

CONGRESSIONAL TESTIMONY

Perspectives from Main Street: Raising the Wage

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Rachel Greszler

Research Fellow in Economics, Budgets, and Entitlements
The Heritage Foundation

My name is Rachel Greszler. I am a Research Fellow in Economics, Budgets, and Entitlements at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

In my testimony today, I would like to start off by looking at who earns the minimum wage and examining the basic economics of minimum wages. I would then like to walk through the unintended consequences of an unprecedented \$15 federal minimum wage with a specific focus on who would be most negatively affected; consider some of the main street examples of affected individuals and employers; and then

propose a few alternative ways to help increase workers' incomes without hurting others.

Who Earns the Minimum Wage?

Although more than half of American workers start out earning within one dollar of the minimum wage, very few workers earn the minimum wage for long.¹ That is because the minimum wage functions as a stepping stone into the work world and higher-wage jobs.. Not surprisingly, two-thirds of minimum-wage workers receive a raise within a year of being hired.²

Teenagers are by far the most likely to earn the minimum wage. Teens make up fewer than 6

¹ James Sherk, "Most Minimum-Wage Jobs Lead to Better-Paying Opportunities," Heritage Foundation *Issue Brief* No. 4131, January 21, 2014, <https://www.heritage.org/jobs-and-labor/report/most->

[minimum-wage-jobs-lead-better-paying-opportunities#_ftn4](#).

² Ibid.

percent of all hourly paid workers, but account for 17 percent of all workers earning the minimum wage.³ Workers ages 20 to 24 account for 26 percent of minimum-wage earners.

Part-time workers are five times more likely than full-time workers to make the minimum wage, and workers with less education are more likely to earn the minimum wage.⁴

There are fewer workers earning the minimum wage today than at any point since 1979 when the Bureau of Labor Statistics began collecting data on minimum-wage earners. Even as the number of workers increased by nearly 60 percent between 1979 and 2019, the number of minimum-wage earners fell by 90 percent.⁵

There has been a steep decline—of roughly 65 percent to 80 percent—in the number of minimum-wage earners since 2010. In part, this is because the relative value of the minimum wage declined by about 15 percent since 2010. Minimum-wage increases at the state and local level have also contributed to fewer workers earning the federal minimum wage, but pro-

growth policies have played a significant role as well. The strong economy and record-low unemployment leading up to the COVID-19 pandemic required employers to compete for workers, including raising wages and investing in workplace education and training, and they had the means to do so in part because of lower taxes and fewer unnecessary regulations. Consequently, low-wage workers received the largest income gains: between 2016 and 2019, the wages of workers at the 10th percentile of earners (those making about \$10 to \$11 per hour) increased by 14.6 percent.⁶

According to the most recent data from the Bureau of Labor Statistics, 392,000 workers made the prevailing federal minimum wage of \$7.25 in 2019. These workers represent 0.48 percent of hourly paid workers and 0.25 percent of all workers—the equivalent of one out of every 400 workers in the economy.⁷ Another 1.2 million individuals—1.5 percent of hourly paid workers and 0.76 percent of all workers—earn wages below \$7.25, but these are mostly tipped-wage positions that typically result in workers earning well over the minimum wage (and if they do not, employers

³ U.S. Bureau of Labor Statistics, “Characteristics of Minimum Wage Workers, 2019,” Table 7. Wage and salary workers paid hourly rates with earnings at or below the prevailing federal minimum wage, by age and gender, 2019 annual averages, <https://www.bls.gov/opub/reports/minimum-wage/2019/home.htm> (accessed February 19, 2021).

⁴ Ibid., Table 9. Wage and salary workers paid hourly rates with earnings at or below the prevailing federal minimum wage, by usual hours worked per week on primary job, 2019 annual averages, and Table 6. Wage and salary workers paid hourly rates with earnings at or below the prevailing federal minimum wage, by educational attainment, 2019 annual averages.

⁵ In 1979, 3.997 million workers earned the prevailing federal minimum wage, compared to 392,000 in 2019. U.S. Bureau of Labor Statistics, “Characteristics of Minimum Wage Workers, 2019,” Table 10. Wage and salary workers paid hourly rates with earnings at or below prevailing federal minimum wage, by gender, 1979–2019 annual averages, <https://www.bls.gov/opub/reports/minimum-wage/2019/home.htm> (accessed February 19, 2021).

⁶ The median usual weekly earnings of workers at the 10th percentile of the wage distribution—those making about \$10 to \$11 per hour—increased by 14.6 percent (from \$397/week to \$455/week) between 2016 and 2019. Data available for download from U.S. Bureau of Labor Statistics, “Data Retrieval: Labor Force Statistics—Table 5. Quartiles and selected deciles of usual weekly earnings of full-time wage and salary workers by selected characteristics, not seasonally adjusted,”

<https://www.bls.gov/webapps/legacy/cpswktab5.htm> (accessed February 1, 2021).

⁷ In December 2019, there were 158.735 employed workers in the U.S. economy. As a percentage of wage and salary workers, the 392,000 making the minimum wage represent 0.28 percent. U.S. Bureau of Labor Statistics, “Characteristics of Minimum Wage Workers, 2019,” Table 10. Wage and salary workers paid hourly rates with earnings at or below prevailing federal minimum wage, by gender, 1979–2019 annual averages.

must bring workers' wages up to \$7.25 per hour).⁸

While the Bureau of Labor Statistics does not report minimum-wage data by parental status, some other sources provide evidence that hardly any single parents earn the minimum wage. According to a 2017 report by the Government Accountability Office, only 0.15 percent of workers in the U.S. are single parents earning at or below the minimum wage, and an even smaller 0.07 percent of workers are single parents living in poverty while earning at or below the minimum wage.⁹

In reality, however, *no* single parent earns the minimum wage—because the Earned Income Tax Credit (EITC) increases parents' earnings by 34 percent to 45 percent, depending on their number of children. That brings a \$7.25 minimum wage to between \$9.72 and \$10.51 in 2021, and it raises a \$10 wage to as much as \$14.50 per hour. Because the EITC phases out as workers earn more, some of the potential income gains from a \$15 minimum wage would be offset through lower tax credits. Moreover, a \$15 minimum wage could reduce the benefits of additional work and income gains by lowering some parents' marginal wages (the amount they earn on an additional hour of work). For example, a single mother with three children working part-time at \$10 per hour receives a marginal wage of \$14.50 per hour after the EITC, but an increase to \$15 per hour would cause her after-EITC marginal wage to fall to \$11.84 per hour.¹⁰

⁸ Combined, 1.0 percent of all employed workers earned the, or below the, federal minimum wage in 2019. As a percentage of workers paid at hourly rates, 1.9 earned the, or below the, federal minimum wage in 2019.

⁹ In December 2016, total employment was 152.157 million according to the Bureau of Labor Statistics. The GAO reported that 222,000 single-parent families were earning the, or below the, minimum wage, and that 106,000 single-parent families living in poverty were

Basic Economics: What Are the Effects of Minimum Wages?

One of the first lessons taught in an economics class is that if you raise the price of something, people demand less of it. A basic supply-and-demand graph demonstrates that when policymakers set a wage above the market rate, workers are willing to supply more labor, while employers demand less of it, creating an oversupply of workers and undersupply of jobs, as well as a deadweight loss to society resulting from lower total output.

While no one can know the business models of more than 30 million unique businesses across the U.S., one can understand household finances. If our rent or mortgage payments were set to double over the next four years, most of us would have to drastically cut back on other expenses, find a new source of income, or move to a smaller home. People already living in low-cost housing would have few options; most would probably move in with family or friends, and some would end up homeless.

