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Unintended
Consequences of
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By Ryan Young

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Executive Summary

Raising the minimum wage is currently a top policy issue at the federal, state, and local levels. This paper opposes increases for three reasons, and applies that analysis to a current bill, the Raise the Wage Act, which would increase the federal minimum wage to \$15 per hour by 2024 and index it to average worker pay.

One, the negative economic tradeoffs for people with low income are roughly equal to any benefits. Minimum wage increases are not a net good, and zero-sum at best.

Two, minimum wage increases provide fertile ground for corporate rent-seeking by large companies seeking to harm smaller competitors.

Three, minimum wages take choices away from employees who might prefer non-wage pay such as tips, insurance, employee discounts, or other benefits.

Even if the economic tradeoffs are roughly neutral, the second and third considerations tip the balance against an increased minimum wage on ethical grounds.

These objections apply to the Raise the Wage Act, recently passed by the House of Representatives, as well as to any similar state, local, or federal legislation.

This paper's section-by-section analysis of the bill finds that it would perform poorly as a poverty reduction measure, in large part because of the tradeoffs it would entail. The bill's authors implicitly acknowledge this by phasing in its increases over five years, rather than all at once. Additionally, a majority of minimum wage earners live in households well above the poverty line, making the measure poorly targeted to its intended beneficiaries.

Policy makers should instead pursue better targeted policies that have proven effective. For example, poor households often pay higher prices for goods than do middle- and upper-income households, and regulations and other policy interventions are a major reason why. These add up to between \$800 and \$3,500 a year. Addressing these policies would do far more good for poor households than would a minimum wage increase, and with fewer tradeoffs.

This paper also argues that the discussion of minimum wages focuses too heavily on employment. Staff cuts are a last-resort action for employers, who will go to great lengths and show considerable creativity in trying to avoid firing workers who have done nothing wrong.

Total worker compensation includes more than just wages. Many workers also earn significant non-wage income in the forms of insurance, employee discounts, complimentary food and parking, training, tuition assistance, and more. Cuts to non-wage compensation are a common tradeoff of higher wages, though they potentially leave total compensation unchanged, depending on the mix of tradeoffs in a given case.

A partial list of minimum wage tradeoffs includes differing regional impacts, layoffs, reduced non-wage compensation, a tax increase for low-income workers, fewer job openings, longer job searches, reduced hours, stricter policies for arriving late or leaving early, increased automation, higher insurance co-pays, less vacation and personal time, reduced or eliminated on-the-job perks, reduced employee discounts, less flexible hours, higher consumer prices, more outsourcing, higher youth unemployment, fewer minority workers hired, more abusive behavior by

bosses, and higher crime rates. There are almost certainly additional tradeoffs. The mix will vary from company to company and from worker to worker, but they will generally at least cancel out the positive effects.

Accounting for tradeoffs, minimum wages are likely roughly a wash. A few workers benefit a lot, and a lot

of workers are hurt a little. It is an ethical judgment whether that is a good thing or not, but the risks of increased rent-seeking and reduced workplace flexibility tip the scales against an increase. Lawmakers should resist the temptation to increase minimum wage, whether through the Raise the Wage Act or any other vehicle.

Introduction

Raising the minimum wage is a top policy priority at the federal, state, and local levels. This paper opposes increases for three reasons.

One, the negative economic tradeoffs for people with low income are roughly equal to any benefits.

Minimum wage increases are not a net good, and zero-sum at best.

Two, minimum wage increases provide fertile ground for corporate rent-seeking by large companies seeking to harm smaller competitors.

Three, minimum wages take choices away from employees who might prefer non-wage pay such as tips, insurance, employee discounts, or other benefits, rather than higher wages.

Even if the economic tradeoffs are roughly neutral, the second and third considerations tip the balance against an increased minimum wage on ethical grounds.

The minimum wage is typically seen as a progressive cause, though many conservatives also support increases, if less consistently.¹ Republican President George W. Bush signed the most recent federal increase into law in 2007 after it was folded into an Iraq war spending bill.² However, a Republican Congress not long after blocked President Barack Obama's efforts to raise the federal minimum wage to \$9 and, later, \$10.10. Many progressive activists

have since coalesced under a "Fight for 15" slogan. Conservatives are less inclined to support a figure as high as \$15, but several have signaled openness to a smaller increase.³ President Donald Trump does not have a coherent stance on the issue, having flip-flopped multiple times.⁴

The current leading \$15 minimum wage bill is the Raise the Wage Act, sponsored by Sen. Bernie Sanders (I-VT) and Rep. Bobby Scott (D-Va.). It was originally introduced in 2017 during the 115th Congress, but did not pass. A slightly different version was reintroduced on January 16, 2019 during the 116th Congress.⁵ It passed in the House, but faces dim prospects in the Senate.

This paper offers section-by-section analysis of the Raise the Wage Act, then makes larger points about the economics and ethics of minimum wages. Whether the Raise the Wage Act succeeds or fails, there will be future pushes for minimum wage increases. In January 2019, there was even a proposal for a \$33 per hour minimum wage in New York City.⁶ Some progressive activists are calling for a global minimum wage.⁷ Many of the same pro and con arguments in today's debate will still apply to future proposed increases.

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In some cases, it will also have *intended* negative consequences—larger businesses can use high minimum wages to harm smaller competitors. For example, Wal-Mart CEO Doug McMillon has endorsed a \$15 federal minimum wage.⁸ Wal-Mart can more easily automate jobs and absorb higher costs than can the corner store down the road.

The federal minimum wage has been \$7.25 per hour since 2009—the longest stretch without an increase since the first federal minimum wage was implemented in 1938.⁹ However, a majority of states and localities have since passed their own increases above the federal level. In 2016, 2.2 percent of hourly workers earned the federal minimum wage.¹⁰ Since hourly workers are a little more than half of the total workforce, the percentage of the total workforce making the minimum wage is closer to 1.2 percent.¹¹ An increase to \$15 would raise that figure to as high as 44 percent of hourly workers in 2019, or roughly 25 percent of all workers.¹² This percentage would decrease each year as economic growth and inflation increase both the real and nominal wages workers earn.

