Testimony

Employment and Earnings Effects of Raising the Federal Minimum Wage to $15 per Hour

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Introduction

Chairman Scott, Ranking Member Foxx and members of the Committee, I am pleased to have the opportunity to appear today to discuss the employment and earnings implications of raising the federal minimum wage to $15 per hour. My testimony will focus on three key points:

- In recent years, the U.S. labor market has experienced profound growth: Businesses are continuing to create jobs at a strong pace, the unemployment rate is at the lowest levels in decades, wages are rising, and millions of workers are returning to the labor force.
- More than doubling the federal minimum wage to $15 per hour would threaten to undermine this progress by putting millions of jobs at risk.
- A $15 per hour minimum wage would impose such job loss while, at best, providing minimal assistance to low-income workers. At worst, however, reductions in jobs and work hours could be so severe that earnings among low-income workers could, on net, decline.

I will discuss each of these points in additional detail.

The Labor Market Today

Today's discussion of the minimum wage is occurring while the labor market continues to improve in remarkable ways. Just last week, the Bureau of Labor Statistics (BLS) announced that the economy added 304,000 jobs in January.[1] After years of anemic growth following the Great Recession, the labor market finally began to strengthen in 2014 and has been adding jobs at a strong pace ever since. In total, since the end of 2013, the U.S. economy has added 13.2 million jobs.[2]

In just the past two years, the economy has added over 5.1 million jobs. Remarkably, this strong pace of job creation has continued even as the unemployment rate fell below 4 percent to the lowest rates in decades.[3] Starting in 2018, there have even been more job openings than unemployed workers. The number of job openings rose to 6.6 million in March 2018,[4] surpassing the 6.5 million unemployed workers in the country.[5] Job openings then continued to rise, peaking at 7.1 million in October 2018. The latest data indicate that in November 2018, there were 900,000 more job openings than unemployed workers, at 6.9 million and 6 million, respectively.

With unemployment so low, how have employers still been able to add jobs at such a strong rate? After years of declining labor force participation, Americans are finally reentering the labor force. Following the Great Recession, the U.S. labor force participation rate declined substantially. In particular, the participation rate fell from 66 percent in December 2007, the beginning of the recession, to a low of 62.4 percent in September 2015.[6] Much of this decline has been attributed to demographics, as the Baby Boomer generation enters retirement.[7] The participation rate among 25-to-54-year-olds, however, had also been in decline for nearly two decades. Specifically, the prime-age labor force participation rate fell by 4 percentage points from 84.6 percent in January 1999 to 80.6 percent in September 2015.[8]

Starting in 2015, however, labor force participation began to rebound. As of January 2019, the total U.S. labor force participation rate stands at 63.2 percent, the highest rate since 2013. With Baby Boomers retiring, labor force participation is on the rise because millions of younger workers are finally returning to work. As of January 2019, the labor force participation rate of prime-age workers has increased to 82.6 percent, the highest in nearly a decade.[9]

Discouraged workers are also reentering the workforce and finding jobs. Discouraged workers are those who wish to work, but are not in the labor force because they have given up on looking for a job. There were 861,000 discouraged workers in 2013.[10] By 2018, that number was slashed in half to 423,000.[11]

Finally, wages are starting to grow again. The best measure of earnings is the BLS's Employment Cost Index (ECI). According to the ECI, annual growth in private sector total compensation has accelerated over the past two years. At the end of 2018, total compensation increased 3 percent over the previous year, the largest rise since 2008. The rise in total compensation was largely driven by an increase in wages and salaries, which at the end of 2018 were up 3.1 percent over the prior year.[12]

The Damage from a $15 per Hour Federal Minimum Wage

While the intentions of raising the minimum wage are honorable, half a century of economic research concludes that minimum wage hikes come at significant costs to the very low-wage workers the policy is intended to help, in the form of job loss or slower job creation. In 1981, the Minimum Wage Study Commission, a commission Congress created to examine closely the benefits and consequences of the federal minimum wage, published a comprehensive review of academic research from 1959 to the early 1980s.[13] The commission concluded, "time-series studies typically find that a 10 percent increase in the minimum wage reduces teenage employment by one to three percent."[14]

In their 2008 book, David Neumark and William Wascher performed a comprehensive review of over 100 minimum wage studies published since the early 1990s. Although the studies they reviewed have a wide range of estimates, the economists found that almost two-thirds indicate that increasing the minimum wage negatively effects employment, especially among low-skill workers. Meanwhile, less than 8 percent of the studies found that raising the minimum wage boosts employment. The economists took their review a step further by evaluating the strategies used in each study and highlighting the research with the most credible empirical methods. Among the studies with the most credible evidence, 85 percent indicate that minimum wage hikes reduce employment.[15]

Since the publication of that book in 2008, more research has emerged demonstrating that minimum wage hikes harm low-income workers in a variety of other ways, such as job loss,[16], [17], [18], [19] a slowdown in hiring,[20] increasing prices,[21] firms replacing low-skilled workers with more productive workers,[22] and firms shutting down all together.[23]

Yet, few studies have gauged the effects of the far more dramatic policy under consideration by this committee. The Raise the Wage Act would more than double the minimum wage from $7.25 to $15 per hour by 2024.[24] The federal government has never implemented a minimum wage hike of this magnitude and only a few cities are beginning to implement $15 per hour minimum wages. It cannot be understated, however, that a minimum wage increase this large (over 100 percent) poses a major disruption to the U.S. labor market. Unfortunately, the low-wage workers the policy is intended to help would be the very ones who would most suffer these consequences.