Employers are no different; they cannot have their labor costs increase by up to 100 percent without significant disruptions—or total upheaval—to their operations. Employers' responses to a \$15 federal minimum wage will vary depending on their industries and unique circumstances, but their options include: eliminating positions, cutting employee hours (limiting hours to below 30 per week would eliminate Obamacare penalties), reducing

earning the, or below the, minimum wage. U.S. Government Accountability Office, "Low-Wage Workers: Poverty and Use of Selected Federal Social Safety Net Programs," GAO-17-677, September, 2017, <https://www.gao.gov/assets/690/687314.pdf> (accessed February 19, 2021).

¹⁰ Example shown is for a single mother with three children, working 26 hours per week at a wage of \$10 per hour.

benefits, automating or outsourcing jobs, or closing down.

Restaurants are one example of businesses that would be most affected by a mandatory \$15 minimum wage, as it would require a 600 percent increase in the tipped minimum wage, from \$2.13 to \$15. According to a February 2021 survey by the National Restaurant Association, the Raise the Wage Act of 2021 would cause 98 percent of restaurants to increase prices, 84 percent to cut jobs from normal levels, 84 percent to reduce hours from normal levels, 75 percent to reduce benefits from normal levels, and 65 percent to add equipment or technology to reduce the need for employees—all just in order to remain in business.¹¹

While industries and businesses that do not employ low-wage workers may not be directly affected, they may still be subject to cost increases for their inputs as well as wage pressure. In order to attract and retain the workers they need, employers have to maintain a hierarchy of wages based on experience and productivity—they cannot pay shift managers the same rate as entry-level workers. This is why the Congressional Budget Office (CBO) estimated that in addition to the 17 million workers who currently make below \$15 per hour, 10 million workers who make slightly above \$15 per hour would also experience wage increases.¹²

Unprecedented Increase: Even Liberal Economists Caution Against a \$15 Minimum Wage

¹¹ National Restaurant Association, “Minimum Wage Impact Survey,” February 2021, <https://restaurant.org/downloads/pdfs/advocacy/minimum-wage-impact-survey-february-2021.pdf> (accessed February 21, 2021).

¹² Congressional Budget Office, “The Budgetary Effects of the Raise the Wage Act of 2021,” February 8, 2021, <https://www.cbo.gov/system/files/2021-02/56975-Minimum-Wage.pdf> (accessed February 21, 2021).

The federal government has never implemented such a massive, 107 percent, increase in the minimum wage. While studies of past, smaller increases provide insight into the likely impacts, the magnitude of the increase is likely to cause widespread upheaval in the labor market and entire economy, potentially far beyond expectations.

This is why even liberal economists have cautioned against a \$15 per hour minimum wage. As Alan Krueger, former chair of President Barack Obama’s Council of Economic Advisers, and a Princeton economist, warned:

*A \$15-per-hour national minimum wage would put us in uncharted waters, and risk undesirable and unintended consequences... [T]he push for a nationwide \$15 minimum wage strikes me as a risk not worth taking.*¹³

Harry Holzer, chief economist at the Department of Labor under President Bill Clinton, and a Georgetown University professor and senior researcher affiliated with the Brookings Institution, warned that:

*[S]uch increases are extremely risky. In job markets where young or less-educated workers already have difficulty finding jobs and gaining important work experience, such mandates will likely make it much harder... Many employers will be very reluctant to pay high wages to workers whose skills—including the ability to speak English, in the case of many immigrants—are so modest.*¹⁴

¹³ Alan B. Krueger, “The Minimum Wage: How Much Is Too Much?” *The New York Times*, October 9, 2015, <http://www.nytimes.com/2015/10/11/opinion/sunday/the-minimum-wage-how-much-is-too-much.html> (accessed February 21, 2021).

¹⁴ Harry J. Holzer, “A \$15-hour Minimum Wage Could Harm America’s Poorest Workers,” *Fortune*, July 30, 2015, <https://fortune.com/2015/07/30/1223726-15->

Job Losses

Many economic studies have examined the impacts of minimum-wage increases over time and across locations. While some studies have shown minimal or no job losses, these studies have often been limited in nature. For example, a study of Seattle’s minimum-wage increase did not find substantial net employment effects, but it did find that the higher minimum wage pushed less-experienced and less-educated workers out of the city limits to find employment and also reduced employment opportunities among new job seekers.¹⁵

A more comprehensive analysis of the entire set of economic studies on minimum wages since the early 1990s, published in January 2021 by the National Bureau of Economic Research, concluded that “there is a clear preponderance of negative estimates,” with the negative employment effects strongest for directly affected workers (those with wages below the new minimum), and most especially teens, young adults, and the less educated.¹⁶

The CBO has also provided two recent analyses of the impact of a \$15 minimum wage.¹⁷ The latest CBO analysis estimated that the Raise the Wage Act would reduce employment by 1.4 million, on average, but

noted that “responsiveness is unlikely to be much lower than CBO’s median estimate...but it could be much higher,” including 2.7 million or more job losses.¹⁸

The history of minimum-wage policies and laws affirms the reality that minimum wages eliminate jobs. The late economist Walter Williams said, “In all of my research, I show that the minimum wage is one of the most effective tools in the arsenal of racists everywhere in the world.”¹⁹ He noted that in South Africa, “the major supporters for minimum wages for blacks were white, racist, labor unions that would never have a black as a member.”²⁰ Although attempts to increase minimum wages in the U.S. lack racial motivation (and supporters have even claimed that they would reduce racial disparities) Williams aptly noted that “intentions have no effect on outcomes.”²¹

Similarly, Milton Friedman said in 1966: “I am convinced that the minimum-wage law is the most [anti-black] law on our statute books—in its effect not its intent.”²² He noted that while unemployment rates for black and white teenage boys had been similar prior to 1956, in the range between 8 percent and 11 percent, the unemployment rate for black teenage boys had shot up to 24 percent and that of white teenage boys to 14 percent after the 1956 minimum-

[hour-minimum-wage-workers-fast-food/](#) (accessed February 21, 2021).

¹⁵Ekaterina Jardim et al., “Minimum Wage Increases and Individual Employment Trajectories,” NBER *Working Paper* No. 25182, October 2018, https://www.nber.org/system/files/working_papers/w25182/w25182.pdf (accessed February 21, 2021).

¹⁶David Neumark and Peter Shirley, “Myth or Measurement: What Does the New Minimum Wage Research Say About Minimum Wages and Job Losses in the United States?” NBER *Working Paper* No. 28388, January 2021, https://www.nber.org/system/files/working_papers/w28388/w28388.pdf (accessed February 21, 2021).

¹⁷ Congressional Budget Office, “The Effects on Employment and Family Income of Increasing the Federal Minimum Wage,” July 2019, <https://www.cbo.gov/system/files/2019-07/CBO-55410-MinimumWage2019.pdf> (accessed February 21, 2021).

¹⁸Congressional Budget Office, “The Budgetary Effects of the Raise the Wage Act of 2021.”

¹⁹Walter E. Williams, “Walter E. Williams—Minimum Wage as a Racist Tool,” YouTube, June 3, 2011, https://www.youtube.com/watch?v=RUBK9_4OQIs (accessed February 20, 2021).

²⁰ Ibid.

²¹ Ibid.