In real terms, the minimum wage reached a peak in 1968, at \$8.90 in 2018 dollars (\$1.60 in nominal terms).¹³ Many activists now advocate for a \$15 minimum wage, but there are still

calls to return to this peak figure. Such calls have two problems.

One is an implicit assumption that past levels are somehow ideal. That is an empirical question, not an automatic given. Policy makers in the 1960s may have set the level too high or too low. The tradeoffs that come with a \$7.25 minimum wage would be larger at \$11.98 and would affect more people. That is not necessarily an improvement. Cato Institute economist Ryan Bourne additionally argues that policy makers should instead implement more effective poverty relief measures. Poor households often pay higher prices for goods than do middle- and upper-income households, and regulations and other policy interventions are a major reason why. These add up to “anywhere between \$800 and \$3,500 in total per year.”¹⁴ Reducing those burdens would help more people than would a minimum wage increase.

Second, state and local increases have already more than made up the difference. Economist Ernie Tedeschi finds that the average worker in 2019 has an \$11.80 minimum wage.¹⁵

Minimum wage increases are popular with the public. A January 2019 Hill-HarrisX poll found 55 percent voter support for a \$15 minimum wage, with an additional 27 percent supporting a smaller increase.¹⁶ A 2016 Pew Research poll found 58 percent

public support for a \$15 minimum wage.¹⁷ A 2013 Gallup poll found 76 percent support for a \$9 minimum wage.¹⁸ None of these polls mention tradeoffs, which almost certainly skews the results in favor of an increase. Even so, the point remains that minimum wage increases are a popular policy.

Minimum wages are less popular among economists. A March 2019 poll of professional economists done by Lloyd Corder of CorCom, Inc. and Carnegie Mellon University for the Employment Policies Institute finds 74 percent of respondents opposing a \$15 per hour minimum wage.¹⁹ An informal survey of 13 economics textbooks by this author found just one textbook favoring minimum wages on net, and even that text, the 17th edition of Paul Samuelson and William Nordhaus's *Economics*, acknowledges tradeoffs.²⁰

Minimum wage laws' tradeoffs include, but are not limited to: differing regional impacts, layoffs, reduced non-wage compensation, a tax increase for low-income workers, fewer job openings, longer job searches, reduced hours, stricter policies for arriving late or leaving early, increased automation, higher insurance co-pays, less vacation and personal time, reduced or eliminated on-the-job perks, reduced employee discounts, less flexible hours, higher consumer prices, more outsourcing, higher youth unemploy-

ment, fewer minority workers hired, more abusive behavior by bosses, and higher crime rates. There are almost certainly additional tradeoffs. These are simply the ones treated in this paper.

One reason minimum wage increases are so popular is that proponents often only point to the benefits. After accounting for tradeoffs, the total benefits and tradeoffs of a minimum wage increase will roughly cancel out, at least according to standard economic theory. But workers and employers are also far more creative in adapting to policy changes than economic models can account for, so unintended consequences are highly likely.

This paper's aim is to encourage people to weigh tradeoff costs against the benefits. It is perfectly legitimate to weigh tradeoffs and make a value judgment that a minimum wage increase is worth the costs. That is a subjective value judgment about which reasonable people can disagree, but it is not reasonable to wish those costs away.

Minimum wage increases also enable corporate rent-seeking, which should upset progressives as much as it delights lobbyists. Large companies like Wal-Mart, Costco, and Amazon often have high starting wages, but those same companies often lobby for legislators to impose higher minimum wages that can stack the deck against smaller businesses.

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Organized labor typically favors high minimum wages, and unions spend significant resources lobbying for increases. Not coincidentally, high minimum wages prevent price competition from non-union workers. This rent-seeking behavior benefits neither workers nor consumers. If all goes according to plan, union members would benefit at non-members' expense in a zero-sum game.

Finally, there is the matter of workplace flexibility. This is most important for tipped employees, many of whom would be affected by the Raise the Wage Act. There is a lesson to be learned from a recent bill in Washington, D.C. to increase minimum wages for tipped employees. Employees who preferred low wages with higher tips were forced into a system of lower tips with higher wages. One system is not better than the other. The point is that workers and employers, not legislators, should choose. The D.C. bill turned out to be highly unpopular, and was quickly repealed following outcry from both employers and workers. The Raise the Wage Act would repeat this mistake on a national scale, and would be much more difficult to undo.

Accounting for tradeoffs, minimum wages are likely roughly a wash, at least by cold utilitarian logic. A few workers benefit a lot, and a lot of workers are hurt a little. It is an ethical judgment whether that is a good thing

or not. But the risks of increased rent-seeking and reduced workplace flexibility tip the scales against an increase. Congress should resist the temptation to increase minimum wage, whether through the Raise the Wage Act or any other vehicle. As Adam Smith wrote in 1776, "Whenever the law has attempted to regulate the wages of workmen, it has always been rather to lower them than to raise them."²¹

The Role of Productivity

While the idea has superficial appeal, indexing the minimum wage to average wages is a misguided idea and should be dropped, as it would price a lot of lower skilled workers out of a job. In the long run, worker compensation is tied to productivity more closely than anything else.²²

The Raise the Wage Act would index minimum wage increases to average wages. Deliberately or not, such indexing would also essentially set a minimum productivity requirement for workers. This would exclude from the labor force people unable to meet that standard, often through no fault of their own. This includes young people who have not yet had the time to gain experience or skills; part-time employees who are unable to fully develop specialized skills due to school enrollment, family commitments, or other reasons;

minorities, who often face significant socio-economic disadvantages and discrimination; and some elderly or disabled people, who are capable of productive work, but not necessarily at an indexed \$15 level.

