



# Downsides of the Minimum Wage

Pennsylvania House Commerce Committee

February 16, 2021

Thank you Chairman Roae, Chairman Galloway, and members of the House Commerce Committee for inviting the Commonwealth Foundation to testify on this persistent issue. I am Elizabeth Stelle, the Director of Policy Analysis at the Commonwealth Foundation. My testimony focuses on understanding who earns the minimum wage and the best way to promote wage growth for them and economic prosperity for all Pennsylvanians.

Joe Fasula, owner of nine Gerrity's Supermarkets in Luzerne and Lackawanna counties, understands the downside of the minimum wage. He notes for example, that "Retail prices will soar and everyone's buying power will suffer. Movie tickets, fast food, groceries, clothing, restaurant food — everything will be more expensive." Fasula isn't against paying workers competitive wages. He pays all his employees more than the minimum wage, even those with no work experience, but he also understands that not every employer is like him, and that raising the minimum wage means fewer job opportunities and less spending power even for workers that get a raise.<sup>1</sup>

## WHO EARNS THE MINIMUM WAGE?

In 2019, an estimated [40,300 Pennsylvania workers](#) earned minimum wage. That's the lowest number of minimum wage workers since 2006. Looking at all Pennsylvania workers, minimum wage workers are a small part of the workforce, just 1.2% of wage workers and 0.6% of all workers.

The latest data from the [U.S. Bureau of Labor Statistics](#) estimates 6,234,518 million Pennsylvania workers in December of 2019 up from 6,047,662 in December of 2006.<sup>2</sup>

The number of minimum wage earners has declined in both absolute numbers and as a percentage of the workforce. In other words, while the number of workers has grown the number of minimum wage earners has shrunk, that is individuals are earning more without increases to the minimum wage.

In 2019, a majority of Pennsylvanians who earned the minimum wage or less worked in food preparation & service-related occupations. They are the very businesses most harmed by unpredictable pandemic closures.

Furthermore, minimum wage earners are more likely to be young, white, unmarried women, and more than half live in households that make \$50,000 or more a year. A large majority of these earners, 66%, are part-time workers.<sup>3</sup>

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<sup>1</sup> Citizens Voice, Propose Minimum Wage Hike Draws Mixed Reaction: [https://www.citizensvoice.com/news/business/proposed-minimum-wage-hike-draws-mixed-reaction/article\\_c74aa9f9-1b7e-544b-aa11-1bd6393e0435.html](https://www.citizensvoice.com/news/business/proposed-minimum-wage-hike-draws-mixed-reaction/article_c74aa9f9-1b7e-544b-aa11-1bd6393e0435.html)

<sup>2</sup> Bureau of Labor Statistics, Local Area Unemployment: <https://www.bls.gov/lau/data.htm>

<sup>3</sup> Depart of Labor and Industry, 2020 Minimum Wage Report: <https://www.workstats.dli.pa.gov/Documents/Minimum%20Wage%20Reports/Minimum%20Wage%20Report%202020.PDF>

## LOST JOBS VS HIGHER WAGES

This month the Congressional Budget Office released a new analysis on the \$15 minimum wage. They found that workers would see an overall wage gain of \$333 billion and 900,000 workers would be able to move above the poverty line. However, this upward mobility would come at the loss of 1.4 million jobs for other Americans.<sup>4</sup>

Closer to home, a 2019 IFO analysis of Pennsylvania estimates that a \$12 minimum wage could give 1.08 million workers a \$2,885 annual raise. This comes at a cost of 34,100 positions, eliminating the annual wages of \$10,646 for those workers. It would also indirectly impact about 826,000 workers earning up to \$15 an hour. Critically, the IFO assumes workers that retain their jobs do not see a significant cut in hours or other benefits.<sup>5</sup>

In practice, employers offset higher wages with other changes that may or may not be more meaningful to an employee. For example, when Amazon raised its wage floor for hourly workers in their warehouses workers also [lost incentive pay and stock option rewards](#). The result is a loss in total compensation for the highest performing employees.

A study from the [Competitive Enterprise Institute](#) also details how mandated wage increases reduce other employer-based benefits such as tips, health insurance, employee discounts, flexible hours, and tuition assistance.