²² Milton Friedman, “Minimum-Wage Rates,” *Newsweek*, September 26, 1966, available in Robert Lesson and Charles G. Palm, eds., *The Collected Works of Milton Friedman, 1933–2015*, https://miltonfriedman.hoover.org/friedman_images/Collections/2016c21/NW_09_26_1966.pdf (accessed February 20, 2021).

wage increase from \$0.75 to \$1.00 per hour (and unemployment rates remained high for both Black and white teens).²³

It is simply impossible to create hundreds of billions of dollars of additional income each year through a government mandate—if that were possible, why not mandate a \$50 minimum wage? Government mandates cannot increase total income—they can only redistribute it, including by taking away jobs and incomes, primarily from the lowest-skilled, least-experienced workers.

Increased Automation

When workers become more expensive to employ, companies have a greater incentive to invest in machinery to eventually replace employees. Most of us have experienced fast food restaurants and grocery stores that have replaced cashiers with self-service kiosks. The CBO included this effect in its analysis of minimum-wage increases, noting that some employers will respond to that higher cost by replacing low-income workers with machines.²⁴

Automation is an ongoing process that has been at work for centuries. Organic automation is not a bad thing, but an artificially expedited increase in the level and pace of automation will increase the number of displaced workers and the unemployment rate.

²³ Ibid.

²⁴ Congressional Budget Office, “The Effects on Employment and Family Income of Increasing the Federal Minimum Wage.

²⁵ Bureau of Labor Statistics, “Employer Costs for Employee Compensation—September 2020,” released December 17, 2020, <https://www.bls.gov/news.release/pdf/ecec.pdf> (accessed February 20, 2021).

Reduced Workplace Benefits

Employers consider the total cost of employee compensation when making employment decisions. Wages are a large part of compensation, but not the entire picture—according to the most recent data, non-wage benefits account for 30 percent of employers’ costs for employee compensation.²⁵

Thus, employers may choose to cut back on benefits like health insurance, 401(k) contributions, paid leave, educational subsidies, and on-the-job training. While low-wage workers are less likely to have access to some of those benefits, employers could save significantly by reducing or eliminating health insurance benefits; and cutting employee hours to fewer than 30 per week could save employers \$2,700 per year, per employee, in Obamacare penalties.

Price Increases

One of the most widespread impacts of a \$15 federal minimum wage will be higher prices on many goods and services that consumers buy. A Heritage Foundation report estimated that a \$15 minimum wage would cause fast-food prices to rise by 38 percent.²⁶

When New York City increased its minimum wage by \$2, from \$13 to \$15 (much smaller than the proposed \$7.75 federal increase), 86 percent of restaurants reported increasing their prices in response.²⁷ In turn, since price increases reduce customer demand, 40 percent of those restaurants reported losing repeat

²⁶ James Sherk, “Higher Fast-Food Wages: Higher Fast-Food Prices,” Heritage Foundation *Issue Brief* No. 4272, September 4, 2014,

<https://www.heritage.org/jobs-and-labor/report/higher-fast-food-wages-higher-fast-food-prices>.

²⁷ NYC Hospitality Alliance, “Rising Labor Costs Survey,” 2019, <https://thenycalliance.org/assets/documents/information-items/021Ib.pdf> (accessed February 21, 2021).

customers as a result of price increases. When business declines, fewer workers are needed.²⁸

While it is true that many lower-wage workers who would be fortunate enough to keep their jobs with a \$15 minimum wage would receive higher incomes, part of those gains would be wiped out by higher prices.

Who Is Hurt the Most by High Minimum Wages?

While the consequences of a \$15 national minimum wage would be widespread, they would be disproportionate across the U.S.

Teens and Workers with Low Education. A \$15-per-hour minimum wage translates into at least \$36,000 in costs for employers, after taxes and mandated benefits. Many workers in the U.S. do not yet have the capability to produce \$36,000 in value per year, and mandating that employers pay them this much could prevent them from gaining the experience and education they need to become more productive.

As economist James Tobin, a member of President John F. Kennedy's Council of Economic Advisers, explained more than a

half-century ago, people who are not yet capable of certain wage levels

*will not be helped by minimum-wage laws, trade-union wage pressures or other devices which seek to compel employers to pay them more than their work is worth. The more likely outcome of such regulations is that the intended beneficiaries are not employed at all.*²⁹

Economic studies show that minimum wages have the worst consequences for young and less-educated workers.³⁰ A recent Mercatus Center study identified high minimum wages in some areas as the “predominant factor” in the decline in teenage employment and labor force participation over the past decades.³¹ A study by the Employment Policies Institute that examined the impact of the 40 percent increase from 2007 to 2009 in the federal minimum wage on South Carolina found that it reduced employment by 8.9 percent among teens (contributing to a 29.8 percent teen unemployment rate).³²

This is problematic because work experience at a young age not only provides income that can help to support a family, save, or pay for education, but it provides valuable lessons and

²⁸ Ibid.

²⁹ James Tobin, the U.S. Senate Committee on Labor and Public Welfare, Subcommittee on Health, September 8, 1965, p. 367.
https://books.google.com/books?id=buYFAAAIAAJ&pg=RA1-PA367&lpg=RA1-PA367&dq=%E2%80%9CPeople+who+lack+the+capacity+to+earn+a+decent+living+need+to+be+helped,+but+they+will+not+be+helped+by+minimum-wage+laws,+trade-union+wage+pressures+or+other+devices+which+seek+to+compel+employers+to+pay+them+more+than+their+work+is+worth.+The+more+likely+outcome+of+such+regulations+is+that+the+intended+beneficiaries+are+not+employed+at+all.%E2%80%9D&source=bl&ots=rHazcBS4IQ&sig=ACFu3U1yU6V0m-hGvZ7mV1sJBFZFLQyA&hl=en&sa=X&ved=2ahUKewib_orR9_juAhUOF1kFHUo4BUoQ6AEwAXoECAQQAw#v=snippet&q=not%20be%20helped&f=false

³⁰ Jeffrey Clemens, “The Minimum Wage and the Great Recession: Evidence from the Current Population Survey,” NBER Working Paper No. 21830, December 2015,

https://www.nber.org/system/files/working_papers/w21830/w21830.pdf (accessed February 21, 2021).

³¹ David Neumark and Cortnie Shupe, “Declining Teen Employment: Minimum Wages, Other Explanations, and Implications for Human Capital Investment,” Mercatus Center Working Paper, George Mason University, 2018,

<https://www.mercatus.org/system/files/neumark-teen-employment-mercatus-working-paper-v1.pdf> (accessed February 20, 2021).

³² Employment Policies Institute, “New EPI Analysis Shows Teen Unemployment Rate Averages 29.8 Percent in South Carolina,” August 2010, <https://epionline.org/release/new-epi-analysis-shows-teen-unemployment-rate-averages-29-8-percent-in-south-carolina/> (accessed February 20, 2021).

experiences that result in higher future earnings. A study by Christopher Ruhm and Charles Baum estimated that teens who held part-time jobs realized 7 percent higher future earnings than their peers who did not work.³³

Low-Education Individuals. Individuals with less education will also be disproportionately harmed by minimum-wage increases. There are 26 million American adults who lack a high school diploma, and another 71 million who have no education beyond high school.³⁴ Not only will these workers be more likely to lose their jobs with a \$15 minimum wage, but increased costs for employers could prevent them from providing on-the-job training and making other investments in their workers that help them to become more productive and earn higher incomes over time.