Moreover, wages alone do not account for all worker compensation. Workers can earn all manner of non-wage pay including insurance, discounts, free parking, food, and more. The mix differs with every job, but indexing the minimum wage to wage-only compensation would be more likely to legislate *different* compensation, rather than *more* compensation.

Productivity growth, and hence wage growth, is also volatile, varying widely from year to year. As a result, so are average wages, which have their own volatility to evolving wage and non-wage total compensation packages. This makes it hard for employers to plan ahead on how much to spend on labor costs versus other costs.

Additionally, average productivity growth does not affect all jobs equally. It is an aggregate statistic that does not reflect individuals' on-the-job realities. This is to the disproportionate disadvantage of many minimum wage earners. A skilled barber can only take care of so many clients per hour, regardless of their equipment. A computerized ordering system at a restaurant does not greatly improve how many tables a server can handle

per hour. But in more capital-intensive industries, productivity growth can be much higher. This can skew national statistics in a way that would harm employment prospects for potential minimum wage earners if their wages were indexed to others' productivity gains. Minimum wage indexing advocates often have a tendency to think of aggregates, rather than individuals. Indexing is one example where that tendency can cause harm.

Finally, there are regional differences in productivity growth, so a single nationwide index would harm some workers for living in one place rather than another.

The Raising the Wage Act, Section by Section

The Raise the Wage Act consists of seven sections.²³ The bill would raise all existing minimum wages to \$15 per hour in 2024—including tipped employees, employees under age 20, and people with disabilities, some of whom currently have separate lower minimum wages. It would do so two years faster than the 2017 version of the Raise the Wage Act, meaning that, if passed in 2019, it would hit the \$15 level at the same time as the 2017 version. The increases would come in steps for each employee category over varying periods of several years until they all reach the same level. The new universal minimum wage would then

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be indexed to average wages and adjusted annually.

The fact that the bill's authors saw the need to phase in the increases over time is an implicit acknowledgement that tradeoffs exist, and that they are significant enough to warrant caution. If a \$15 minimum wage is an unabashed good, why not implement it immediately? Gradually phasing it in would keep workers from reaping the full benefits of the increase for several years. In this sense, the Raise the Wage Act's structure makes part of our argument about tradeoffs for us.

Whether through oversight or on purpose, the bill text does not have any provisions regarding non-wage compensation. For workers who would rather have this non-wage compensation, the Raise the Wage Act and similar measures deny them the choice. The sections below on tradeoffs and workplace flexibility will explore this theme in greater detail. The rest of this section will focus on the bill itself.

Section 1 gives the bill's short title, the Raise the Wage Act. Section 2 lays out the proposed standard minimum wage levels:

- \$8.55 per hour when the legislation takes effect;
- \$9.85 after one year;
- \$11.15 after two years;
- \$12.45 after three years;
- \$13.75 after four years;
- \$15 after five years; and

- Annual indexed increases thereafter, based on average wages, rather than inflation or productivity.

Starting six years after coming into effect, the federal standard minimum wage would increase annually by the same percentage of the average wages of all employees. The Secretary of Labor will make the final determination, based on Bureau of Labor Statistics data. The rate will always be rounded up to the nearest nickel. The new rate is required to be calculated at least 90 days in advance, though Section 5 only requires 60 days notice for publishing the new rate in the *Federal Register*.

As noted above, indexing the minimum wage to average wages would have negative unintended consequences. These include reducing non-wage compensation in ways workers may not prefer; potential additional volatility to wages and employment rates for low-income workers; disproportionate harm to young, part-time, and minority workers; harm to individuals whose circumstances do not fit an aggregate national statistic; and different regional impacts. These federal levels are all *minimum* minimum wages; state and local governments would remain free to set higher floors.

Section 3 governs tipped employees, who currently have a lower minimum wage than non-tipped employees. The

bill would phase out the lower tipped minimum wage over time, and contains language to delete statutory references to different tipped and non-tipped minimum wages. Currently \$2.13 per hour, the tipped minimum wage would increase to \$3.60 when the Raise the Wage Act becomes effective, compared to \$4.15 in the bill's previous version. It would then increase annually by either \$1.50 (\$1.15 in the 2017 bill) or the difference between the tipped and standard minimum wage, whichever is lower. Once tipped and non-tipped minimum wages are equal, all employees will be subject to the same inflation-indexed \$15 minimum wage. It also provides for employees to keep all the tips they collect, and requires employers to post a notice of this policy in the workplace.

Section 4 governs workers under 20 years old, who are also subject to a lower minimum wage, currently \$4.25 per hour. As with tipped workers, the Raise the Wage Act would make the under-20 minimum wage the same as the standard minimum wage, then remove any statutory reference to a separate under-20 minimum wage. The \$4.25 per hour under-20 minimum wage would immediately increase to \$5.50 (\$5 in the previous version), then increase annually by either \$1.25 (\$1.05 in the previous version) or the difference between the under-20 and standard minimum wages, whichever is less, until the difference disappears,

similar to the tipped-employees wage model.

Section 5 requires federal minimum wage increases to be published in the *Federal Register* at least 60 days before a minimum wage increase comes into effect.

Section 6 covers workers with disabilities. As with tipped and under-20 employees, the Raise the Wage Act would put employees with disabilities under the standard minimum wage. Under current policy, the Labor Department distributes 14(c) certificates to certain employers, which allow them to hire individuals with disabilities for less than the standard minimum wage.²⁴ One year after coming into effect, the 14(c) minimum wage would rise to \$4.25. In subsequent years, it would rise to \$6.40, \$8.55, \$10.70, \$12.85, and after six years, the standard minimum wage. The 115th Congress version of the Raise the Wage Act specified \$6.25 per hour after one year, then \$8.25, \$10.25, \$12.25, and the standard federal minimum wage. At that point, the 14(c) program would end, though current 14(c) certificate holders would be grandfathered in.