Most recently, Governor Wolf responded to concerns over job losses by saying, "My experience is, that doesn't happen."<sup>6</sup> However, just last month the National Bureau of Economic Research released a survey of recent studies of the minimum wage and found that the underlying data clearly show evidence of job loss.<sup>7</sup>

In 2015, even Gov. Wolf [acknowledged](#) wage mandates have negative consequences. His mandated minimum wage increase for government workers 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 AND POVERTY

Advocates of higher minimum wages often point to the upside of reducing poverty, but the evidence around permanent poverty alleviation is at best mixed. The minimum wage is a poorly targeted tool since many minimum wage earners do not live in households with income below the poverty line. About 57% of minimum wage earners live in [households making \\$50,000 or more](#). In fact, research found minimum wage increases exacerbate poverty and reliance on public assistance.

According to a study by University of California economists and the National Bureau of Economic Research: "each \$1 increase in the minimum wage has, in disadvantaged neighborhoods over the past three decades, increased poverty rates and the receipt of public assistance by roughly three percent."<sup>8</sup>

The latest CBO study estimates the government would spend less on food stamps and the WIC

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<sup>4</sup> Congressional Budget Office, Budgetary Effects of the Raise the Wage Act of 2021: <https://www.cbo.gov/system/files/2021-02/56975-Minimum-Wage.pdf>

<sup>5</sup> Independent Fiscal Office, \$12 Minimum Wage Impact letter: <http://www.ifo.state.pa.us/download.cfm?file=/Resources/Documents/Response-Letter-10-7-2019.pdf>

<sup>6</sup> Center Square, Governor Wolf Confident Minimum Wage Hike Could Get Bipartisan Support: <https://northpennnow.com/governor-wolf-XconfidentX-minimum-wage-hike-could-get-bipartisan-support-p3703-177.htm>

<sup>7</sup> National Bureau of Economic Research, Myth or Measurement: [https://www.nber.org/system/files/working\\_papers/w28388/w28388.pdf](https://www.nber.org/system/files/working_papers/w28388/w28388.pdf)

<sup>8</sup> Employment Policies Institute, Helping Without Hurting: <https://epionline.org/studies/helping-without-hurting/>

program with an increase in the minimum wage but would spend more on Medicaid for those who lost their jobs. In other words, federally funded programs would see reductions while state-funded programs would incur higher costs.

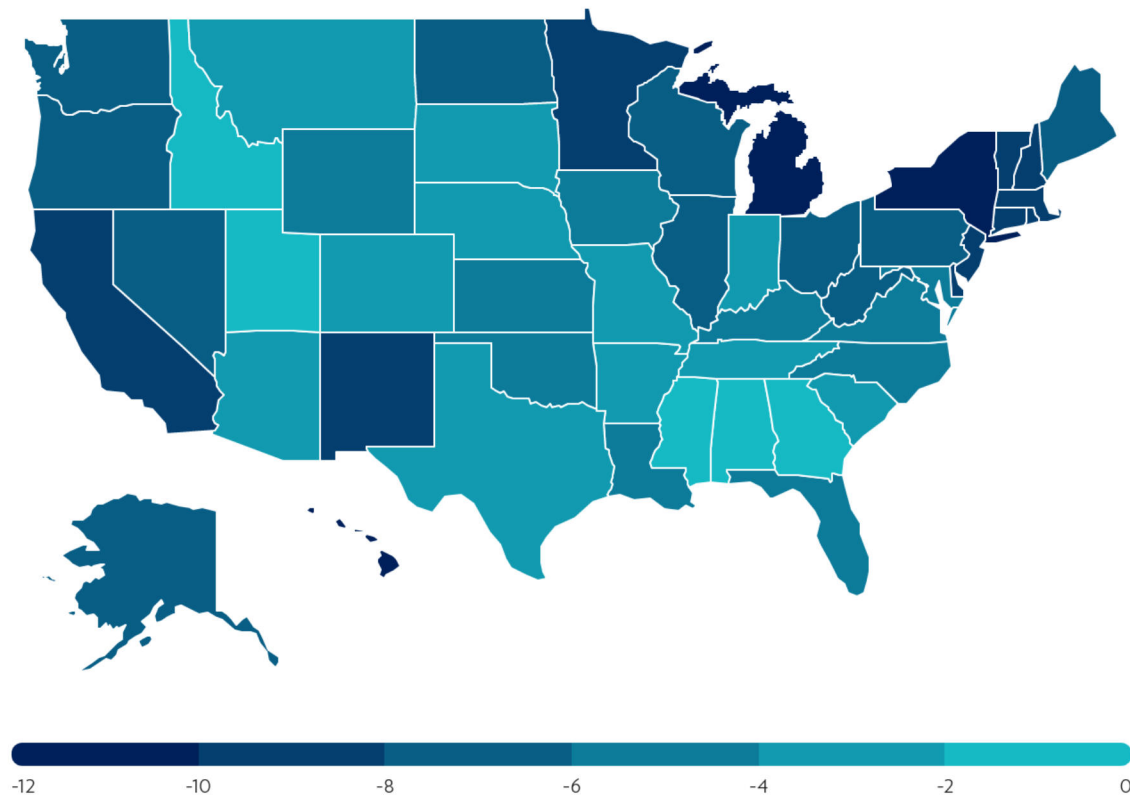
The [governor's budget proposal](#) erroneously estimates \$10.8 million in savings to Medicaid, but that is offset with \$6.9 million in additional costs to promote a \$12 minimum wage.

