

# THE IMPACT OF A \$15 MINIMUM WAGE

## UP TO 2 MILLION LOST JOBS

Speaker Nancy Pelosi boasted that a \$15 minimum wage would pass “in the first 100 hours” of a new Democratic-controlled Congress. It might be good politics, but is a \$15 minimum wage good economics? This month, the Employment Policies Institute released its first-ever book on the \$15 minimum wage, “*Fighting \$15: An Evaluation of the Evidence and a Case for Caution.*”

This policy brief summarizes key takeaways from the book regarding the employees and businesses impacted by the policy. A full copy of the book can be downloaded at [EPIOnline.org](http://EPIOnline.org).

### A \$15 MINIMUM WAGE WILL HAVE SIGNIFICANT NEGATIVE EMPLOYMENT IMPACT

Proponents argue that minimum wage increases help low-income families achieve a sufficient level of income. In reality, a higher minimum wage forces the government to create winners and losers, increasing wages for some at the cost of fewer jobs for others.

In 2014, the nonpartisan Congressional Budget Office (CBO) estimated that 500,000 jobs would be lost nationwide if the federal minimum wage were raised to \$10.10, and 100,000 would be lost if it were raised to \$9.<sup>1</sup> In 2018, economists from Miami and

Trinity Universities used this CBO methodology and found that a bill to raise the federal minimum wage to \$15 would reduce employment by roughly two million jobs if implemented in 2020.<sup>2</sup>

#### JOB LOSS BY STATE FROM \$15 IN 2020

AK	2,892	MT	8,412
AL	44,823	NC	91,802
AR	20,130	ND	5,359
AZ	23,753	NE	17,654
CA	71,287	NH	11,362
CO	12,007	NJ	45,700
CT	15,531	NM	19,015
DC	0	NV	24,957
DE	6,260	NY	45,031
FL	145,653	OH	88,601
GA	95,978	OK	37,771
HI	5,952	OR	10,480
IA	32,652	PA	122,640
ID	17,917	RI	4,944
IL	95,507	SC	41,722
IN	64,130	SD	6,014
KS	28,002	TN	66,313
KY	42,216	TX	269,104
LA	46,490	UT	31,359
MA	12,109	VA	65,138
MD	23,892	VT	2,072
ME	4,987	WA	8,273
MI	57,448	WI	64,026
MN	26,558	WV	12,748
MO	48,389	WY	4,902
MS	30,851	Total	2,080,812

Even a longer phase-in for \$15 would have a severe employment impact on the entry-level job market. For instance, a phase in of \$15 by 2026 would still eliminate

<sup>1</sup> <https://www.cbo.gov/publication/44995>

<sup>2</sup> Full methodology for calculating affected workers is included in the Chapter 2 of *Fighting \$15?*. This estimate assumes immediate implementation of \$15 in 2020. A phase-in for \$15 would reduce these figures somewhat on account of natural wage growth, as well as the implementation of state-specific \$15 policies. This does not include the employment impact of eliminating the tipped wage, as some in Congress have proposed.

more than 850,000 jobs, again following the CBO methodology.

## **THERE'S NO PRECEDENT FOR A \$15 MINIMUM WAGE**

The Service Employees International Union popularized the \$15 wage rate in 2012 as a part of the “Fight for \$15.” The figure, however, was not based on economics. According to a candid statement from a union organizer, “Ten dollars was too low and \$20 was too high, so we landed at \$15.”<sup>3</sup>

A \$15 minimum wage would represent a historically radically wage mandate. Over the federal minimum wage’s 80-year history, it has been an average of \$7.40 an hour, slightly higher than the current federal standard of \$7.25.<sup>4</sup>

*In 2015, just 3.3 percent of all hourly workers earned the federal minimum wage or less.*

A \$15 minimum wage would also cause a remarkable compression of the wage distribution among hourly workers. In 2015, only 2.6 million workers, or 3.3 percent of all the hourly workers in the U.S., earned the minimum wage or less. At a \$15 minimum wage, nearly 44 percent of all hourly workers would earn the federal minimum wage. This is compared to a range of approximately 1.5 to 4 percent of hourly workers of the past two decades.

## **A \$15 MINIMUM WAGE WILL HAVE LARGER EFFECT ON SMALL BUSINESSES**

While larger businesses have been the target of the

Fight for \$15 campaign, it’s smaller businesses that are more likely to employ workers earning the relevant state minimum wage. As of 2015, 2.6 percent of employees at businesses with fewer than 10 employees earned the minimum wage, compared to 2.4 percent at businesses with 10-99 employees, and 1.5 percent at businesses with 100 or more employees.

## **A \$15 MINIMUM WAGE IS NOT WELL-TARGETED TO WORKERS IN POVERTY**

Recent results from studies using publicly available data show little evidence that minimum wage increases are an effective anti-poverty tool.