Section 7 sets the effective dates for the bill's policy changes. They would begin on the first day of the third month after the bill's enactment, with the annual increases tied to anniversaries of that date.

The workers most likely to be harmed by a minimum wage are the lowest earners.

Tradeoffs

Every individual worker's situation will present its own unique mix of tradeoffs, but the prevalence of tradeoffs is universal. A higher minimum wage means that some people would find that out the hard way. The number of possible tradeoffs is long, so the description of each one here will be brief. This list is not complete; even the best empirical research misses many of the tradeoffs. Moreover, workers and business owners will be far more creative at finding ways to adapt to higher wage costs than politicians or analysts can anticipate. As University of California-San Diego economist Jeffrey Clemens argues, "economists' empirical methods have blind spots. Notably, firms' responses to minimum wage changes can occur in nuanced ways."²⁵

Most simple economic models consider the minimum wage roughly a wash, or mildly harmful. Adding in transaction costs, administrative costs, and dead-weight losses incurred by moving from one wage/non-wage compensation mix to another, and of moving from one allocation of jobs to another, means the costs of a minimum wage will likely be greater than the benefits.

The mix of tradeoffs in a given case will likely roughly cancel out the wage increase; a minimum wage would likely have roughly no net benefit for workers. A book-length literature review by economists David Neumark

of the University of California-Irvine and William L. Wascher of the Federal Reserve, covering more than 100 studies, finds that overall research points to minimum wage increases usually causing a small net harm for low-income earners, expressed through a wide variety of tradeoffs.²⁶ The workers most likely to be harmed by a minimum wage are the lowest earners, typically workers under 20 and part-time employees. Full-time employees with more skills and experience are the last to go if an employer needs to cut hours or lay off employees.

Different Regional Impacts. The simplicity of a uniform minimum wage is appealing, and simplicity does often make for good policy, but that is not the case for minimum wages. Federal lawmakers should be reluctant to support a one-size-fits-all \$15 wage because of regional differences in cost of living and local preferences. An urban representative's constituents might face fewer tradeoffs, but other members' constituents could be severely affected. Senators who count both urban and rural constituents should be especially sensitive to how a minimum wage would affect different parts of their states. Manhattan has higher living costs than, say, Wyoming. A minimum wage level that might not be a big deal in New York City could matter a great deal in smaller communities throughout the country.

New York state policy makers know this, which is why the state's minimum wage law has three different tiers: one for New York City, one for its surrounding counties, and one for the rest of the state.²⁷

Layoffs. This is one of the most-cited arguments for opponents of minimum wage increases, but not one of the strongest. Labor force size is tied to population size, not any particular policy. The typical boom-and-bust cycle features unemployment rates within a narrow band, rarely going below 4 percent during a boom and rarely above 10 percent during a bust. The remaining possibilities cover roughly 94 percent of possible outcomes, but still almost never happen. This is regardless of a society's prevailing minimum wage, level of technology, regulatory environment, or size of manufacturing or service sectors. What these policies affect are the *types* of jobs and how much value they create, not the *number* of jobs, which is always tied to population size more than anything else. A minimum wage increase will cause a temporary spike in unemployment as displaced workers search for other options, from new jobs to off-the-books options that do not show up in official statistics.

There will likely be fewer layoffs than wage increase opponents fear under a \$15 minimum wage.²⁸ UC-Irvine economist David Neumark, using

Congressional Budget Office methodology, estimates that a \$15 minimum wage would cost 2 million jobs if enacted in 2020, and 850,000 jobs if phased in through 2026, though he does not estimate the time frame.²⁹ This is out of a total workforce of roughly 163 million. The number of lost jobs may even be less. Firings due to a minimum wage increase are a last resort. Employers will usually go to great lengths to avoid letting go of workers unless absolutely necessary. Most of a minimum wage's tradeoffs are often more subtle than a pink slip.

Reduced Non-Wage Compensation.

Under a \$15 minimum wage, employers will reduce many forms of non-wage compensation in order to avoid firing employees, often in ways outsiders will not predict. Some of these changes may even be for the better, though others will not be. More money going to wages means less money left over for other forms of compensation. According to the economists Armen Alchian and William Allen:

“The law only specifies the *money wage component*. The unintended consequence is that to get or retain jobs at the higher imposed wage rates, job applicants will tolerate less pleasant and stricter working conditions, less vacation, less insurance, less employer-supplied work clothing

Labor force size is tied to population size, not any particular policy.

A minimum wage increase also risks subjecting more low-income workers to federal or state income tax liabilities.

and tools, shorter coffee breaks, more intense labor, less job security, and more occasions of temporary layoffs when demand is transiently low.”³⁰ [Emphasis in original]

In other words, employees may not get *more* compensation, but they will get *different* compensation, and will have less say as to what kind.

Tax Increase for Low-Income Workers. Wages are taxed; non-wage pay is often untaxed. Since minimum wages have little effect on total compensation, workers affected by a minimum wage increase would pay higher taxes on the same amount of total compensation, making them worse off. Even workers in states with no income tax, or whose income is below the income tax threshold, still pay the 15.3 percent Federal Insurance Contributions (FICA) tax for Social Security and Medicare. Because half of the FICA tax is charged to the employer, an employee’s wage cost to his or her employer is actually 107.65 percent of wages. For a worker at \$15 per hour, this amounts to an additional \$1.15 per hour in wage expenses, or a total of \$16.25 per hour. This increases the amount of tradeoffs needed to cover new wage costs.

This point is rarely acknowledged by either side of the minimum wage debate, but it would have genuine impact on the well-being of people on

the bottom of the economic ladder. Their tax returns might show higher incomes, but a lot of workers would be worse off because of that higher taxable wage income. Nearly every worker pays the 15.3 percent FICA tax that partially funds Social Security and Medicare. So even if total compensation were unchanged, shifting from non-wage compensation to wages is a 15.3 percent marginal tax increase. Only half of this shows up on a paycheck, because employers withhold the other half, so fewer workers notice the full burden. For many workers, it is the highest tax they pay.

