The Impact of a Federal Minimum Wage Increase

Fallout Could Cripple Job Growth for Young and Unskilled Workers and Hurt Specific Business Sectors

In March of this year, the United States Bureau of Labor Statistics released its annual report entitled, “Characteristics of Minimum Wage Workers for 2013.” The report provides timely and important data on the current federal minimum wage by age, gender, industry and marital status, while also providing historical data regarding current federal minimum wage increases, total workers in the workforce and percent of the workforce working at or below the current federal minimum wage, which is currently $7.25.

What Does the Data Say?

Debates are taking place across the United States as to whether the minimum wage should be raised above current state and/or federal levels. In order to take a position on such an important topic, one should try to understand the breakdown as to the population of Americans who earn wages at or below the current federal minimum wage.

About 2.5 percent of the total U.S. workforce earns an hourly wage at or below the current federal minimum wage, with 1.5 million Americans earning the current federal minimum wage and 1.8 million earning wages below the federal minimum (excluding tips and commissions). Together in 2013, there were 3.3 million Americans earning at or below the federal minimum, with three percent of the population age 25 or older earning the minimum wage or below.

Five percent of women earn minimum wage or less compared to men at three percent. By race, five percent of African-Americans, four percent of whites and Hispanics or Latinos and three percent of Asians earn minimum wage or less. Roughly 24 percent of all workers working at or below the minimum wage do not have a high school diploma. Roughly half of all those being paid at or below the federal minimum wage are less than 25 years of age. Of hourly
workers earning at or below the minimum wage, eight percent are single (mostly young) and 2 percent are married.

Finally, the percentage of hourly workers earning the current minimum wage or less has been steadily declining from 5.2 percent in 2011, to 4.7 percent in 2012 to 4.3 percent in 2013. The aforementioned is far below the 13.4 percent of hourly workers in 1979, when the government began keeping data. It also is well below its peak of 15.1 percent in 1980 and 1981 (see Chart 1).

To support or not to support?

There are many good reasons to support or not to support an increase in the current federal minimum wage and they usually fall along political or philosophical lines. The following are among the most popular:

Arguments for a minimum wage increase include the following:

- It will increase the standard of living of poor workers.
- It will stimulate Gross Domestic Product (GDP) growth.
- It will increase tax revenue.
- It will lead to a reduction in household debt.
- It will be good for families.

Conversely, arguments against a minimum wage increase include the following points:

- It will price out of the market young, first-time workers.
- It will price out of the market under-educated and/or low-skilled workers.
- It will hurt marginally profitable and small businesses.
- It will cause wage and price inflation and wage bracket creep.
- It will encourage employers to substitute labor-saving technologies in place of low-skilled workers and create unemployment.
Our purpose here is not to dissect each of the above arguments for or against an increase in the current federal minimum wage, nor is it our intention to debate whether each has merit. Rather, we would like to focus on the base reason why we oppose an increase in the current federal minimum wage.

We simply believe the data shows that increasing the minimum wage reduces or eliminates net job opportunities for young, entry level workers as well as low-skilled workers.

We agree with Harvard University economist Greg Mankiw. In his popular *Principles of Economics* textbook he notes, “The minimum wage has its greatest impact on the market for teenage labor. The equilibrium wages of teenagers are among the least-skilled and least-experienced members of the labor force. In addition, teenagers are often willing to accept a lower wage in exchange for on-the-job training...as a result the minimum wage is more often binding for teenagers than for other members of the labor force.”

An increase in the minimum wage would be especially harmful to the leisure and hospitality industry where more than 50 percent of workers earning minimum wage or below were employed in 2013, with just fewer than 20 percent of the industry’s workers earning the current federal minimum wage or below (See Charts 2 and 3).

Recall that 3.3 million Americans earned the current minimum wage or less in 2013, with 1.8 million of the 3.3 million earning less than the current federal minimum wage. More than 60 percent of those employed at less than the minimum wage are employed in food preparation and serving, receiving tip or commission income in addition to their base wage. In fact, according to the Bureau of Labor Statistics, the mean average hourly income (wages plus tips) for a tipped waiter or waitress in the United States in 2013 was $10.04 an hour, with the bottom 10 percent average wage being $7.84 an hour, and the top 10 percent average being $14.33 an hour. With the vast majority of the 1.8 million employees earning below the minimum wage but also earning tips or commissions, many make well above the current federal minimum wage and certainly confuse or muddy the debate.
Nobel laureate Milton Friedman observed, “The real tragedy of minimum wage laws is that they are supported by well-meaning groups who want to reduce poverty. But the people who are hurt most by higher minimums are the most poverty-stricken.”

We, too, fear that increasing the current federal wage to $10.10 an hour, as many in Washington are advocating, would greatly reduce job opportunities for the young and unskilled, especially in lower income areas where leisure and hospitality businesses find it difficult to thrive. Higher prices for everything from meals at restaurants to room rates at hotels will result in entry level and unskilled workers being replaced by technology at a faster rate than normal due to government interference via an increase in the minimum wage.

We believe the U.S. Congressional Budget Office’s 2014 mean estimate that 500,000 American jobs will be lost if a federal minimum wage rate of $10.10 an hour is adopted. We also believe that increasingly fewer ambitious, young and/or unskilled workers will be able to gain work experience and a career path to greater prosperity and happiness in the economy of the future if a higher federal minimum is adopted.

In these challenging economic times, we believe government policy should be creating incentives to create additional job opportunities, not fewer.

**About the authors**

*Keith Pretty is President and CEO of Northwood University; Tim Nash is the Fry Endowed Professor in Economics at Northwood University; Rich Studley is President and CEO of the Michigan Chamber of Commerce; and Bob Thomas is Director of Operations for the Michigan Chamber of Commerce.*
Chart 1: Percent of Hourly Workers Paid at or Below the Prevailing Federal Minimum Wage

Chart 3: Percent of Hourly Paid Workers with Earnings at or Below the Federal Minimum Wage by Industry, 2013 Annual Averages

- Leisure and Hospitality
- Other Services
- Agriculture and Related Industries
- Retail Trade
- Total, 16 years and over
- Information
- Education and Health Services
- Professional and Business Services
- State Government
- Local Government
- Transportation and Utilities
- Manufacturing
- Wholesale Trade
- Financial Activities
- Construction
- Mining
- Federal Government

## Chart 4: Recent History of Minimum Wage Increases

<table>
<thead>
<tr>
<th>Effective Date</th>
<th>Federal Minimum Wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1 1979</td>
<td>$2.90</td>
</tr>
<tr>
<td>Jan 1 1980</td>
<td>$3.10</td>
</tr>
<tr>
<td>Jan 1 1981</td>
<td>$3.35</td>
</tr>
<tr>
<td>Apr 1 1990</td>
<td>$3.80</td>
</tr>
<tr>
<td>Apr 1 1991</td>
<td>$4.25</td>
</tr>
<tr>
<td>Oct 1 1996</td>
<td>$4.75</td>
</tr>
<tr>
<td>Sep 1 1997</td>
<td>$5.15</td>
</tr>
<tr>
<td>Jul 24 2007</td>
<td>$5.85</td>
</tr>
<tr>
<td>Jul 24 2008</td>
<td>$6.55</td>
</tr>
<tr>
<td>Jul 24 2009</td>
<td>$7.25</td>
</tr>
</tbody>
</table>