



Insight

The Price of \$9.50 per Hour

BEN GITIS | MAY 29, 2014

Recently, Minnesota joined the growing number of states taking action on the minimum wage. Last month, Governor Mark Dayton signed a bill into law that raises Minnesota's minimum wage in stages from \$7.25^[1] per hour to \$9.50 per hour by 2016 and then ties it to inflation starting in 2018. While the bill is a well-intentioned effort to assist low-wage workers, it raises the question of how the wage hike will affect the labor market. In many cases, the cost of a minimum wage hike comes from declines in employment and reductions in hiring. In Minnesota, the cost of a \$9.50 minimum wage comes from increasing unemployment by 98,500 and reducing job creation by 11,200.

Previously, the American Action Forum (AAF) evaluated the [labor market implications of state minimum wage levels](#) and found that in 2013 states with high minimum wages also tended to have high unemployment rates and low net job growth rates, particularly among teenagers. AAF found that a \$1 increase in the minimum wage was associated with a 1.48 percentage point increase in the state unemployment rate, a 0.18 percentage point decrease in the net job growth rate, a 4.67 percentage point increase in the teenage unemployment rate, and a 4.01 percentage point decrease in the teenage net job growth rate.^[2] Applying these findings to Minnesota's new \$9.50 minimum wage reveals that the state could be in for trouble.^[3]

UNEMPLOYMENT

In 2013, Minnesota's unemployment rate averaged 4.9 percent and the state was essentially at full employment. However, the results above suggest that the new law to increase the minimum wage by \$2.25 to \$9.50 per hour could increase the state's unemployment rate by 3.3 percentage points to 8.2 percent. This is effectively a 68 percent increase in the unemployment rate, suggesting that the number of unemployed people could rise by 98,500.

Even more problematic is the impact on the teenage unemployment rate. The minimum wage hike could result in a 10.5 percentage point rise in the teenage unemployment rate from an annual average of 15.0 percent to 25.5 percent. The teenage unemployment level could rise by 14,000 workers. Consequently, teenagers who on average only made up 4.1 percent of Minnesota's workforce in 2013 would disproportionately make up 14.2 percent of the increase in unemployment.

JOB CREATION

The cost of the minimum wage not only comes from layoffs, but also comes from reduced hiring and lower job creation. As a result, the people who pay for the hike are the unemployed workers who have an ever tougher time finding a job. In 2013, Minnesota averaged a 1.3 percent net job growth rate. However, the minimum wage increase to \$9.50 per hour could reduce the average net job growth rate by 0.4 percentage point to 0.9 percent. Although this reduction seems small, it still suggests that 11,200 fewer jobs would be created each year due to the heightened minimum wage.

The minimum wage's negative impact on job creation is once again much more alarming for teenagers. Most recently, Minnesota's teenage workforce increased at an average annual rate of 8.6 percent in 2013. With a \$9.50 minimum wage, however, the teenage net job growth rate could fall by 9.0 percentage points to -0.5 percent. This means that 9,500 fewer teenagers would be able to find a job each year. Considering that the \$9.50 per hour minimum wage could reduce total job growth in Minnesota by 11,200 workers per year, this suggests 84.8 percent of the potential loss in hiring would be borne by teenagers.

Moreover, the net job growth rate would become slightly negative at -0.5 percent. This means that the rate that teenagers leave their jobs would outpace the rate that teenagers find new jobs, reducing the employment level slightly each year.

CONCLUSION

There's no getting around raising the minimum wage has its cost. Our armed forces recently experienced this when [fast-food restaurants on military bases began rapidly shutting down](#) after the Department of Labor began imposing massive wage hikes on them in 2013. In practice, a main cost of the minimum wage comes from workers who lose their jobs or those who have an even tougher time finding any job at all. While today Minnesota has one of the best performing labor markets in the country, lawmakers are testing their luck by imposing a \$9.50 per hour minimum wage that threatens the job security of Minnesota's low-wage workers, particularly teenagers. With teenage unemployment remaining inexcusably high both across the nation and in Minnesota, lawmakers need to move on from minimum wage policies and start exploring in solutions that invest in the future of our nation.

[1] Minnesota's current minimum wage is actually \$6.15 per hour. In practice, however, employers in Minnesota are still required to pay the federal minimum wage of \$7.25 per hour, making the state's minimum wage level irrelevant.