A minimum wage increase also risks subjecting more low-income workers to federal or state income tax liabilities. Suppose a restaurant worker gets complimentary food worth \$5 per shift. For a full-time job, that amounts to \$1,250 per year of tax-free compensation. Some or all of that benefit might become taxable wages instead. So even if a worker’s paycheck goes up and his total pre-tax compensation remains unchanged, he could still owe more in taxes.

Fewer Job Openings. If a store owner has to stay within a certain budget for employee costs, she will be able to hire fewer of them when their cost goes up. She can explore other tradeoffs to grandfather in existing employees, especially if they have learned job-specific skills that make them more productive than a new hire. But when

an employee does eventually leave, the employer may choose simply not to replace her. New hires often also require training, which is costly to provide, in addition to a higher wage.

Suppose a busboy leaves a restaurant. The owner might make servers take on his duties in addition to their own, instead of hiring a replacement. Not only is this a de facto pay cut for servers, who would do more work without more pay, at least one willing worker never gets a job at all.

From the employee's perspective, when there are fewer job openings elsewhere, they will be more inclined to hold onto their existing jobs. This would further compound the problem, and possibly trap some workers in jobs they would not otherwise choose.

As economists Jonathan Meer of Texas A&M and Jeremy West of the University of California-Santa Cruz point out, high minimum wages make businesses more reluctant to expand and hire more employees for low-level positions.³¹ In other words, employers under a high minimum wage are reluctant to hire, not just to fire.

Longer Job Searches. Employers are generally pickier about higher-paid employees than lower-paid ones. This means tougher vetting practices for new hires if they are paid more due to a minimum wage increase. This, combined with fewer openings available in the first place, means

many workers will have a harder time finding new work. They will spend more time and effort polishing resumés, looking through job boards, and practicing interviews that could have been spent working and earning money instead.

Reduced Hours. Some workers will see at least some of their higher wages offset by having their hours cut. The result is that while workers may be making more per hour, they might not actually see an increase in their weekly paychecks. This happened in New York City, which recently enacted a \$15 minimum wage for businesses with 11 or more employees. Megan Cerullo of CBS News interviewed restaurant owner Jon Bloostein:

Bloostein said he has scaled back on employee hours and no longer uses hosts and hostesses during lunch on light traffic days.

Customers instead are greeted with a sign that reads, "Kindly select a table." He also staggers employees' start times. "These fewer hours add up to a lot of money in restaurants," he said.³²

Cerullo also cites a 2019 survey of 574 New York restaurants that found 75 percent of restaurants intended to cut hours in response to the minimum wage increase, with 47 percent planning staff cuts in 2019, and 87 percent planning price increases.³³ A 2019 survey of more than 4,000 restaurants

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by Harri, which makes software for the hospitality industry, found that 63 percent of respondents cut hours in response to rising wage costs.³⁴ A 2017 University of Washington study found that Seattle’s minimum wage increase caused a slight decrease in worker pay.³⁵

Stricter Policies for Arriving Late or Leaving Early. Short of cutting hours, an employer might respond to a minimum wage increase by being stricter about those hours. This can be an avoidable source of stress for some employees. Many employers will let it slide if an employee sometimes shows up a little late or needs to leave early, especially at lower pay grades. That may change under a high minimum wage, when even five minutes of missed work per day would be more costly over time.³⁶ This tradeoff would be most felt by workers with small children, or who live in areas with traffic problems or unreliable transit. It can also reduce job security, which is a more serious matter—especially since high minimum wages also make new jobs harder to find. An employer could also have a policy of counting late arrivals and early departures against legally required break times to the extent possible.

Increased Automation. Self-checkout lanes at retailers and ordering kiosks for restaurants can have high start-up costs, but the higher the minimum

wage, the more attractive automation becomes.³⁷ When a dishwasher or a cashier leaves a workplace, a high minimum wage makes it more likely that his replacement will be a machine. Employers could also simply reduce the number of employees, or give employees different responsibilities, such as working in the kitchen or stocking inventory.

Whether automation is a good thing or a bad thing on net will vary in each individual case. Automation can make for an improved consumer experience in some cases. Electronic ordering can reduce error rates, make customization easier, and overcome language barriers. Many employees would also prefer not to have to deal directly with customers. If such changes do happen, it should be because consumers want them, not because labor regulations force the issue.

Higher Insurance Co-Pays. A company that offers health insurance as a form of non-wage compensation and is forced to pay higher wages might offset some of the cost by paying less into its employee health plan. That could result in higher co-pays or a higher deductible. Reducing coverage or offering none at all could leave some employees significantly worse off under an increased minimum wage—especially the minority of minimum wage earners who are their households’ primary providers. A

2018 National Bureau of Economic Research study finds evidence for this effect, noting that, “Effects are largest among workers in very low-paying occupations, for whom coverage declines offset 9 percent of the wage gains associated with minimum wage hikes.”³⁸

Less Vacation and Personal Time.

Many jobs offer some form of paid vacation. A higher minimum wage could make this perk more expensive, which means employers may offer less of it. As of this writing, there is no empirical study on how much minimum wages affect paid time off, due in part to measurement difficulties and the potential unreliability of survey data. But the tradeoff of possible cuts to time off is easy enough to predict that ballot measures and legislation in several states account for it. These include states with diverse political and economic profiles, such as Arizona, Massachusetts, and Michigan. Just as pressing down on a balloon does not reduce the amount of air in it, such efforts simply push tradeoffs somewhere else. Another possible unintended consequence is that employers may discriminate against employees they believe will be most likely need to take time off, such as employees with young children or elderly relatives or women who may become pregnant.

Reduced or Eliminated Perks Such as Free or Discounted Meals or Parking.