The Employment Policies Institute study that examined the impact of the 40 percent increase from 2007 to 2009 in the federal minimum wage on South Carolina found that it caused a 15.5 percent decline in employment among workers with less than a high school diploma.³⁵

Low-Education Single Mothers. In addition to the negative effects of low education on employment and earnings potential, the demands of being a single parent can make it even more challenging to find work that meets single parents' family needs. Another Employment Policies Institute study found that minimum-wage increases tend to produce small or no income gains for more-educated

single mothers, but that a 10 percent increase in the minimum wage resulted in a 6 percent *reduction* in employment for less-educated single mothers, a 9.9 percent decline in annual hours worked, and an 8 percent increase in welfare receipt.³⁶

Workers with Other Barriers to Employment. Individuals with disabilities, limited English skills, or criminal records would also face a more difficult time finding employment in a \$15-per-hour minimum-wage economy. The CBO report on the Raise the Wage Act noted that initially, workers who lost their jobs would keep looking for work, but that by 2025, half of workers who would lose their jobs because of the \$15 minimum wage would have dropped out of the labor force.³⁷ These unemployable workers would be predominantly young and less educated, but would also include individuals with disabilities and older workers.

All Americans deserve an opportunity to work, yet a \$15 minimum wage could create a situation in which there is no place in the formal labor market for tens of millions of Americans. While proponents of further government interventions may argue that a Universal Basic Income could fill the gap, that would not only require an excessive tax rate on working Americans, but a sedentary life reliant on government welfare programs is not what Americans want and is wholly inconsistent with this country's establishment as the land of opportunity.

³³ Charles Baum and Christopher Ruhm, "The Lasting Benefits of Early Work Experience," Employment Policies Institute, August 2014, https://epionline.org/wp-content/uploads/2014/08/EPI_LastingBenefitsofEarlyWorkExperience2.pdf (accessed February 21, 2021).

³⁴ U.S. Census Bureau, "Educational Attainment in the United States, 2019," Table 2. Educational Attainment of the population 25 years and over, by Select Characteristics, 2019, March 30, 2020, <https://www.census.gov/data/tables/2019/demo/educati>

<onal-attainment/cps-detailed-tables.html> (accessed February 20, 2021).

³⁵ Employment Policies Institute, "New EPI Analysis Shows Teen Unemployment Rate Averages 29.8 Percent in South Carolina."

³⁶ Joseph J. Sabia, "The Impact of Minimum Wage Increases on Single Mothers," Employment Policies Institute, August 2007, https://epionline.org/wp-content/studies/sabia_08-2007.pdf (accessed February 21, 2021).

³⁷ Congressional Budget Office, "The Budgetary Effects of the Raise the Wage Act of 2021."

Small Businesses and Entrepreneurs.

Businesses with fewer than 100 workers employ almost half of all minimum-wage workers, and average wages in businesses with fewer than 100 employees are half that of big businesses with 1,000 or more employees.³⁸

Smaller and younger businesses often have lower capital and less access to credit, which is incredibly important to their ability to survive and grow. Thus, they have less ability to adjust—both in the short- and long-term—to higher minimum wages.

An analysis of a “one-size-fits-all” national minimum wage found that small businesses affected by federal minimum-wage increases experienced adverse financial outcomes, causing “lower bank credit, higher loan defaults, lower employment, a lower entry and a higher exit rate for small businesses.”³⁹

A 2017 study that looked at the impact of minimum-wage increases on entrepreneurship found that “a 1% increase in the minimum wage is associated with a 3.5% decline in the survival rates of startups.”⁴⁰

There is a reason why big companies support a \$15 minimum wage after they have already achieved higher wages by automating and outsourcing their own low-value positions—it helps drive out their competition.

³⁸ Chris Edwards, “An Awful Time for a Minimum Wage Hike,” *The Hill*, February 3, 2021, <https://thehill.com/blogs/congress-blog/economy-budget/537191-an-awful-time-for-a-minimum-wage-hike> (accessed February 21, 2021).

³⁹ Chava Sudheer, Alexander Oettl, and Manpreet Singh, “Does a One-Size-Fits-All Minimum Wage Cause Financial Stress for Small Businesses?” NBER *Working Paper* No. 26523, <https://www.nber.org/papers/w26523> (accessed February 20, 2021).

⁴⁰ Iaohui Gao, “Do Minimum Wage Hikes Hinder Entrepreneurship?” Robert H. Smith School of Business, University of Maryland–College Park, February 22, 2017,

A \$15-per-hour minimum wage should be celebrated for the companies that have been able to achieve it. But while a \$15 minimum wage works for companies like Amazon, which has a \$1.67 trillion market cap and a multi-hundred-billionaire CEO, it is unlikely to work for many small businesses. That does not mean that they should be driven out of business or prevented from growing. If Amazon had had to pay the equivalent of a \$15 minimum wage when it first set up shop 24 years ago, it may not even exist today. Businesses don’t start big, and if they don’t have room to grow, they won’t start at all.⁴¹

Lower-Cost Areas: One-Size Minimum Wage Doesn’t Fit Most. America is very diverse, and costs of living vary significantly across the U.S. This is why the federal government utilizes locality-based adjustments of as much as 40 percent within its General Schedule pay scale.

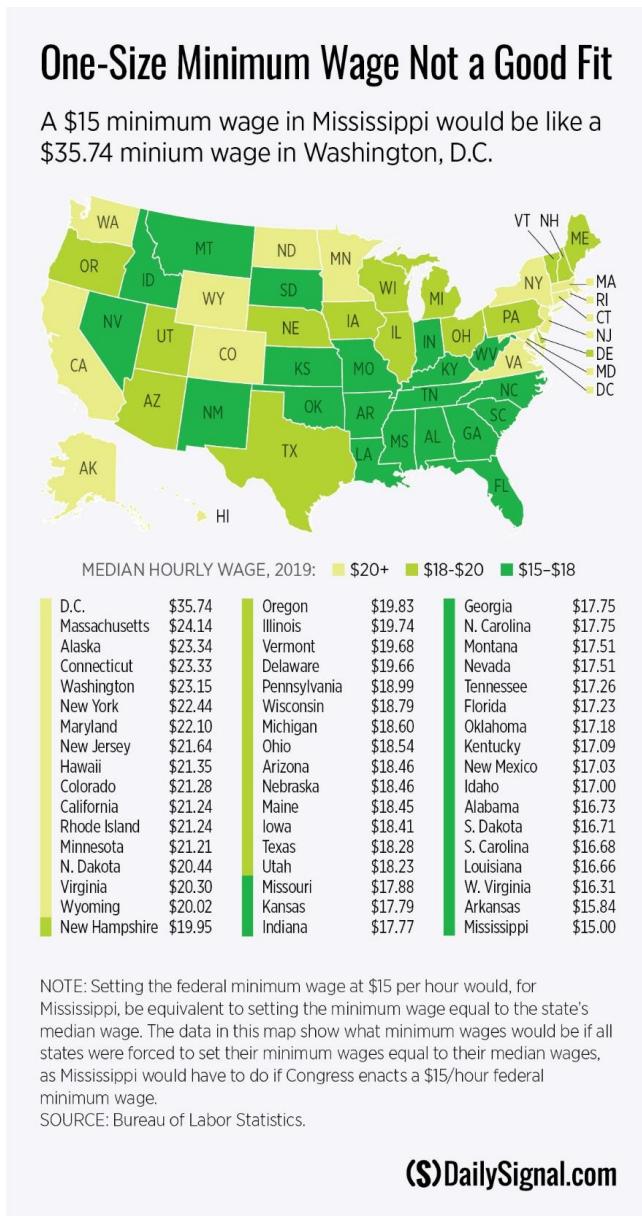
In Mississippi, for example, the median wage is \$15 per hour. Imposing a \$15 minimum wage on Mississippi would be like imposing a \$21.24 minimum wage on California, a \$24.14 minimum wage on Massachusetts, and a \$35.74 minimum wage on Washington, DC.⁴² Such a high minimum wage in DC would upend most lawmakers’ offices as many congressional staffers currently earn well

https://scholar.rhsmith.umd.edu/sites/default/files/xiaohui/files/minimum_wage_and_entrepreneurship.pdf?m=1504707392 (accessed February 21, 2021).

