



## Insight

# Examining the Effects of Raising the Federal Minimum Wage to \$15

ISABEL SOTO | JANUARY 27, 2021

## Executive Summary

- The [Biden Administration](#) has proposed to more than double the federal minimum wage from \$7.25 to \$15 an hour.
- While a \$15 minimum wage could help some employed workers, the available data on the supply and demand side of the labor market suggest that it would price others out of the market and further damage many vulnerable small businesses.
- On the supply side of the labor market, workers most at risk of continued unemployment are Black and Hispanic, as well as those with lower educational attainment; these groups make up a significant proportion of minimum wage earners and are strongly represented in industries that have been most negatively affected by the COVID-19 pandemic.
- On the demand side, small businesses have been dramatically damaged by the pandemic; at the low point, 41 percent of small businesses in low-income areas closed and there was a drop in revenue of 46 percent since January 2020.

## Introduction

The Biden Administration has proposed raising the federal minimum wage from \$7.25 to \$15 an hour as part of its COVID-19 economic relief plan. Some believe that Congress could raise the minimum wage with a simple majority vote in the Senate by utilizing the [budget reconciliation process](#). An increase in the minimum wage—particularly one as substantial as what is being proposed—would benefit some workers but harm others by pricing them out of the labor market. The labor supply side data indicate that there are millions of unemployed workers who are low skilled and have lower educational attainment. These workers would likely remain disconnected from work as a result of a \$15 minimum wage. On the demand side, many businesses face plummeting net revenues and even closing; this is particularly true of the small businesses already damaged by the COVID-19 recession that disproportionately hire those workers. An increase to a \$15 minimum wage would not only slow recovery but would likely hurt many of the very workers it is intended to help.

## Consequences of Increasing the Minimum Wage

The consequences of rapid, large increases to the federal minimum wage are well documented, with much of the [research](#) finding negative employment effects. The [Congressional Budget Office](#), for example, projected that an increase to a \$15 minimum wage by 2025 could mean an average of 1.4 million jobs lost, a fall in business revenues leading to a [\\$9 billion](#) drop in real income, and increases in the prices of goods and services across the economy. The American Action Forum (AAF) has also analyzed the effects of increases minimum wage. More AAF research can be found [here](#). Additional evidence of the adverse effects of minimum wage increases can be

found in Seattle’s efforts to raise its wages. A National Bureau of Economics Research [report](#) found that the city’s increase to a \$13 minimum wage in 2016 (up from \$11) reduced hours worked in low-wage jobs by 9 percent. Seattle’s \$2 increase is small compared to what other states and localities would need to do if faced with a two-fold increase in the federal minimum wage; in most states, this would mean placing a wage floor close to the current median wage. Because wages across the country vary significantly by locality, it would be far more prudent to address wage changes in a more local manner rather than a federal mandate that risks putting smaller, already vulnerable employers out of business and hurting the workers minimum wage increases are intended to help. The COVID-19 pandemic would amplify the negative effects that increases would have on low-wage workers and small businesses.

## Labor Supply and Unemployment

The pandemic has affected nearly every part of the nation’s economy, but some industries and workers have disproportionately felt the negative consequences. Knowing which industries and types of workers are most impacted by the current economic situation can give a clearer picture of where a substantial increase to minimum wage would do the most damage and potentially leave more individuals without work.

While the Biden Administration has vocalized its intent to support low-income individuals and families, particularly those from Black and Hispanic communities, a federally mandated minimum wage of \$15 would disproportionately hurt these workers. The devastating [effect](#) that the pandemic has had on communities of color has been explored at length. Black and Latino workers, for example, make up nearly a quarter of the service industry labor force and are less likely to be represented in managerial positions. In the [leisure and hospitality industry](#), Black and Hispanic workers make up 13 and 24 percent of workers, respectively.

## Unemployment by Race and Ethnicity

Worker Race/Ethnicity	Making at or below Minimum Wage (percent distribution)	Peak Pandemic Unemployment (%)	Dec 2020 Unemployment (%)	Dec 2019 Unemployment (%)
Black	17.9**	16.8	9.9	5.9
Hispanic	18.2	18.9	9.3	4.2
White (non-Hispanic)	72.6**	13.6	6.0	3.2

\*\* Estimates for the above race groups—White, Black or African American do not sum to totals because data are not presented for all races. Persons whose ethnicity is identified as Hispanic or Latino may be of any race.i

As shown above, the employment situation for Black and Hispanic workers has improved since unemployment

reached its highest levels, but these groups are still disproportionately represented among the unemployed. A large increase to the federal minimum wage could price out of the labor force those currently unemployed and potentially lead to additional layoffs or job cuts.

## Unemployment by Educational Attainment

Educational Attainment	Making at or below Minimum Wage (percent distribution)	Peak Pandemic Unemployment (%)	Dec 2020 Unemployment (%)	Dec 2019 Unemployment (%)
Less than High School Diploma	18.2	21.2	9.8	5.5
High School Graduates	34.1	17.3	7.8	3.8
Some College	34.9	15	6.3	2.8
Bachelor's Degree or Higher	12.7	8.4	3.8	2.0

ii

Another segment of workers particularly at risk are those with a lower educational attainment. Bureau of Labor Statistics (BLS) data show that workers who did not graduate from high school were particularly affected by the pandemic, with unemployment rising to 21 percent and still at nearly double 2019 levels. In contrast, the unemployment rate for workers with a bachelor's degree or higher is returning to 2019 levels. Unsurprisingly, workers with lower educational attainment are more likely to be working at or below the minimum wage. Given that the United States does not have widely available [up-skilling](#) or [reskilling](#) programs and higher education is often prohibitively expensive, workers with low educational attainment, and low skills will likely feel the effects of increased minimum wage the most.