This happened in SeaTac, Washington,

which implemented a \$15 minimum wage in 2014.³⁹ Shortly after it came into effect, *Northwest Asian Weekly*'s Assunta Ng interviewed two workers who got a raise as a result of the increase.⁴⁰ A cleaning lady lost her health insurance, her 401(k), and overtime pay, while a restaurant worker complained of receiving reduced tips, which previously pushed her hourly pay above \$15. Both workers also lost free parking and meals. For some workers, this would be a worthwhile tradeoff for higher wages, but not for others. That should be their decision to make, not legislators’.

Reduced Employee Discounts. Some workers choose a job in part for the employee discount. This can benefit anyone from grocery workers to car dealership employees. Used wisely, these discounts can help a family make ends meet with routine expenses, or can simply make a hobby a little more affordable, such as music, movies, or electronic equipment. If these discounts are a casualty of a minimum wage increase, some employees would be made worse off, especially if they are heavy users of the employee discount.

Less Flexible Hours. Many employers have informal arrangements with employees that allow them to take occasional time off without need to keep track of it. Maybe an employee leaves 20 minutes early on Wednesdays to take a child to soccer practice, but the employer pays for that time anyway.

One impact of minimum wage increases is that many young people are priced out of work altogether.

These kinds of small courtesies are common in life. If a minimum wage increase necessitates some belt-tightening, the workplace might become more formal and a little less courteous. Such a change would harm the employer-employee relationship by making the workplace dynamic more contentious. In combination with other minimum wage tradeoffs, it could lead to more confrontations, grievances, and possibly strikes—despite higher wages for the lowest-paid employees.

Higher Consumer Prices. In tipped industries, mainly restaurants, tipping typically decreases where minimum wages are high. This can lead some businesses to forgo tips altogether and move instead to a model of higher fixed prices to cover labor costs. This will push some restaurants out of the price range of some lower-income consumers, who might pay a lower price and at least some tip. This harms the business, which sees sales go down. It harms employees—with fewer customers, they generate less revenue per hour, giving the employer an incentive to cut their hours. And, as noted, lower-income consumers are denied the opportunity to enjoy meals or other goods they would otherwise enjoy.⁴¹

The 2019 New York restaurant survey found that 87 of respondent restaurants planned to increase their prices to help pay for increased labor costs.⁴² The problem is not limited to New York.

Ryan Houdek, co-owner of Fort Collins' Union, Social and Melting Pot, told the *Fort Collins Coloradoan*, “You either have to raise prices on your food or try to do more with less staff.”⁴³ This is true of any labor-intensive industry with a lot of low-wage workers, including retail and agriculture. These industries also have many low-income customers, so their pay raises in many cases will be partially canceled out by higher prices for food and other goods.

Outsourcing Jobs. Labor costs are a primary driver of U.S. companies outsourcing much of their manual labor. The Raise the Wage Act would raise labor costs, and thus increase the incentive to outsource. Sen. Bernie Sanders (I-VT), the Raise the Wage Act's lead Senate sponsor, has also sponsored separate legislation to prevent outsourcing. “We need to send a very loud and very clear message to corporate America: the era of outsourcing is over. Instead of offshoring jobs, the time has come for you to start bringing good-paying jobs back to the United States of America,” he said in a statement about his Outsourcing Prevention Act.⁴⁴ Sen. Sanders has not addressed how he would reconcile these incompatible policy goals as of this writing.

Higher Youth Unemployment. One impact of minimum wage increases is that many young people are priced out of work altogether. Young workers are

generally less productive than more experienced workers. They simply have not had the time to gain the same experience and skills that make them as productive as workers who have been on the job for years. Even under current policies, the percentage of high school students holding part-time jobs has been steadily decreasing for about 20 years.⁴⁵ There is an old saying about needing experience to get a job, but first needing a job to get experience. A \$15 minimum wage would intensify that Catch-22 dynamic for a lot of willing young workers. In Europe, where minimum wages are typically higher than in the U.S., youth unemployment is also typically higher than in the U.S. In France, for example, youth unemployment rates are typically well over 20 percent, even during good economic times.⁴⁶

A study by David Neumark of UC-Irvine and Cortnie Shupe of the German Institute for Economic Research found that, “minimum wages explain about a quarter of the shift, since 2000, from being simultaneously employed and enrolled in school to being exclusively enrolled in school.”⁴⁷ This is stronger than any other factor they study. In line with what one would expect, the effect was stronger for 16- and 17-year-olds than (comparatively) more mature and experienced 18- and 19-year-olds. Neumark and Shupe also found that having kids forgo part-time jobs to concentrate exclusively on

school did not increase their earning potential later in life—in other words, having an after-school job does not interfere with school. Some families prefer their high school-age children to concentrate on their studies. That is fine, even if not necessarily supported by statistics. People should make their own choices. A high minimum wage should not make that decision for them.

Fewer Minority Workers Hired.

Minimum wages disproportionately harm minority workers. That may seem counterintuitive today, but harming minorities was one of the original intentions behind the minimum wage during the progressive era, and unfortunately it worked.⁴⁸ Times have changed. Today, the harm is unintended. Minimum wage laws price out the very lowest earners from the workforce, who skew minority compared to the general population.

Immigrants are another minority group disproportionately harmed by minimum wage increases. *The American Conservative* publisher Ron Unz views this as a good thing, just as early-20th century progressives did: “The automatic rejoinder to proposals for hiking the minimum wage is that ‘jobs will be lost.’ But in today’s America a huge fraction of jobs at or near the minimum wage are held by immigrants, often illegal ones. Eliminating those jobs is a central goal of the plan, a feature not a bug.”⁴⁹ Unz’s moral

Minimum wage laws price out the very lowest earners from the workforce, who skew minority compared to the general population.

When fewer young people are working, they often have more idle time, and one remembers the old saying about that.

compass is deeply flawed, but his analysis of likely outcomes is accurate. For progressives who support a higher minimum wage, it should, at the very least, give them pause.