## JOB GROWTH

Pennsylvania is still recovering jobs from the pandemic. Payroll statistics from December show the commonwealth with 8% fewer jobs compared to January of 2020. In fact, the [IFO projects](#) it will take the state six years to fully recover jobs lost.

# Recovering Jobs Lost in the Pandemic

*Change in payroll jobs from January 2020 to December 2020.*



Source: State Policy Network, State Job Report, <https://spn.org/blog/state-job-report-december-2020/>

[Recent labor force data](#) show Pennsylvania lost 255,500 workers from December of 2019 to December of 2020. A shrinking workforce is especially concerning given that the ratio between

working residents and retired residents is already set to shrink from 3.1 in 2020 to 2.3 in 2030. This means fewer taxpayers to shoulder the burden of rising Medicaid and other social services costs.<sup>9</sup>

Suppressing job creation through the minimum wage would exacerbate these trends. In addition, limiting job opportunities for inexperienced workers can negatively impact earning potential throughout a lifetime.

A study that examined data from the National Longitudinal Survey of Youth, which spans three decades, measures the benefit of getting an early start in the workforce. The findings show the importance of early work experience, which a \$15 minimum wage would stunt. Young adults who worked part-time during high school saw a wage premium over their unemployed peers. More importantly, the wage premium held over time.<sup>10</sup>

## REFORMS TO RAISE WAGES

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:

- **Tear down barriers to new careers.** Over [250 Pennsylvania professions](#) require a license to work, many of them low- and mid-income jobs. Unfortunately, occupational licensing requirements [create barriers to employment](#). The state should ease the process for more workers to transition to new or temporary jobs by eliminating unnecessary occupational licensing or decreasing requirement burdens. Evaluating opportunities to ease some of these licensing restrictions, for which [Wolf has voiced support](#), will help more Pennsylvanians find jobs.
- **Liability protection.** Protect small business from lawsuits by passing liability protection.
- **Streamline regulations to save small businesses.** Pennsylvania has almost 163,000 individual regulations, making it the state with the 11th-highest number of total restrictions, according to the [Mercatus Center database](#). These regulations place [a disproportionate burden on small businesses](#). Specifically, lawmakers can streamline the ability to repeal existing regulations, track the status of unapproved permits, and require legislative approval for regulations that will cost more than \$1 million a year.

No one wants to force small businesses to lay off employees or close their doors, but experience shows that's exactly what happens when government sets wages. These mandates benefit a few employees at the expense of halting economic progress for many Pennsylvanians. The widespread and long-term costs of these mandates vastly outweigh their immediate benefit.

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<sup>9</sup> Independent Fiscal Office, Five Year Outlook 2020: [http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Five\\_Year\\_Outlook\\_2020.pdf\\_and Bureau of Labor Statistics](http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Five_Year_Outlook_2020.pdf_and_Bureau_of_Labor_Statistics): <https://data.bls.gov/cgi-bin/dsrv>

<sup>10</sup> Employment Policies Institute, Lasting Benefits of Early Work Experience: [https://www.epionline.org/wp-content/uploads/2014/08/EPI\\_LastingBenefitsofEarlyWorkExperience2.pdf](https://www.epionline.org/wp-content/uploads/2014/08/EPI_LastingBenefitsofEarlyWorkExperience2.pdf)