⁴¹ Rachel Greszler, “3 Reasons to Celebrate Amazon’s \$15 Minimum Wage and 3 Reasons to Fear a \$15 Federal Minimum Wage,” *The Daily Signal*, October 4, 2018, <https://www.dailysignal.com/2018/10/04/3-reasons-to-celebrate-amazons-15-minimum-wage-and-3-reasons-to-fear-a-15-federal-minimum-wage/>.

⁴² U.S. Bureau of Labor Statistics, “May 2019 State Occupational Employment and Wage Estimates,” Occupational Employment Statistics, <https://www.bls.gov/oes/current/oesrcst.htm> (accessed February 20, 2021).

below \$35.74 per hour—the equivalent of more than \$74,000 per year.



Puerto Rico demonstrates the consequences of an excessively high minimum wage. The federal \$7.25 minimum wage equals 72 percent of the island’s median wage of \$10.13. That has

⁴³ Rachel Greszler, “How Restrictive Labor Laws Keep Puerto Rico’s Economy Down,” Heritage Foundation *Commentary*, June 19, 2018, <https://www.heritage.org/international-economies/commentary/how-restrictive-labor-laws-keep-puerto-ricos-economy-down>.

forced many people out of employment entirely—the island has an abysmally low 40 percent labor force participation rate,⁴³ and over 40 percent of residents receive Medicaid and food stamps.⁴⁴ Already burdened with a financial crisis, still recovering from two devastating hurricanes, and continuing to struggle through the consequences of COVID-19, a \$15 minimum wage would be overwhelming for Puerto Rico.

It’s one thing if cities like Seattle and San Francisco, or even states like New York and Illinois, want to impose \$15 minimum wages on their workers and businesses. If they set minimum wages above market wages, workers and employers who are priced of the market at least have the option of going elsewhere to earn a living, and that is already happening.

According to the U.S. Census Bureau, the seven states plus DC that had passed \$15 minimum-wage laws as of 2019 averaged a net migration of -50,000 people in 2019 while the 20 states with a \$7.25 minimum wage averaged a net migration of +25,000 people.

A nationwide \$15 minimum wage would eliminate the option of moving elsewhere to earn a livelihood. That is likely why cities and states that have already raised their minimum wages to \$15 want to impose the same increases on everyone else; it reduces the competition. But states and local governments have the authority to—and many have—set their own minimum-wage laws, and the federal government should not supersede those with an excessive, one-size-fits-all \$15 minimum wage.

⁴⁴ Tracy A. Loveless, “Supplemental Nutrition Assistance (SNAP) Receipt for Households: 2018,” U.S. Census Bureau, American Community Survey Briefs, Issued June 2020, <https://www.census.gov/content/dam/Census/library/publications/2020/demo/acsbr20-01.pdf> (accessed February 21, 2021).

Burden for Working Families: Surge in Childcare Costs

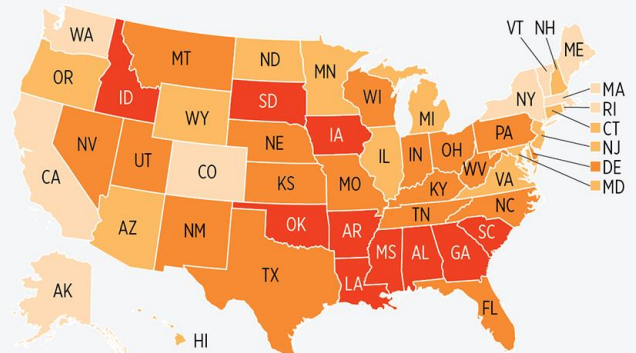
Especially hard-hit by \$15-minimum-wage price increases would be families with young children. Already, many families struggle to find childcare, especially at a cost they can afford. A \$15 federal minimum wage would increase childcare costs by an average of 21 percent across the U.S., making childcare unattainable for millions more families.⁴⁵

The median wage of childcare workers was \$11.65 per hour in 2019, so a \$15 minimum wage would require significant wage increases in many areas. Childcare providers already operate on thin margins and their hands are largely tied in terms of cutting costs because virtually every aspect of a childcare environment is strictly regulated. Moreover, automation is not an option because robots cannot take care of children.

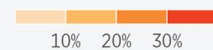
Consequently, almost the entirety of wage increases for childcare workers would be passed on to families. But cost increases would not be equal across the U.S.: Families in lower-cost areas—especially those in the South and Midwest—would experience the largest increases. Childcare prices would rise by more than 30 percent, on average, in 10 states, including a whopping 43 percent increase in Mississippi.

\$15 Federal Minimum Wage Would Increase Childcare Costs 21 Percent

Costs would rise disproportionately in lower-cost areas, with 10 states experiencing childcare cost increases of 30 percent or more.



AVERAGE PERCENTAGE INCREASE IN CHILDCARE COSTS



Alabama	35%	Montana	23%
Alaska	8%	Nebraska.....	20%
Arizona.....	13%	Nevada	25%
Arkansas	30%	New Hampshire.....	18%
California.....	7%	New Jersey	11%
Colorado.....	6%	New Mexico	25%
Connecticut	10%	New York.....	7%
Delaware.....	23%	North Carolina	23%
Florida	20%	North Dakota	17%
Georgia.....	32%	Ohio.....	22%
Hawaii	11%	Oklahoma	37%
Idaho	30%	Oregon.....	10%
Illinois.....	18%	Pennsylvania	23%
Indiana	27%	Rhode Island	9%
Iowa.....	33%	South Carolina	34%
Kansas	28%	South Dakota	30%
Kentucky.....	29%	Tennessee	28%
Louisiana.....	37%	Texas	25%
Maine	9%	Utah.....	24%
Maryland.....	14%	Vermont	5%
Massachusetts	4%	Virginia.....	19%
Michigan	19%	Washington	4%
Minnesota	13%	West Virginia	28%
Mississippi	43%	Wisconsin	23%
Missouri	24%	Wyoming	18%

SOURCE: Heritage Foundation calculations based on data from Bureau of Labor Statistics, and ProCare, “Child Care Costs by State 2020.”

heritage.org

⁴⁵ Rachel Greszler, “The Impact of a \$15 Federal Minimum Wage on the Cost of Childcare,” Heritage Foundation *Backgrounder* No. 3584, February 11,

2021, <https://www.heritage.org/sites/default/files/2021-02/BG3584.pdf>.

This would translate into thousands of extra dollars per year in childcare costs for many families. While the average increase in costs for a family with two children would be \$3,728, costs would rise by more than \$6,000 per year in Iowa (\$6,304) and Indiana (\$6,028), and by more than \$5,000 per year in Kansas (\$5,636), Louisiana (\$5,487), Oklahoma (\$5,602), Wisconsin (\$5,227), Georgia (\$5,222), and Nevada (\$5,019).

Considering that childcare for two children could cost upward of 40 percent of the median household income in many states, a \$15 minimum wage could make childcare unattainable for millions of families and lead to a reduction in employment and income among families with children.

In two-parent homes, it may no longer make financial sense for both parents to work, even if the family is struggling to make ends meet. Since women are more likely to stay home than men, this could widen gender-based differences in the labor market.