In some cases, minimum wages give greater leeway to “soft prejudices” that can still cause harm. A higher minimum wage makes employers less likely to take a chance on a new hire—meaning both employer and employee could lose out on new opportunities. This gives employers an incentive to discriminate.⁵⁰ For employers who are not prejudiced but still prefer a perceived “safe” hire, maybe the clean-cut college graduate from a middle class family gets the nod over an equally qualified candidate with less social polish due to a less privileged upbringing. In cases where an employer is racist, homophobic, or otherwise actively prejudiced, a higher minimum wage makes it easier for him to act on it, as a larger hiring pool makes it easier for him to refuse to hire candidates from social groups he dislikes.

While it is impossible to quantify how much racism influences employers’ hiring choices compared to other factors, minimum wages have significant racial disparities in their effects. Miami University economist William E. Even and Trinity University economist David A. MacPherson found that:

[A]mong 16- to 24-year-old men without a high school diploma, the employment loss caused by a minimum wage hike is greatest among black men and smallest among Hispanics. ... In the states where the federal minimum wage hikes of 2007-2009 were binding, the increases in the federal minimum wage did more damage to the employment prospects of black men than the Great Recession.⁵¹

Enables Abuse. A high minimum wage gives bosses greater leeway to treat employees poorly. Employers have a larger pool of applicants eager to take a disgruntled employee’s place, precisely as the unhappy employee has fewer viable exit options—an increase of the monopsony power that minimum wage activists seek to reduce. A high minimum wage can make it more difficult for abusive bosses to be found and disciplined, whether by market forces or, where applicable, the legal system.

Higher Crime Rates. While the effect is not large, there is some empirical evidence that minimum wage increases are associated with crime rate increases. Minimum wages disproportionately affect young people. Young people also disproportionately commit crimes. When fewer young people are working, they often have more idle time, and one remembers the old saying about

that. Over the period 1997-2010, in U.S. jurisdictions that increased their minimum wages, “[A]ffected 14-16 year-olds are 8.4 percentage points more likely to commit crimes, and 17-19 year-olds increase crime by 3.4 to 4.1 percentage points.”⁵² This increase involved non-monetary crimes such as vandalism as well as monetary crimes such as theft. A 2019 study by economists Zachary S. Fone of the University of New Hampshire, Joseph J. Sabia of San Diego State, and Resul Cesur of the University of Connecticut finds similar effects, with a 10 percent minimum wage increase being associated with a 2 percent increase in property crime rates, and no increase in violent crime.⁵³

Rent-Seeking

Minimum wages enable rent-seeking, the act of lobbying for special favors from government to earn extra profits—called “rents” in economics parlance. For example, big companies can use minimum wage increases to unfairly tilt the scales against smaller competitors. A big company can absorb the cost; its smaller competitors often cannot. Big companies including Wal-Mart, Costco, and Amazon often have starting wages far higher than legally required, and often lobby for legislators to impose higher minimum wages that raise competitors’ costs.

Worse, when pro-minimum wage activists ally with rent-seeking firms, they help create what is known in economics as a “bootleggers-and-Baptists” situation. In the original parable, devised by Clemson University economist Bruce Yandle, a moralizing Baptist and a shady bootlegger both favor a law closing liquor stores on Sundays, but for different reasons. Baptists want people to abstain from drinking on the Lord’s Day, while the bootlegger gets a monopoly one day of the week, enforced by government. Sometimes, the bootlegger will even adopt some of the Baptist’s virtuous arguments for his own purposes.⁵⁴

In November 2018, Amazon adopted a \$15 starting wage for its U.S. employees.⁵⁵ The company deserved the round of applause it got for increasing worker pay, and it was likely a sound business strategy, since a guaranteed \$15 wage can give Amazon a recruiting advantage. But there may be more to the story. “We will be working to gain Congressional support for an increase in the federal minimum wage. The current rate of \$7.25 was set nearly a decade ago,” announced Amazon Senior Vice President of Global Corporate Affairs Jay Carney in an October 2018 news release. “We intend to advocate for a minimum wage increase that will have a profound impact on the lives of tens of millions of people and families across this country.”⁵⁶

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A high in-house starting wage may well be a good business strategy for Amazon, but why is it eager to use the federal government to force competitors to raise their labor costs?

Wal-Mart has also publicly favored using government to raise its competitors' labor costs. At a Wal-Mart shareholders meeting attended by Raise the Wage Act cosponsor Sen. Bernie Sanders, CEO Doug McMillon told shareholders he was supporting a federal minimum wage increase.⁵⁷ Back in October 2005, McMillon's predecessor Lee Scott caused a stir by supporting increasing the federal minimum wage to \$5.15 per hour. The following year, he said in a statement, "Though we do not intend to take a position on any single piece of legislation, we believe Congress should increase the minimum wage."⁵⁸

A federal increase would force Wal-Mart's smaller competitors to have to match its own higher starting wage, which it raised to \$11 per hour in 2018. Wal-Mart can absorb these costs fairly easily, but not all of its competitors can, especially smaller mom-and-pop neighborhood stores. It also has the option of shifting some of its non-wage benefits over to wage pay, something not all of its competitors can do. Keeping in mind the bootleggers-and-Baptists story, Wal-Mart can use minimum wage increases to generate positive publicity while simultaneously

gaining an unfair competitive advantage.

