimum wage being too high. This effect is real, and is mentioned in the Congressional Budget Office's analysis of Senator Sanders' "Raise the Wage Act of 2023". You can read it here - https://www.cbo.gov/publication/55681 - but the important text is this:

How would increasing the minimum wage affect family income*? By boosting the income of low-wage workers who have jobs, a higher minimum wage would raise their families' real income (that is, income adjusted to remove the effects of inflation), lifting some of those families out of poverty. For other families, however, income would fall because some workers would not be employed and because business owners would have to absorb at least some of the higher costs of labor. For those reasons, in this interactive tool, a minimum-wage increase* ***generally causes a net reduction in average family income****.*
Another problem is that businesses, to the extent that they can, will attempt to pass costs on to the consumer, as well as utilize more automation, though that happens even without minimum wage pressures. As a practical matter, this will mean that grocers and restaurants will increase prices, negating some of the wage gains from those who benefited from the minimum wage. However, not everything will be passed on and employers will have to eat some of these losses in lower profits due to competition or close altogether.

There is also no recognition of Ohio's diverse economic landscape and where we stand when compared to surrounding states. Cost of living is significantly higher in Delaware county when compared to Adams county, for example, and wages are significantly higher in the former when compared to the latter. However, $15 would be applied uniformly across the state. Take a look here:

https://www.cleveland.com/datacentral/2020/01/every-ohio-city-and-county-ranked-for-median-family-household-income-census-estimates.html. As a percentage of median income, $15 is significantly higher in Adams than Delaware, and I think that would translate to unemployment growing more quickly in Adams than Delaware. Worse, Adams county borders Kentucky, which has a $7.25 minimum wage. That puts the county at risk of business and job loss to its southern neighbor, while Delaware doesn't have that problem given its location in the center of the state. This is also true for Hamilton county, which I represent, as it borders both Kentucky and Indiana, both of which have $7.25 minimum wages that we're powerless to do anything about. Overall, Ohio has the highest minimum wage when compared to our surrounding states.

This is why I paired a slower path to $15 with a refundable EITC because I wanted to give Ohioans what I think they want while minimizing as many harmful aspects as possible. Slower increases in the minimum wage generally mean fewer unemployment issues, while the EITC, acting as a wage subsidy, can effectively target low and middle income workers without harming employers. Good explanations may be found here: https://knowledge.wharton.upenn.edu/article/why-raising-the-minimum-wage-has-short-term-benefits-but-long-term-costs/, https://www.minneapolisfed.org/article/2023/better-together-pairing-smaller-minimum-wage-increases-with-tax-policy-to-reduce-inequality, and https://www.epi.org/publication/eitc-and-minimum-wage-work-together/. Let's look at Delaware and Adams county again. Presumably in the former, wages are already higher given its relative wealth, thus the new minimum wage may not be particularly helpful there even to low income workers as they're likely to be able to find jobs paying more than $15 today. In Adams county, workers and families are more fully able to capture the new refundable EITC while minimizing the problems a higher minimum wage runs into given their juxtaposition with Kentucky and how big jumps in minimum wage can cause unemployment.

What do Ohioans make of all of this? On one hand they could view this with suspicion, particularly after the ballot fights of 2023. On the other I think that many of them will actually be surprised and pleased. For them the process matters less than the result, and if the General Assembly does what they want because of the threat of a ballot initiative then that is just fine by them. They might even argue this is why the August Issue 1 ballot initiative failed because the ability of the public to force the General Assembly's hand from time to time is a feature, not a bug, and this is the proof. I think they give the General Assembly the benefit of the doubt if we pass this legislation, which builds trust and is better for our political economy. Conversely, I don't think it's a good look to champion a ballot initiative should the evidence show that the legislative alternative is superior; Ohioans may like going to the ballot on some things, but I do think there is a limit in how often they'll support ballot initiatives: going to the well too many times may create its own pushback from the electorate. In the end they may still put the initiative on the ballot and pass it, but I see no downside in working and passing it given the fact patterns involved. I'm very proud to be carrying this legislation, and think it's absolutely worth having the discussion.

Thank you for allowing me to testify and I welcome any questions.