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The Downside of Raising the Minimum Wage

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Kelley Uimer [closed her independent book shop](#) in Roseville, California after the state raised its minimum wage for the fourth time in ten years. Kelley chose to pay her workers a wage and compensate them through profit sharing. With each minimum wage increase, however, her shop's profits shrank. Eventually, her employees took home less pay at \$10/hr than they did at \$8/hr. Kelley laments: "I can no longer afford to pay the ever-increasing minimum wage."

In Maine, restaurant owner [Randy Wadleigh](#) worries the newly enacted \$12 minimum wage, which goes into full effect in 2020, will drive prices up and customers on fixed incomes away. "Losing their business on top of higher wages will create the perfect storm for layoffs and other cutbacks as we struggle to make ends meet." He's right to worry, as a [recent study](#) from the Employment Policies Institute estimates the mandated wage hike will eliminate 3,832 jobs.

In February, Gov. Wolf proposed raising the minimum wage from \$7.25 to \$12, which would make Pennsylvania's minimum wage in the highest state-wide wage in the country. (On July 1, 2017, Washington D.C. will raise its minimum wage to \$12.50.)

The Wolf Administration argues a higher minimum wage will raise \$95 million in new revenue by reducing participation in welfare programs and spurring job growth. These assertions are difficult to square with ample evidence showing minimum wage hikes eliminate jobs and harm the economy.

Minimum Wage Hikes Don't Help Welfare Participants

The [Employment Policies Institute](#) found no statistically significant evidence that a higher minimum wage reduces participation in means-tested welfare programs. In fact, modeling shows even more individuals may need programs like subsidized housing, as non-workers are even less likely to find jobs.

Minimum Wage Hikes Kill Jobs

There is little correlation between relatively high minimum wages and job growth across the country, yet an undeniable connection exists between raising the minimum wage and job loss.

After Seattle raised its minimum wage from \$9.96 to \$11.14, while workers earned more per hour, [fewer had jobs](#), and those with jobs worked fewer hours. Preliminary data from wage hikes in five other major cities as diverse as Chicago, Oakland, and Washington D.C. all [indicate significant job loss](#).

In Pennsylvania, studies of minimum wage hike proposals came to the same conclusion. The National Federation of Independent Business analyzed three minimum wage hike proposals and found they could cost the state [46,000 to 119,000 jobs by 2023](#).

Interestingly, even Gov. Wolf [seems to acknowledge](#) wage mandates are a burden. His mandated minimum wage increase for government workers last year did not include contracts with the Department of Human Services because, [in his words](#), “we didn’t want to put additional burdens” on human services providers in the midst of the budget impasse.

Minimum Wage Hikes Don’t Boost Tax Revenue

A forthcoming Independent Fiscal Office (IFO) study will shed more light on the specific effects of a \$12 minimum wage in Pennsylvania. However, the latest IFO report on a proposed \$10.10 minimum wage estimated [31,000 Pennsylvanians would lose their jobs](#). Individuals without jobs cannot pay personal income taxes. It’s difficult to see how greater unemployment translates into higher revenues from personal income or other business taxes.

Free-Market Reforms Will Raise Wages and Family Incomes

If Gov. Wolf and other policymakers are truly concerned about increasing wages and lifting people out of poverty, they should pursue the following proven reforms:

- **Lower the cost of doing business:** It is possible to raise wages and increase hiring at the same time. According to a [Mercatus Center study](#), a one-percentage point drop in the state corporate tax rate would likely increase annual economic growth by 0.1 to 0.2%.
- **Reward hard work:** [Restructure welfare programs](#) to avoid the arbitrary benefit cutoffs that discourage employment and trap families in poverty.
- **Lower barriers to employment:** [Scale back professional licensing requirements](#) to give low-wage earners the opportunity to increase their incomes through entrepreneurship.
- **Expand school choice:** School choice programs [improve high school graduation rates](#), increasing students’ future earning potential. Expanding school choice ensures more children can escape failing schools, graduate, and ultimately increase their income.