Many poor individuals do not work and are therefore unlikely to benefit from minimum wage increases. In 2014, just 35 percent of individuals living in households with incomes under the federal poverty line were employed at any point during the year.<sup>5</sup> Furthermore, the majority of individuals who would be affected by a \$15 minimum wage are non-poor. For example, 48.4 percent of those who would be affected by a \$15 minimum wage live in households with incomes over three times the federal poverty line. The average family income of a beneficiary is \$56,982.

Empirical evidence shows that past state and federal minimum wage increases have not led to reductions in means-tested public program participation and public expenditures on these programs.<sup>6</sup>

## **EMPLOYEES WHO EARN THE MINIMUM WAGE ARE DISPROPORTIONATELY YOUNG**

While just 11 percent of all hourly workers are age 16-21, 36 percent of hourly workers who earn the federal minimum wage fall in this age range. This

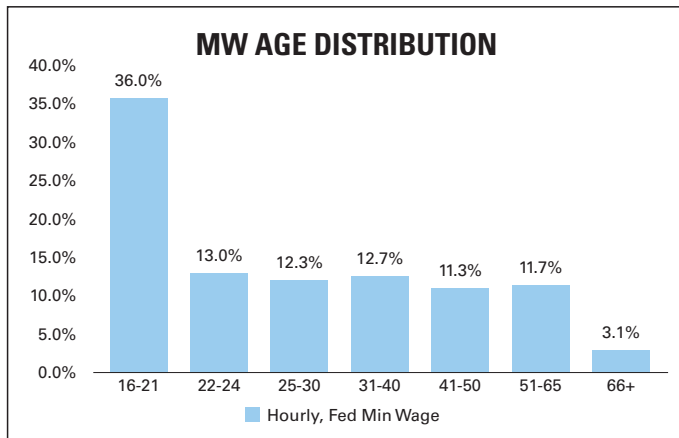
<sup>3</sup> <https://mattastinlaborlaw.com/2017/06/29/fight-for-15-leader-paid-146000-to-fight-not-protest/>

<sup>4</sup> <https://www.wsj.com/articles/a-15-minimum-wage-goes-national-1542918020>

<sup>5</sup> “Fighting \$15? An Evaluation of the Evidence and a Case for Caution”

<sup>6</sup> [https://www.epionline.org/wp-content/uploads/2016/01/EPI\\_MW\\_GovtAssist\\_Study\\_V2-5.pdf](https://www.epionline.org/wp-content/uploads/2016/01/EPI_MW_GovtAssist_Study_V2-5.pdf)

trend also applies across all states, regardless of their relevant minimum wage. In 2015, 12.8 percent of all workers aged 16-19 were paid the relevant state-specific minimum wage, compared to just 1.1 percent of workers aged 25 and over. These employees also tend to be less-educated: Just three-tenths of one percent of employees with at least a bachelors degree earn the relevant state minimum wage.



Source: Bureau of Labor Statistics

## ENTRY-LEVEL EMPLOYEES ARE NOT STUCK AT THE MINIMUM WAGE

In 2004, economists William Even and David Macpherson used Census Bureau data to find that about two-thirds of minimum wage workers earn a raise within their first year of employment.<sup>7</sup> In 2013, economists with Texas A&M used the same data source to see if their findings still held up ten years later. Their results showed that a majority of employees who remain in the workforce - 65.85 percent - earn a raise within a year.<sup>8</sup>

## MOST TIPPED EMPLOYEES DON'T SUPPORT TIP CREDIT ELIMINATION

Tipped employees are guaranteed the same minimum wage as all other employees, and typically earn far more; they report earning over \$14 an hour on average, with top earners bringing in \$24 an hour or more.

A survey of hundreds of restaurant employees found that 97 percent preferred the current system of a base wage and tips to a no-tipping alternative. This may be because, as the Census Bureau found, “tips per hour appear to decrease in response to higher tipped minimum wages.”<sup>9</sup>

Employees and their employers lose when it comes to increasing the tipped minimum wage. In the San Francisco Bay Area, which doesn't allow a tip credit, economists from Harvard Business School identified a 14 percent increase in restaurant closures associated with each one-dollar increase in the base wage for tipped employees.<sup>10</sup>

Proponents of eliminating the tip credit have suggested that it's linked to increase rates of sexual harassment. The data doesn't support this: According to the Equal Employment Opportunity Commission, which tracks restaurant industry sexual harassment by state, the percentage of harassment claims originating from the restaurant industry is nearly-identical in states without a tip credit and those that follow the federal standard.<sup>11</sup>

## MOST ECONOMISTS OPPOSE A \$15 MINIMUM WAGE

A December 2015 report from the Federal Reserve Bank of San Francisco looked into the latest research