In 2015, the American Action Forum (AAF), in collaboration with the Manhattan Institute, performed a Congressional Budget Office-style analysis of raising the federal minimum wage to $15 per hour by 2020,[25] as proposed by the Pay Workers a Living Wage Act.[26] Using the most recent academic literature, the study found that a $15 per hour federal minimum wage would result in a loss of 3.3 million to 16.8 million jobs, with a middle estimate of 6.6 million jobs lost.

The middle estimate is based on a study by Jonathan Meer and Jeremy West, which found that minimum wage increases substantially slow job growth.[27] Since the 2015 AAF-Manhattan Institute study, however, Meer and West revised their study for publication in an academic, peer-reviewed journal. The revisions indicate that the negative labor market effects are significantly larger than the AAF-Manhattan Institute study reported. Additionally, since the 2015 publication, several states implemented their own minimum wage increases above the federal minimum wage of $7.25 per hour.

Updating the middle estimate so that it accounts for the revision in the Meer and West study and does not count the job losses associated with all recent state minimum wage increases, reveals that the Raise the Wage Act ($15 per hour by 2024) would result in a loss of 9.6 million jobs. For perspective, the U.S. economy has added 10.2 million jobs since the end of 2014. Thus, raising the federal minimum wage to $15 per hour by 2024 could eliminate nearly all jobs created over the past four years.

The job losses associated with minimum wage increases are also apparent at the state and local level. As previously mentioned, in recent years a number of states have enacted laws raising the minimum wage. In 2018, for instance, 12 states and the District of Columbia implemented new laws to raise the minimum wage. Like the Raise the Wage Act, a number of the state wage laws are quite dramatic. In California, for instance, the minimum wage is rising 50 percent, from $10 to $15 per hour, by 2022. In Maine, the minimum wage will have increased by 60 percent once the new law is fully implemented in 2020. And for most of New York's population, the minimum wage will have increased by 66.7 percent once fully implemented.

A 2018 AAF report estimated that the incremental minimum wage increases implemented in 2018 alone could cost 261,000 jobs.[28] Once these laws are fully phased in, the state minimum wage increases could result in a loss of 1.7 million jobs. The job losses range from 3,000 in Vermont to nearly 700,000 in California.

Additionally, accounting for all recent minimum wage increases in these states since 2012 results in even larger labor market consequences. California, the District of Columbia, New York, and Rhode Island each began phasing in their current minimum wage laws soon after they finished phasing in separate minimum wage increases, effectively extending previous minimum wage raises even further. Accounting for the entire minimum wage increases occurring in these states since 2012 leads to even larger estimated job losses, totaling 2.6 million. Over 75 percent of the lost jobs will occur in California and New York, which are the most populous states and are mandating the largest minimum wage increases.

Negative labor market effects of minimum wage hikes are also apparent at the local level. A 2016 AAF study found that restaurant employment suffered in the major metropolitan areas that increased the minimum wage in 2015.[29] Not only did restaurant employment grow slower in these metropolitan areas than in the rest of their respective states, growth rates actually decelerated in the metropolitan areas while in the rest of their states they accelerated. Table 1 summarizes the results.

Table 1: Change in Restaurant Employment Growth in Metro Areas with Minimum Wage Increase in 2015

Year	**Metro Area with Minimum Wage Increase in 2015**	**Rest of State**
2014	4.2%	3.4%
2015	1.6%	4.0%
Percentage Point Change	-2.7	0.6

In 2014, before the minimum wage increases, overall restaurant employment in these metropolitan areas grew 4.2 percent, while jobs grew 3.4 percent in the rest of their respective states. In direct contrast, in 2015, after these cities raised their minimum wages, restaurant employment grew consistently slower than in the rest of the states in which the cities are located. Restaurant employment in these metropolitan areas only grew 1.6 percent in 2015, while it grew 4.0 percent in the rest of the states. Overall, in 2015 restaurant employment in all of these metropolitan areas combined grew 2.7 percentage points slower than in 2014. Meanwhile in the rest of their states it grew 0.6 percentage point faster. This shift indicates that despite restaurant job growth accelerating in the states where these metropolitan areas are located, restaurant employment growth in the metropolitan areas with minimum wage hikes still suffered.

