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MANDATE for MADISON

Increasing Minimum Wage Simply Doesn't Help

By Ken Wysocky

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A PREFACE TO

Increasing Minimum Wage Simply Doesn't Help

Some people earn a lot of money. Some earn a little. And if those whose skills and labor are worth a low rate of pay from those willing and able to purchase them plead that they ought to earn more, many Wisconsinites find it viscerally satisfying to say the state should command it — that the state should raise its minimum wage.

This is a sentiment that has been around, perhaps, for as long as there have been minimum wages, long enough for a great deal of economic research showing it's an idea that doesn't work. It means that a lot of people won't work — they won't have a job.

Here, Ken Wysocky summarizes those findings, including research specific to Wisconsin published in recent years by the Badger Institute.

The research leads to a clear conclusion: The best way to help people earn more, especially those on the lowest rungs of the income ladder, is to not break off the rungs they're climbing.

— Badger Institute

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Introduction

At first blush, raising Wisconsin's minimum wage to $15 an hour from $7.25 seems like the morally correct thing to do — a feel-good cure for what ails entry-level, low-income workers.

But a less emotional and more objective examination of the issue reveals that roughly doubling the minimum wage more likely creates a remedy that will harm the very people it's designed to help.

There's no doubt it's a contentious, many-faceted issue. Legislators, policymakers, activists and researchers have been debating the merits of a minimum wage increase for decades.

Proponents of a higher minimum wage have achieved a modicum of success. Since 2014, 30 states have increased their minimum wage above the federal rate of $7.25, which hasn't increased since 2009.

Should Wisconsin join those 30 states? Numerous studies, surveys and reports indicate that doing so would create a ripple effect of unintended consequences that ultimately would harm workers on the lower rungs of the economic ladder. In short, a higher minimum wage renders low-skill employees unaffordable for many small businesses that simply can't raise the price of their products or services high enough to accommodate the increased labor costs. Numerous studies back up this assertion.

The Research

Consider the results of a February 2022 survey of 160 American economists,[1] conducted by the Washington, D.C.-based Employment Policies Institute (EPI), a nonprofit research organization dedicated to studying public policy issues related to employment growth. The survey asked the economists about the impact of raising the federal minimum wage to $15, which states would have to follow.

The survey results indicate a lack of support for a minimum wage increase. Specifically:

- 62% of the economists oppose the move, with 50% strongly against it.
- 75% believe such an increase would negatively affect employment levels for people under age 20. (This is a critical employment stage when youths gain valuable experience that propels them to better-paying jobs.)

- 81% agree it would have a negative impact on small businesses with less than 50 employees.
- 43% say the current minimum wage is correct.
- 39% agree that raising the minimum wage would increase poverty rates, while another 19% feel it would have no effect.

Job Losses in Wisconsin

About 350,000 workers in Wisconsin would lose their jobs if the state raised its minimum wage to $15 an hour, a 2019 analysis[2] for the Badger Institute by economists Ike Brannon and Andrew Hanson found.

Data at that time showed that roughly 38% of Wisconsin workers earn less than $15 an hour. Modeling based on data from the U.S. Bureau of Labor Statistics suggests that about one-third of those 1.1 million workers would suffer job losses if Wisconsin quickly raised the minimum wage.

Roughly 38% of Wisconsin workers earn less than $15 an hour. About one-third of those workers would be at risk of losing their jobs if Wisconsin quickly raised the minimum wage.

Moreover, half of those job losses would come at the expense of the lowest-earning 10% of workers, and the remaining 90% of job losses would affect those in the lowest-earning quartile of income.

An estimated 50% of those job losses would come from the food-preparation and service sectors. Other job segments most affected would include building and grounds cleaning and maintenance, personal care and service, sales, office and administrative support, production occupations, and transportation and material-moving industries.

Job losses for entry-level workers aren't the only detrimental side effect. Some employers likely would reduce hours for remaining workers as well as non-wage benefits such as employee discounts, paid time off, and training and certifications, the study noted.

"Unsurprisingly, we found that the less populated western and northwestern areas of the state would suffer the greatest job losses, with Madison experiencing the fewest. Our analysis estimated that over 10% of the working population would lose their jobs in some rural communities as a result of the increased minimum wage," Brannon and Hanson wrote.

Furthermore, fewer workers would result in reduced state payroll and income taxes as well as less accrued service time for Social Security retirement benefits for those workers. Unemployed workers would also require more public support services.

National Ramifications

At the national level, 92% of small businesses responded in a 2021 survey[3] that a $15-an-hour minimum wage would be "harmful to Main Street and its job opportunities." The survey was conducted by the National Federation of Independent Business (NFIB), a small business association.

A $15 federal minimum wage would cost an estimated 1.6 million jobs in the private sector, according to a 2019 report[4] published by the NFIB titled "Economic Effects of Enacting the Raise the Wage Act on Small Businesses and the U.S. Economy." Moreover, an NFIB multi-region economic forecasting and policy analysis tool showed that businesses with fewer than 100 employees would shed about 700,000 jobs by 2029, the report noted.

A 2020 report[5] titled "The State Employment Impact of a $15 Minimum Wage," compiled for the EPI by William Even of Miami University and David Macpherson of Trinity University, also predicted significant job losses.

In assessing the impact of a congressional bill that would phase in a $15 minimum wage and a $12.60 minimum hourly wage for so-called tipped employees by 2027, Even and Macpherson estimated that 2 million jobs would be lost, positions held mostly by female workers ages 16 to 24.