## Demand for Workers and the State of Small Businesses

The COVID-19 pandemic has driven many businesses—particularly small businesses—to close permanently or to operate on thin margins even as the economy begins to recover. Many of these businesses already face a challenging environment, where they have had to absorb costs associated with additional safety precautions and state-mandated business closures while losing revenue from reduced business.

Adding the cost of a \$15 minimum wage could force the most vulnerable businesses to forgo hiring, reduce worker hours, cut jobs, or simply close altogether.

When businesses first began feeling the effects of COVID-19, layoffs were concentrated in industries that typically necessitated in-person service. The leisure and hospitality industry, for example, saw 40 percent unemployment at its peak, and according to [2019 BLS data](#) had the largest concentration of low-wage workers. Other industries that have been significantly affected by the pandemic include mining, construction,

transportation, and food services. While improvement has occurred, unemployment in these sectors remains high.

### Wages and Unemployment in Industries Strongly Affected by the COVID-19 Pandemic

Industry	Average Hourly Wage (non supervisory)	Dec 2020 Unemployment (%)	Dec 2019 Unemployment (%)
Leisure and Hospitality	\$14.57	16.7	5.0
Accommodation and Food Services	\$13.84	16.4	5.0
Transportation and Warehousing	\$22.95	9.3	2.8
Mining	\$27.96	13.1	3.8
Construction	\$29.64	9.6	5.0

iii

Given that these industries typically have large concentrations of low-wage workers, many of whom are currently experiencing unemployment, an increase in the minimum wage to \$15 would add additional hurdles to rapid reopening and rehiring, driving long-term unemployment for the least educated and skilled workers.

### Small Business Closures

The pandemic has forced many small businesses to close temporarily due to a lack of business and mandated closures; it also led to many businesses closing permanently. April 2020 saw the largest percent change in the number of open small businesses, a 44 percent decline from January 2020.

### Percent Change of Small Businesses Open by Industry (Since Jan 2020)

Industry	Peak Percentage Change in Open Small Businesses (April 2020)	Percent Change in Open Small Businesses (Dec 2020)
Leisure and Hospitality	-49	-48
Education and Health Services	-43	-21
Retail and Transportation	-38	-20

Professional and Business Services	-28	-16
All	-44	-30

iv

Of particular note are the changes that occurred in the leisure and hospitality industry, which in April 2020 saw a nearly 50 percent reduction in open small businesses relative to January 2020. This industry employs a large majority of workers who would be directly affected by changes to minimum wage, many of whom are likely still experiencing unemployment.

### Percent Change in Small Business Revenue by Industry (Since Jan 2020)

As noted, closures due to reduced business and mandates understandably resulted in lost revenue; while many larger businesses were able to absorb the loss, many small businesses have had to permanently close or turn to layoffs as a cost-saving measure. While the Paycheck Protection Program loans, created as part of the Coronavirus Aid, Relief, and Economic Security Act, provided temporary relief to many, businesses continue to struggle.

Industry	Peak Percentage Change in Revenue (April 2020)	Percent Change in Revenue (Dec 2020)
Leisure and Hospitality	-72	-64
Education and Health Services	-58	-22
Retail and Transportation	-50	-19
Professional and Business Services	-32	-11
All	-50	-31

v

Though revenues improved between April and December, the state of the leisure and hospitality industry remains unstable especially as cases continue to rise.

Given that the average non-supervisory wage in the leisure and hospitality industry is less than the proposed \$15 minimum wage, those businesses would need to manage the impact of additional costs further reducing net revenue. An increase in the minimum wage would force many small businesses to increase prices, likely reducing demand for goods and services, or to reduce hiring, cut worker hours, or eliminate jobs.

### Conclusion

A federal minimum wage increase would exacerbate the economic harm already faced by many businesses and

their workers. While those minimum wage workers who are able to keep their jobs would certainly benefit from the increase, many others risk additional harm. Particularly threatened are the large number of unemployed individuals who previously worked as low-wage workers in industries that have been most negatively affected by the pandemic. The demand for those workers to return during this time remains unclear. Adding a federally mandated cost in the form of increased minimum wage would lead to longer unemployment, reduced work hours or hiring, and increased layoffs for low-wage workers as businesses balance reduced revenues and increased costs.

[i] <https://www.bls.gov/web/empsit/cpseea06.htm>; <https://fas.org/sgp/crs/misc/R46554.pdf>;  
[https://www.bls.gov/opub/reports/minimum-wage/2019/home.htm#cps\\_mw\\_whe\\_char.f.1](https://www.bls.gov/opub/reports/minimum-wage/2019/home.htm#cps_mw_whe_char.f.1)

[ii] <https://www.bls.gov/news.release/empsit.t04.htm>; [https://www.bls.gov/opub/reports/minimum-wage/2019/home.htm#cps\\_mw\\_whe\\_char.f.1](https://www.bls.gov/opub/reports/minimum-wage/2019/home.htm#cps_mw_whe_char.f.1)

[iii] <https://www.bls.gov/web/empsit/cpseea31.htm>; <https://www.bls.gov/iag/>

[iv] [Economic Tracker \(tracktherecovery.org\)](https://www.tracktherecovery.org/)

[v ] Ibid.