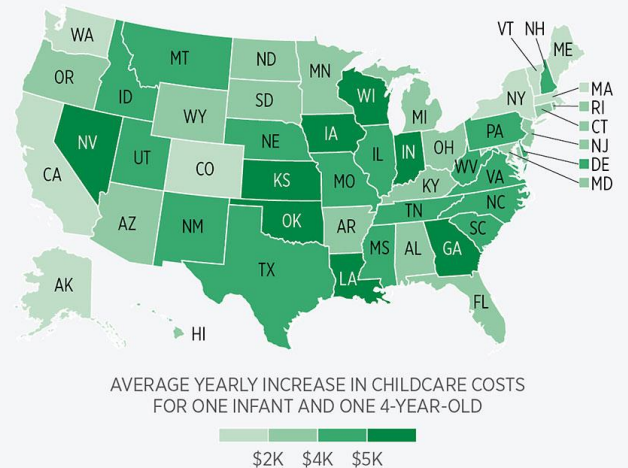
Others—especially single-parent families—could have to resort to non-licensed or illegal child care, or depend on unpaid child care of friends and family.

The point is that all families have different needs and should be free to make decisions based on what is best for them. Some families have one parent at home. Others have both parents working. And most single parents have no choice but to work. By making the childcare that low-income and working families need unaffordable, a \$15 federal minimum wage would most hurt the very families policymakers seek to help.

The State of California, which currently is on the pathway to a \$15 minimum wage for all employers by 2023 warns of the consequences for families and the childcare industry.

The Impact of \$15 Federal Minimum Wage on Childcare Costs

Enacting a \$15 per hour federal minimum wage would increase the costs of childcare by thousands of dollars in most states.



Alabama	\$3,931	Montana	\$4,094
Alaska	\$1,789	Nebraska	\$4,735
Arizona	\$2,441	Nevada	\$5,019
Arkansas	\$3,695	New Hampshire	\$4,127
California	\$1,873	New Jersey	\$2,685
Colorado	\$1,788	New Mexico	\$4,091
Connecticut	\$2,688	New York	\$1,888
Delaware	\$4,611	North Carolina	\$4,071
Florida	\$3,309	North Dakota	\$2,981
Georgia	\$5,222	Ohio	\$3,842
Hawaii	\$2,427	Oklahoma	\$5,602
Idaho	\$4,135	Oregon	\$2,301
Illinois	\$4,263	Pennsylvania	\$4,950
Indiana	\$6,028	Rhode Island	\$2,276
Iowa	\$6,304	South Carolina	\$4,423
Kansas	\$5,636	South Dakota	\$3,698
Kentucky	\$3,872	Tennessee	\$4,547
Louisiana	\$5,487	Texas	\$4,070
Maine	\$1,641	Utah	\$4,225
Maryland	\$3,693	Vermont	\$1,269
Massachusetts	\$1,608	Virginia	\$4,736
Michigan	\$3,724	Washington	\$1,131
Minnesota	\$3,639	West Virginia	\$4,519
Mississippi	\$4,406	Wisconsin	\$5,227
Missouri	\$4,113	Wyoming	\$3,573

SOURCE: Heritage Foundation calculations based on data from Bureau of Labor Statistics, and ProCare, "Child Care Costs by State 2020."

(S)DailySignal.com

The California Department of Education notes the "moral imperative" of hard work being worth at least \$15 per hour, but nonetheless cautions *against* a \$15 minimum wage, saying

that, “If nothing is done, many lower-income families will lose their child care, and child care programs will close their doors, triggering further job losses and major disruptions to families.”⁴⁶ This report, provided by California’s Minimum Wage Increase Task Force, points out that childcare providers’ only option is to increase costs, while many families cannot even afford current costs.

While a \$15 minimum wage may increase some families’ incomes, it could also result in a loss of childcare subsidies that exceed these families’ income gains. A *Los Angeles Times* article tells the story of May Martinez, who was receiving a substantial childcare subsidy while studying towards her bachelor’s degree, but then when her husband got a \$4-per-hour raise, her family lost their subsidy and were faced with having to pay an extra \$2,233 per month, which meant that May had to cut down to part-time night classes to stay home with her kids. Similarly, single-mom Alicia Combs stands to lose over \$600 in childcare subsidies because of an automatic raise of less than one dollar per hour.⁴⁷

Moreover, while there is already a shortage of childcare subsidies, a minimum-wage hike could cause many providers to stop accepting subsidized children as they often provide lower reimbursements than the tuition charged to non-subsidized families.

⁴⁶ Richard Winefield and Anna Levine, “Impact of Minimum Wage Increase on Child Care,” California Department of Education, Minimum Wage Increase Task Force, <https://www.cde.ca.gov/sp/cd/ce/minwageimpactintro.asp> (accessed February 19, 2021).

⁴⁷ May Martinez, “For Some Workers, Pay Raise Comes with Loss of Cheap Child Care,” *Los Angeles Times*, January 6, 2017, <https://www.latimes.com/business/la-fi-minimum-wage-childcare-20170106-story.html> (accessed February 21, 2021).

⁴⁸ Rachel Greszler and Lindsey M. Burke, “Rethinking Early Childhood Education and Childcare in the COVID-19 Era,” Heritage Foundation *Backgrounder*

Instead of driving up the cost of childcare, policymakers can help more families to find the care they need, in an environment they want, and at a cost they can afford, by easing unnecessary regulations on childcare providers, allowing parents to choose where to use public childcare dollars,⁴⁸ and making it easier and less costly for parents to save for childcare expenses.⁴⁹

Main Street Business Experiences

Examining and even debating the studies and statistics surrounding a \$15 minimum-wage increase is one thing, but the actual experiences of employers can convey the true impacts on everyday Americans’ lives much better.

The following are small-employer stories.

Besty LeRoy, Owner of Pizza by Elizabeths, Wilmington, DE (excerpts from a Wall Street Journal Article,⁵⁰ with similar and extended comments shared at a Heritage Foundation public event on February 9, 2021).

“I am a staunch supporter of Joe Biden and voted for him to save this country. Now I ask him to save my restaurant from the good intentions of progressive policy makers.

“We pride ourselves on serving all Delawareans, including the president. Mr. Biden, who at times has frequented our

No. 3533, September 30, 2020, <https://www.heritage.org/sites/default/files/2020-09/BG3533.pdf>.

⁴⁹ Adam N. Michel, “Universal Savings Accounts Can Help All Americans Build Savings,” Heritage Foundation *Backgrounder* No. 3370, December 4, 2018, <https://www.heritage.org/taxes/report/universal-savings-accounts-can-help-all-americans-build-savings>.

⁵⁰ Betsy Leroy, “Biden Tests the Adage, ‘The Customer Is Always Right’,” *The Wall Street Journal*, February 5, 2021, <https://www.wsj.com/articles/biden-tests-the-adage-the-customer-is-always-right-11612549574> (accessed February 21, 2021).

establishment two to three times a week, has been a great and gracious customer.

“Yet friends can have disagreements. The president and his team may understand Delaware politics, but I’m not sure they understand the difficulties of Delaware restaurants. How else to explain his proposal to raise the minimum wage for our servers and bartenders from \$2.23 an hour to \$15—an increase of more than 400%—which would be a death knell for our industry?”

“The Covid pandemic has devastated restaurants, including ours. The Paycheck Protection Program helped us keep many employees on the payroll, but guests are not yet comfortable coming into restaurants, even with our enhanced safety protocols. I expect this will be true through at least the end of 2021.

“It would be difficult to absorb any increase in labor costs now, much less the steep increase Mr. Biden has proposed. Even in good times, our profit margins were low. Today our profits are nonexistent, as is our ability to increase prices.