Tipped workers — bartenders, waitstaff and the like — would account for nearly 700,000 of those job losses, which equates to a higher proportion of affected jobs than non-tipped workers (31% vs. 8%, respectively). As such, an increase in the tipped minimum wage would impose "an especially cruel burden" on tipped workers, who typically earn more than the minimum wage anyway, according to the report.

What's often misunderstood — or even ignored — is that a guaranteed minimum wage does not guarantee a job.

Furthermore, the additional burden of a steep rise in labor costs piled atop financial pressures caused by the COVID-19 pandemic will cause many businesses to reduce employment or close altogether. Raising the minimum wage by $5 or more in just five years would pose "a significant shock to state economies and business owners in a relatively short period of time," the report warned.

Some cities already have experienced job losses in the wake of raising the minimum wage. After Seattle's minimum wage was raised to $13 in 2016, researchers at the University of Washington[6] found that employers responded by reducing the hours of low-wage employees. As such, total payroll for such jobs actually declined in spite of the hourly wage increase as employers decreased employees' hours in an effort to reduce labor costs.

In San Francisco, which phased in a $15 minimum wage, each $1 increase in wages created a 14% probability that a median-rated restaurant would close, according to a 2017 study by Harvard Business School.[7] There was no significant impact on high-end restaurants, the study noted, which suggests that businesses already struggling to bring in customers may be the most negatively affected by minimum wage increases.

Further Ripple Effects

A host of other consequential side effects would come into play at the federal level if a $15 minimum wage is implemented by June 2025, as proposed by the Raise the Wage Act introduced in Congress in January 2021, according to a February 2021[8] report from the Congressional Budget Office. The agency provides Congress with nonpartisan analysis of the financial impacts of proposed legislation.

In evaluating the bill's impact on federal government spending, the report concluded that:

- The federal budget deficit from 2021 to 2031 would increase by $54 billion because of higher prices for goods and services, particularly in the healthcare industry. (That figure doesn't account for additional costs imposed by higher interest rates and inflation that the bill could spark, possibly adding $16 billion more to the deficit.)
- Employment would be reduced by 1.4 million workers.
- The cost of federal subsidies for health insurance would increase because as household incomes rise, those families become eligible for tax credits to cover the costs of premiums on health insurance purchased on government exchanges.
- Spending for unemployment compensation would increase as more workers lose their jobs.
- Social Security spending would increase because higher wages result in higher average retirement benefits.

Conclusion

Clearly, there's ample evidence that suggests negative impacts from raising the minimum wage, which was implemented in 1938 with the intention of aiding workers in the Great Depression and preventing businesses from exploiting minors. Opponents note that only 1.4% of hourly workers nationally make minimum wage or less, according to the Bureau of Labor Statistics.[9] In Wisconsin, that figure is 1.6%.[10]

Free-market advocates also emphasize that the market should dictate employee pay, not the government. Businesses will respond to supply-and-demand market conditions by raising pay as needed, as evidenced by the slew of fast-food restaurants and big-box retailers now offering pay above $15 an hour due to labor shortages.

Lastly, it's worth noting comments from Eloise Anderson, a nationally known expert on welfare issues and the former secretary of the Wisconsin Department of Children and Families. In a 2021 opinion article for the Badger Institute,[11] Anderson wrote that what's often misunderstood — or even ignored — is that a guaranteed minimum wage does not guarantee a job.

"The business owner who must comply with a mandated wage increase has to consider each job and what the contribution of that employee to the job is worth. That calculation includes the employee's output, wages, Social Security tax, Medicare, unemployment compensation, worker compensation and overhead," wrote Anderson, who is also a Badger Institute visiting fellow.

"The employer has to assess whether this cost will be borne by the price of the service or product. In 2019, before the COVID-19 shutdowns, low- or non-skilled individuals, especially low-income males and teenagers, were getting jobs at record rates. Many small businesses were willing to hire and train them. Wages were increasing based on labor supply and demand."

"The willingness of employers to hire and train is critical to the upward mobility of low- and non-skilled individuals," she wrote. "These workers need to develop soft skills such as being dependable, showing up on time, working eight hours a day and five days a week, taking directions and calling in when sick.

"A $15-an-hour minimum wage will cut off the lower rungs of the economic ladder just as many had finally secured their footing."

Badger Institute takeaways

- Wisconsin should not raise its minimum wage.
- To bring about higher wages, policymakers should increase demand for workers by avoiding actions that impede the growth of Wisconsin's economy and the vigor of its employers.

About the Author

Ken Wysocky is a Milwaukee-area freelance journalist and editor who has written hundreds of articles for many national magazines and other media platforms. He has compiled more than 40 years of journalism experience, including stints as a daily newspaper reporter in both the Chicago area and Milwaukee, a corporate communications manager for a former Milwaukee-based Fortune 250 company and a magazine editor before becoming a freelancer in 2008.

Endnotes

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[2] https://www.badgerinstitute.org/BI-Files/Reports/MinWagebriefApril2019.pdf

[3] https://www.nfib.com/content/analysis/economy/nfib-opposes-dramatic-minimum-wage-hike/

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[6] https://www.reuters.com/article/us-seattle-minimumwage/seattle-employers-cut-hours-after-latest-minimum-wage-rise-study-finds-idUSKBN19H2MV

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[11] https://www.badgerinstitute.org/News/2021-2022/Removing-the-lower-rung-of-the-ladder.htm