Likely worsening the effect on job growth, a number of these cities boosted the “tipped” minimum wage by eliminating the tip credit. While intended to boost pay for tipped workers, eliminating the tip credit does not make the most vulnerable better off. Under all labor laws, between cash wages and tips, tipped workers are already guaranteed at least the same minimum wage as everyone else. If the combination of a worker’s tips and the cash wages received by the employer is less than the entire minimum wage, the employer must make up the difference, guaranteeing that all tipped workers make at least the full minimum wage. For the lowest earning tipped workers, eliminating the tip credit makes little difference in their take-home pay. Thus, removing the tip credit only places another burden on restaurant businesses without improving the livelihoods of low-income workers. This likely leads businesses to further cut hours, jobs, or hiring.[30]

Finally, independent research on Seattle’s $15 per hour minimum wage demonstrates that the new law has been destructive for the city’s low-wage workers. University of Washington (UW) researchers—hired by the Seattle City Council to analyze the new law—found that the minimum wage increase caused 6.8 percent of low-wage workers to lose their jobs, meaning that 10,000 workers in Seattle have lost their jobs.[31] In a follow up study, the UW researchers found that Seattle also experienced an 8 percent reduction in job turnover and a significant decline in hiring.[32]

A $15 per Hour Minimum Wage Would Do Little to Help Low-Income Workers, and May Even Make Them Worse Off

Evidence on the federal and local level indicates that raising the minimum wage is an ineffective way to assist low-income workers. Hourly wages do not effectively identify economic well-being, as minimum wage workers are from families across the income distribution. While some minimum wage workers are in poverty, the vast majority are not. For instance, 80 percent of those who make the federal minimum wage of $7.25 per hour are not in poverty. Meanwhile, over one-third of minimum wage workers are young adults who still live with their parents. The incomes of those families average more than $100,000.[33]

Thus, raising the federal minimum wage to $15 per hour would result in significant job loss in order to provide minimal benefits to low-income workers. When examining the effect of raising the federal minimum wage to $15 per hour, the AAF-Manhattan Institute study found that only 6.7 percent of the net change in wage earnings would go to workers in poverty, according to the middle estimate. Twice as much, 14.7 percent, would go to workers with family incomes over six-times the poverty threshold.[34] Consequently, at best, a $15 per hour minimum wage will only marginally help low-income workers.

At worst, however, evidence indicates that the job losses from increasing the federal minimum wage, particularly all the way to $15 per hour, could cause low-wage workers' earnings, on net, to *decline*. For instance, a 2014 study by Jeffrey Clemens and Michael Wither examined what happened to low-wage workers the last time the federal government raised its minimum wage—from $5.15 per hour in 2007 to $7.25 per hour in 2009.[35] Using data from the Survey of Income and Program Participation, they focused on how the minimum-wage hike affected employment and income among those whom the minimum wage hike affected most: low-wage workers earning below $7.50 per hour.

Clemens and Wither found that the job losses among these low-wage workers were so severe that their earnings, on net, declined. From 2006 to 2012, employment in this group fell by 8 percent, translating to about 1.7 million jobs. The minimum-wage hike also increased the probability of working without pay (e.g., unpaid internships) by 2 percentage points. Most important, the reduction in employment and paid work caused net average monthly incomes for low-wage workers to fall by $100 during the first year after the minimum wage increase and by an additional $50 in the following two years.

Evidence also indicates that in addition to costing 10,000 low-wage workers their jobs, Seattle's $15 per hour minimum wage caused work hours among low-wage workers to fall by so much that their monthly earnings declined. In particular, the 2017 UW study concluded that Seattle's minimum wage increase boosted the average wage rate among low-wage workers by just 3.1 percent or $0.44 per hour. Unfortunately, this modest wage increase was entirely offset by declines in work hours. The UW researchers find that Seattle's minimum wage law has caused low-wage work hours to decline by 9.4 percent. Consequently, even among the low-wage workers who are still employed and earn slightly higher wages, their average monthly earnings, on net, declined by $125 per month because they lost so many work hours. When combining the lost work hours with the 10,000 lost jobs, the 2017 UW study concluded that Seattle's $15 minimum wage law *reduced* total income paid to the city's low-wage workers by $120 million per year.[36], [37]

UW's 2018 follow up study on Seattle further highlights just how little the city's $15 per hour minimum wage law helped workers.[38] The 2018 study found that among the workers who were are already employed before the city's minimum wage rose, earnings rose by only $8 to $12 per week. Sadly, one-quarter of those additional earnings came from Seattle workers finding additional jobs outside the city. Finally, the entirety of those wage increases went to workers with the most experience. Those with "below median" experience saw no increase in earnings. This latest UW study highlights that the workers who faired the best through Seattle's minimum wage increase experienced marginal benefits at best.

Conclusion

With strong job creation, workers coming back to the labor force, and wages rising, the U.S. labor market is in the midst of a period of profound growth. More than doubling the federal minimum wage to $15 per hour, however, could impose job loss so severe that it sets the labor market back several years. At best, a $15 per hour federal minimum wage would provide minimal assistance to low-income workers. At worst, however, the labor market consequences could be so severe that earnings among low-wage workers could, on net, decline.

Notes

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