“Most confusing about the president’s proposal is why it is necessary. Tipped workers in Delaware and most states may be paid a lower cash wage, but if they don’t earn at least the \$9.25-an-hour minimum wage with tips included, the employer has to make up the difference. Before the pandemic, my tipped workers earned \$20 to \$30 an hour on average.

“Were the tipped wage to rise more than 400%, our restaurant would have two options: We either close, or we could adopt a “service charge” that would leave our tipped workers with less take-home pay.

“I urge Mr. Biden to consider Delaware’s moderate approach to the minimum wage. Our state’s minimum wage is \$2 above the federal level, while our tipped minimum is consistent

with the federal standard. I believe this to be a reasonable bargain that guarantees a fair hourly wage for tipped and nontipped workers alike, while remaining sensitive to the harsh economics of the restaurant industry.”

Barry Armstrong, co-owner of seven Sweetfrog stores across three states (as shared with me through email):

“We are quite seasonal and our labor force is primarily student age. We start at minimum wage with opportunities for increases. For most of our employees, these are first-time jobs that are transitional as they move on in education or into the skilled workplace.

“Younger workers typically stay with us for one to two years.

“We find most students remarkably unprepared for the workplace and thus see ourselves as mentors in basic business, operations, and customer service skills. We are pleased to provide these jobs and love to create a great workplace.

“A \$15 minimum, or any significant minimum wage increase, will eliminate many of these flexible, entry-level jobs (learning experiences) and cause price increases for the public as business owners strive to maintain a viable margin and keep our doors open.”

Bryn Hornsby, service disabled Air Force retiree and manager of Pinecrest Guest Home and Meadville Convalescent Home, two 60-bed nursing homes in rural Mississippi (as shared with me through email):

“Nursing positions pay anywhere from \$11 per hour for inexperienced aids to \$38 or more for RNs and supervisors... A \$15 per hour minimum wage would necessitate an increase in all nursing department wages because of upward wage pressure at the bottom.

“If Medicaid and Medicare, our primary sources of revenue, do not immediately increase our reimbursement rates to meet our increased payroll liability (including the increase in payroll taxes), we would be forced out of business...but most private pay residents, who are required by law to pay at least the Medicaid rate, would be unable to afford care in our facilities. This would result in a 10% to 15% decline in occupancy, which would also force us out of business which, even in good times, only allows for 2% to 3% profit margin.

“Another problem with a \$15 minimum wage for us would be a shrinking labor market for nurse aides... Individuals who might consider becoming nurse aides to earn about \$4 per hour more than their peers in minimum-wage jobs would be less inclined to do so because many simply don’t aspire to earn more than \$15 or so. In fact, we have had more than a few nurse aides complain about pay raises because their increase in pay made them ineligible for government housing subsidies, government utility programs, food stamps and the like.

“COVID has already brought us to our knees financially despite the CARES Act assistance. Even with PPP and Provider relief, we lost almost \$2 million last year and are expecting to lose at least another million this year due to historically low occupancy rates. Any increase in the minimum wage would certainly be followed soon after with a death knell for us and many other small nursing home operators.”

Stuart Hornsby, frozen-yogurt store owner, Rome, Georgia (in a letter to Senators Sherrod Brown (D–OH) and Pat Toomey (R–PA), and shared with me by email):

“For the past seven years I have built and have been growing a small business in Rome, GA. It is a frozen yogurt store. As you know, for a

small business to survive past a few years is a significant accomplishment. We are thankful. It has been a joy to create a place for everyone in the community to enjoy a sweet treat as a break from their regular routines.

“The money to begin this venture was taken from our home equity and combined with investments from others. After these many years, I am hopeful to finish repaying our investors in the coming months.

“As you and other elected officials consider raising the minimum wage to \$15 per hour I wanted to give you a snapshot from our perspective.

- We employ one full-time manager and pay him a healthy, reasonable wage.
- For the past seven years, 99% of our other employees have been students—mostly high school students.
- These students are not working to support their family.
- For many of our staff working with us, this is their very first job. (I’m tempted to list all the things that come with that, but I will not.)

“Pondering that we would be forced to double the beginning pay rate for our team members is baffling. There is no reasonable solution I have found that would make sense for our business. I am actually seeking conversations with any individual (especially elected representatives since they would be dictating this change) who thinks this is a good idea so I can ask them what they would suggest for our business.

“My business is part of a national franchise. There are approximately 250 other stores just like mine across the country. I know that 90+% of the stores in our brand employ students just like we do. Consider all of our other frozen yogurt and ice cream competitors across the country. Consider all the other small retail stores across the country. Tens or hundreds of thousands of businesses are in the same

situation—employing young people with their first jobs.

“Politicians talking about “no one should have to work 40 hours a week and live below the poverty wage” are missing (or choosing to not mention) a huge part of the equation. If small business owners are forced to pay students the same wage as older individuals the foundation of our economy will be decimated.

“One more quick aspect just to mention—a federal mandate for minimum wage to apply equally in DC, New York, San Francisco, Los Angeles and Rome, GA, is simply unreasonable. This kind of action will destroy small businesses in communities all across our country.

“This nonsensical directive placed on businesses would have an enormous detrimental effect on businesses, employees, and communities.”

Susannah Koteen, Owner of Lido Harlem and Bixi Harlem restaurants in New York City (as shared with me by email and also similarly stated in a Heritage Foundation public event on February 9, 2021).

“In New York for example, in the last five years the tipped wage has gone up 100% from \$5 an hour to \$10 an hour. This has already resulted in cuts on hours and jobs. The people whose hours get cut have to be the support staff. Waiters can clear their own tables and carry their own food, but a busser or food runner cannot be asked to discuss wine pairings, allergens etc. It therefore becomes the people who need the jobs the most, those with less skill that loose out on wages. These are people who will often be promoted once they have gained more experience, to better paying jobs, but they cannot be promoted until they have had time to learn the business and gain the required skills.

“The hospitality industry is one of the few careers left that one can make a good living without a college education. It is also an industry that one can move up quickly...The same person who may not hold a college degree or whose first language might not be English may not have many pathways open to make considerably more than minimum wage and potentially multiple times the minimum wage as they grow. The hospitality industry provides that opportunity.

“The hospitality industry is a huge employer. Think of the millions of jobs that are involved in this business, from front of house and the kitchen, to farms, delivery drivers, sanitation companies, food and beverage distributors. By increasing the cost to a level that is not sustainable we are forcing many small independently owned businesses to make the decision between closing completely or changing the very culture of the way we do business. Do guests really want to order food from an app or an ipad as many fast food chains are already implementing? Is the airport experience what we are going for in America?

“In both Maine and Washington D.C. it was the restaurant workers who organized and got the tipped minimum wage back after legislation had been passed to abolish it. They did this because the loss of tips meant the loss of their livelihoods.

“Famous restaurateurs such as Danny Meyer, David Chang, and Tom Colicchio have all tried to go with no tipping policies in favor of a higher hourly wage. They have all gone back to the tipped model. Danny Meyer reported losing 40% of his front of house staff when he eliminated tipping. This can only be attributed to the fact that these workers knew they could make a better living in restaurants that still had the tipping model. Tipping may not be a perfect system but for restaurants and restaurant workers it is the best system we currently know of.

Faces of \$15. Nearly 200 other examples of businesses that have been negatively affected by minimum wage increases can be found on the [facesof15.com](https://www.facesof15.com) website. Just one of those examples is ShopRite grocery store in West-Hartford, Connecticut, where “[a] challenging business climate impacted by rising costs, regulations and the new minimum wage increase led to the difficult decision to close our doors.”⁵¹

Main Street Teenager Experiences

By driving out employment opportunities, high minimum wages disproportionately hurt teens, preventing them from earning the income they want or need and preventing them from gaining the experience they need move up the career ladder. These teens shared their struggles with finding employment in high-minimum wage areas with the Faces of \$15:

Chastity C., New York, NY:

“I’m not able to find a job because everyone wants an experienced worker, but how am I supposed to gain experience if no one hires me?”