<sup>7</sup> [http://www.epionline.org/studies/macpherson\\_06-2004.pdf](http://www.epionline.org/studies/macpherson_06-2004.pdf); <https://www.heritage.org/jobs-and-labor/report/minimum-wage-workers-incomes-rise-when-the-minimum-wage-does-not>

<sup>8</sup> [http://econweb.tamu.edu/jmeer/Meer\\_West\\_Minimum\\_Wage.pdf](http://econweb.tamu.edu/jmeer/Meer_West_Minimum_Wage.pdf)

<sup>9</sup> <https://www.census.gov/content/dam/Census/library/working-papers/2016/adrm/carra-wp-2016-03.pdf>

<sup>10</sup> <https://www.yelpblog.com/2017/04/yelp-data-shows-economic-impact-minimum-wage-increase-harvard-study>

<sup>11</sup> <https://www.minimumwage.com/2018/06/eoc-data-debunks-claimed-link-between-tip-credits-and-sexual-harassment/>

<sup>12</sup> <https://www.frbsf.org/economic-research/publications/economic-letter/2015/december/effects-of-minimum-wage-on-employment/>

on minimum wage hikes and found that “[The] overall body of recent evidence suggests that the most credible conclusion is a higher minimum wage results in some job loss for the least-skilled workers...”<sup>12</sup>

A survey conducted by the University of New Hampshire Survey Center found that three quarters of these U.S. based economists oppose a \$15 federal minimum wage. Economists’ major concerns over a \$15 minimum wage revolve around how it will impact young people (83 percent of economists believe it will have a negative impact on youth employment) and small businesses.<sup>13</sup>

**83 percent of economists believe it will have a negative impact on youth employment.**

Georgetown University professor Harry Holzer, one of Bill Clinton’s top economic advisers, has called a \$15 minimum wage “extremely risky,” and cautioned that \$15 “would be bad news for the very low-skill workers the higher minimum wage is designed to help.”<sup>14</sup>

Former chairman of President Obama’s Council of Economic Advisers, Alan Krueger, has also expressed skepticism surrounding the Fight for \$15: “The push for a nationwide \$15 minimum wage strikes me as a risk not worth taking.”<sup>15</sup>

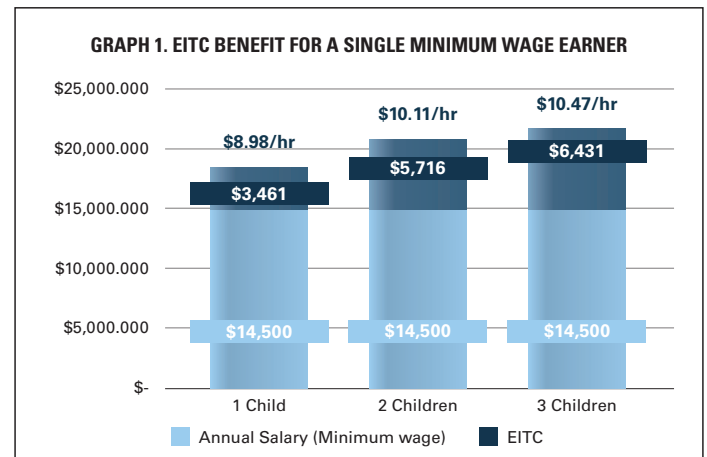
## THERE ARE BETTER ALTERNATIVES TO A \$15 MINIMUM WAGE

Surveyed economists were much more optimistic about the ability of the Earned Income Tax Credit to

increase (EITC) the income needs of poor families (71 percent) compared to a \$15 minimum wage mandate (5 percent).

The EITC directly supplements entry-level employees’ incomes through the tax code, rather than a mandate on employers. Economists at San Diego State University and the University of Georgia conclude that each one percent increase in state-level EITC is associated with a one percent drop in state poverty rates. No such relationship was found between minimum wage hikes and poverty rates.<sup>16</sup>

Thanks to the EITC, the effective federal minimum wage for a single parent with two children is already above \$10 an hour. State-level supplements to the EITC raise this figure even higher.



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<sup>13</sup> [https://www.epionline.org/wp-content/uploads/2015/11/Nov2015\\_EPI\\_MinWageSurvey4.pdf](https://www.epionline.org/wp-content/uploads/2015/11/Nov2015_EPI_MinWageSurvey4.pdf)

<sup>14</sup> <https://www.brookings.edu/opinions/a-15-hour-minimum-wage-could-harm-americas-poorest-workers/>

<sup>15</sup> <https://www.nytimes.com/2015/10/11/opinion/sunday/the-minimum-wage-how-much-is-too-much.html?smid=tw-share>

<sup>16</sup> <https://news.uga.edu/minimum-wage-increases-dont-reduce-hardship/>

<sup>17</sup> <https://www.eitc.irs.gov/>