Many other large companies have taken a similar approach. Costco CEO Craig Jelinek has also long favored raising minimum wages, even though all Costco workers are paid significantly higher than the minimum wage.⁵⁹ McDonald's recently made headlines when it declined to oppose a minimum wage increase, though it fell short of actively supporting one.⁶⁰

Organized labor typically favors high minimum wages, and spends significant resources advocating for increases. The Service Employees International Union, for example, spent \$90 million on its Fight for \$15 campaign from 2012-2017, even as it lobbied to exempt union workers from a \$15 minimum wage in Los Angeles—leaving some of its members vulnerable to making *less* than the minimum wage, while still having union dues deducted from their paychecks.⁶¹ Some collective bargaining contracts also tie union wages to increases in minimum and living wages, with the result that a minimum wage increase also raises union wages.⁶²

Such self-interested behavior is nothing new. Many early minimum wage supporters during the Progressive Era were quite explicit about using minimum wages to keep minorities and non-union workers out of a job, and to give unions a government-

backed monopoly on labor in some markets.⁶³ There was even a 1968 Supreme Court case, *United Mine Workers v. Pennington*, in which a labor union tried to use a minimum wage, among other measures, to exclude non-union workers from the industry. They were found in violation of antitrust law.⁶⁴

Workplace Flexibility

Most tipped employees are subject to a lower minimum wage than non-tipped employees. The Raise the Wage Act and other minimum wage proposals would end the difference between tipped and non-tipped minimum wages. In doing so, they would take an important choice away from many workers.

There is a lesson to be learned from a recent experiment in Washington, D.C. In 2018, voters in the District of Columbia passed Initiative 77, which would have raised the District's minimum wage to \$15 in 2020.⁶⁵ It would also have paid tipped employees the same way as non-tipped employees. This had unintended consequences.⁶⁶ Before Initiative 77, tipped employees were given a reduced minimum wage, but if tips did not bring hourly income up to the standard minimum wage, employers would make up the difference. Initiative 77, by doing away with this "tip credit" policy, caused many restaurant and bar patrons to

reduce tipping or even stop tipping altogether. The confusion reached the point where *The Washington Post* published a tipping etiquette guide.⁶⁷

When comparing a high-wage, low tip system to a low-wage, high-tip system, one is not inherently better than the other. It is a matter of personal preference. Some employees might prefer to have a steady paycheck each pay period, while others might prefer to have a fresh supply of cash every day, even if income can be more volatile.

Initiative 77 glossed over those preferences. It lumped all employees into a high-wage and, often, low-tip situation, whether they wanted it or not. Tipped employees revolted. It turns out most of them prefer a low wage with high tips compensation model, and the outcry was so great the D.C. City Council repealed Initiative 77 just four months after it passed.⁶⁸

The Raise the Wage Act treats tipped employees the same way as Initiative 77 did, and will likely prove about as popular among them if enacted. While the local experiment in D.C. was relatively easy to undo, federal legislation is much more difficult to repeal, a process that could take years.

A similar dynamic is in play for employees with disabilities. Many people are willing and able to work, but may not be productive enough to be employable at \$15 per hour. Current

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Legislators’ attempts to reduce workplace flexibility do not always go according to plan.

law acknowledges this, and allows for some of them to work for below minimum wage if they choose, subject to the 14(c) certificate program discussed above. Doing away with this policy would harm the disabled community. Not only would some people make no money instead of some money, many employees with disabilities feel a great deal of pride and happiness in being able to be independent, at least partially self-sufficient, and able to create value with their work in spite of their difficult circumstances. Minimum wage increases would take this away from at least some people who get more out of their work than wages.

A final point worth noting is that legislators’ attempts to reduce workplace flexibility do not always go according to plan. If the law does not permit willing workers and willing employers to get together above the table, they will often go under it instead. Such gray- and black-market arrangements leave workers more vulnerable to exploitation and often unable to turn to the legal system if something goes wrong. An observation about human nature from Adam Smith’s *Theory of Moral Sentiments* serves as an appropriate parting thought for well-meaning legislators and activists:

The man of system ... is often so enamored with the supposed beauty of his own ideal plan of government, that he cannot suffer

the smallest deviation from any part of it. ... He seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board.⁶⁹

Conclusion

Minimum wage increases are popular with the public and with policy makers. That enduring popularity means that at any given time, there will almost always be some proposed increase in play somewhere. The Raise the Wage Act is the example *du jour*. But minimum wage increases are not a free benefit. For that reason, they are not popular among economists.

Intended or not, minimum wage increases have a bleak litany of tradeoffs. These include differing regional impacts, layoffs, reduced non-wage compensation, a tax increase for the working poor, fewer job openings, longer job searches, reduced hours, stricter policies for being late or leaving early, increased automation, higher insurance co-pays, less vacation and personal time, reduced or eliminated on-the-job perks, reduced employee discounts, less flexible hours, higher consumer prices, more outsourcing, higher youth unemployment, fewer minority workers hired, more discrimination, more abusive behavior by bosses, and higher crime rates.

Minimum wage increases also have anti-competitive effects. Large corporations can absorb extra costs relatively easily, while their smaller competitors struggle to keep up.

Companies that can afford it are free to raise their employees' pay, and many already do—less than 3 percent of workers currently earn the minimum wage.⁷⁰ Such behavior deserves plaudits, but there is no need for large companies to lobby government to get other companies to follow suit. This kind of rent-seeking behavior hurts both consumers and workers in the long run, and opens opportunities for political corruption.

Finally, high minimum wages can take away workplace flexibility. In the case of the separate tipped employee minimum wage, employers and employees are already free to use a high-wage, low-tip compensation model. Some restaurants even forbid tipping altogether, proudly noting their high wages. But other workers prefer a low-wage, high-tip compensation

model. They should have this choice if they want it. Workers with disabilities would also be harmed by minimum wage increases by being priced out of the job market.

It is legitimate to look over the many tradeoffs and complications of a minimum wage increase, and still favor one. That is a subjective value judgment with no right or wrong answer. But activists and politicians are doing workers no favor by denying that these tradeoffs exist, or distracting attention from them with *ad hominem* attacks against critics. While the economic benefits and costs of minimum wages are likely roughly a wash, the ethical concerns involving artificially increased inequality among low-income people, increased corporate rent-seeking, and the reductions of workplace flexibility should, for most people, tip the scales against an increased minimum wage, especially ones as steep as in the Raise the Wage Act and other \$15 minimum wage legislation.

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