Eleyana A., Seattle, WA:

“I am a high school student[;] I really need a summer job because I want to save money for college.”

Bruce M., Seattle, WA:

“I need a summer job to make some money so I can have money to buy school supplies and clothes for next year.”

Brian L., San Diego, CA:

“It’s hard to find a summer job due to one reason. I’m not experienced enough. It’s ironic

because how can I get experience if no one wants to hire me? I wish to land a job because I want to further my discipline and also make some extra cash on the side.”

Jasmine M., Los Angeles County, CA:

“I can’t find a job because everywhere I go they ask for experience, but how can I get experience if no one is willing to hire me to gain experience[?]”

Annie Y., Brooklyn, NY:

“I have looked for jobs, however none of them would accept youth, only those with experience. I am a teen, in need of a job, to pursue my passion and my future.”

Griselda, Chicago, IL:

“I want a job any is fine I don’t want it just for the money but as experience and to learn independence.”

Michael W., Phoenix, AZ:

“I’m 17 years old and I have been looking for a part-time job for a year and a half now.”

Estelle C., Sacramento, CA:

“It seems as though it’s become very limited and the jobs that are available are being filled. I’m a teen looking for a job and it’s especially harder with no previous work experience but I really want to find a summer job!”

Christopher C., Philadelphia, PA:

“As teens they should want to help us because this is the time we must learn responsibility and what real adult life will be like.”

Asia S., Phoenix, AZ:

“If I don’t find a job, I will not have any clothes that fit me for this upcoming school year. I’ve applied to at least 3 jobs every day for the last month! I love to have my own responsibilities but it’s gotten really hard to find a job.”

⁵¹The Faces of \$15, ShopRite Business Profile, <https://www.facesof15.com/business/shop-rite/> (accessed February 21, 2021).

Alternative Solutions to Rising Wages

Most people are for rising incomes, especially for lower-wage workers, but government-imposed minimum-wage mandates do not create new income—they only redistribute it. Policymakers should focus on creating an environment in which all people have an opportunity to earn a higher income without increasing burdens on others, rather than selectively benefitting some workers at the expense of others.

As economist James Tobin who served in President Kennedy’s Council of Economic Advisors aptly explained,

*[p]ublic health measures to improve the environment are often more effective in conquering disease than a succession of individual treatments... The analogy holds for economic maladies. Unless the global incidence of these misfortunes can be diminished, every individual problem successfully solved will be replaced by a similar problem somewhere else.*⁵²

Accordingly, the CBO estimated that a \$15 minimum wage would result in \$509 billion in wage gains for select workers, but \$175 billion in wage losses for others.⁵³ Moreover, the CBO noted that, when not constrained by the model to hold output constant, a \$15 minimum wage

would result in lower total family incomes and a smaller economy.⁵⁴

Authentic and lasting wage gains come from workers creating more value. Rising incomes that come from productivity gains do not hurt others, but rather create positive impacts for others. Amid a strong economy, fewer unnecessary regulations and lower taxes on job creators, employers were competing for workers and they had more resources to offer them higher pay and provide education and training to improve their earning potential. Consequently, wages increased the most for low-income workers: Between 2016 and 2019, the earnings of workers at the 10th percentile of earnings increased by 14.6 percent.⁵⁵ Moreover, the sharing economy has opened doors and opportunities to workers of all ages, abilities and income levels to earn income on their own terms.

Alternative forms of education, such as apprenticeships and vocational training are less expensive and often better-tailored to individuals’ desired careers. Such programs should be expanded. Unfortunately, the Biden Administration has done the opposite by cancelling the Trump Administration’s Industry-Recognized Apprenticeship Program that had expanded nontraditional and less expensive education opportunities.

⁵²James Tobin, the U.S. Senate Committee on Labor and Public Welfare, Subcommittee on Health, September 8, 1965, p. 360
<https://books.google.com/books?id=buYFAAAIAAJ&pg=RA1-PA367&lpg=RA1-PA367&dq=%E2%80%9CPeople+who+lack+the+capacity+to+earn+a+decent+living+need+to+be+helped.+but+they+will+not+be+helped+by+minimum-wage+laws,+trade-union+wage+pressures+or+other+devices+which+seek+to+compel+employers+to+pay+them+more+than+they+work+is+worth.+The+more+likely+outcome+of+such+regulations+is+that+the+intended+beneficiaries+are+not+employed+at+all.%E2%80%9D&source=bl&ots=rHazeBS4IQ&sig=ACfU3U1yvrU6V0m->

[hGvZ7mv1sJBFZFLQyA&hl=en&sa=X&ved=2ahUK Ewib_orR9_juAhUOF1kFHUo4BUoQ6AEwAXoECAQQAw#v=onepage&q=tobin&f=false](https://www.cbo.gov/publication/55410)

⁵³ Congressional Budget Office, “The Budgetary Effects of the Raise the Wage Act of 2021.”

⁵⁴ <https://www.cbo.gov/publication/55410>

⁵⁵ Data available for download from U.S. Bureau of Labor Statistics, “Data Retrieval: Labor Force Statistics—Table 5. Quartiles and selected deciles of usual weekly earnings of full-time wage and salary workers by selected characteristics, not seasonally adjusted,”

<https://www.bls.gov/webapps/legacy/cpswktab5.htm> (accessed February 1, 2021)

Policymakers can also help open doors to entrepreneurial opportunities for lower-income workers by reforming occupational licensing requirements⁵⁶ and by clarifying the definition of contractors so that more individuals—especially less-educated and lower-income ones—will have more opportunities to earn income on terms that meet their unique needs and desires.⁵⁷

Summary

Higher incomes are a great thing, but minimum wage increases cannot create new income—they can only redistribute it. The gains that would accrue to some from a \$15 federal minimum wage would irrefutably come at a significant cost to others in the form of lost jobs, lower incomes, and fewer opportunities for the least advantaged.

A one-size-fits-all \$15 federal minimum wage will not work well for most parts of America and will disproportionately hurt workers and families in the lowest-cost areas, including not only job and income losses, but significant price increases, such as for the cost of childcare, that could significantly disrupt families' budgets and ways of living. The unprecedented size of the proposed increase poses a significant risk of large and lasting upheaval in the labor market and economy.

There are better ways to help workers achieve higher incomes of their own accord, rather than at the expense of others. Expanding alternative forms of education, reducing unnecessary regulations so that businesses can invest more in workers; and opening doors to entrepreneurial opportunities for lower-income workers by reforming occupational licensing

laws and allowing all types of workers the freedom to contract are just a few ways to generate income gains without hurting others.

⁵⁶ Dick M. Carpenter II, Lisa Knepper, Kyle Sweetland, and Jennifer McDonald, *License to Work: A National Study of Burdens from Occupational Licensing*, 2nd Ed. (Arlington, VA: Institute for Justice, 2017), <https://ij.org/report/license-work-2/> (accessed February 21, 2021).

⁵⁷Rachel Greszler, “Defining ‘Contractor’ Status Would Provide Some Welcome Relief for Struggling Workers,” *The Daily Signal*, September 23, 2020, <https://www.dailysignal.com/2020/09/23/defining-contractor-status-would-provide-some-relief-for-struggling-workers-and-small-businesses/>.

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