



Statement before the House Committee on Education and Labor
On "Gradually Raising the Minimum Wage to \$15"

A \$15 Minimum Wage Will Harm Workers

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February 7, 2019

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Chairman Scott, Ranking Member Foxx, and Members of the Committee, thank you for the opportunity to appear before you today to discuss raising the federal minimum wage to fifteen dollars per hour. It is an honor.

WAGE DETERMINATION¹

Worker productivity is the primary factor that determines wages. The textbook economic logic is simple: If a worker generates, say, eight dollars of additional revenue for his firm for every hour he works, then his firm will not pay him more than eight dollars per hour in wages. If the firm did pay him more than eight dollars per hour, then the firm would lose money every hour the worker works. Similarly, the worker will not accept a wage lower than eight dollars per hour, because he knows he can take his skills and effort elsewhere for a higher wage. In this way, market forces push wages to correspond with productivity.

Of course, the real world is not so simple, and there are important frictions in the smooth operation of the market mechanism that can create a divergence between the wages workers receive and the revenue they generate for their employers. For example, the time, effort, and financial costs associated with changing jobs can allow workers to be paid at a rate different than their productivity should require. Firms may pay workers above-market wage rates if it is difficult to monitor their output. Workers may not have all the information they need to make decisions about better-paid employment opportunities. Labor market regulations like occupational licensing can reduce mobility,² which can in turn affect wages. I suspect that a general decline in labor market dynamism can also push wages and productivity further apart.

¹ For a more thorough discussion, see, Michael R. Strain, "[The Link Between Wages and Productivity Is Strong](#)," in Melissa S. Kearney and Amy Ganz editors, *Expanding Economic Opportunity for More Americans*, The Aspen Institute, 2019; and Jeffrey Clemens and Michael R. Strain, "[Estimating the Employment Effects of Recent Minimum Wage Changes: Early Evidence, an Interpretative Framework, and a Pre-Commitment to Future Analysis](#)," *NBER Working Paper Series*, no. 23084, January 2017.

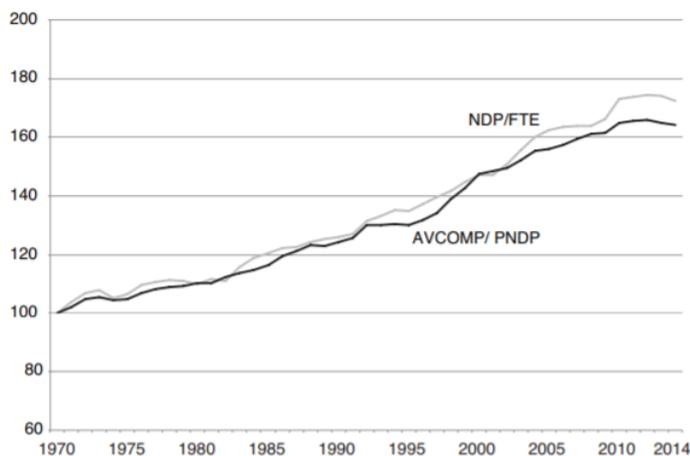
² Janna E. Johnson and Morris M. Kleiner, "[Is Occupational Licensing a Barrier to Interstate Migration?](#)" *NBER Working Paper Series*, no. 24107, December 2017.

And changes in worker bargaining power, including the decline of private sector unions, can as well.

In my view, then, the best way to think about wage determination is as the product of competitive market forces, bargaining power, and institutions. Productivity is the baseline for wage determination, and other factors can push wages higher or lower relative to that baseline.

Recent empirical estimates support this view. A paper by economists Anna Stansbury and Lawrence Summers finds that over the last four decades, a one-percentage-point increase in productivity growth is associated with a 0.73 percentage point increase in the growth rate of median compensation.³ And aggregate productivity tracks compensation very closely over time, as the following chart by economist Robert Lawrence demonstrates.⁴

Figure 3. Net Domestic Product and Real Product Compensation per Full-Time Equivalent Employee



Source: US Bureau of Economic Analysis, National Income and Product Accounts Tables, <http://www.bea.gov/itable/itable.cfm?ReqID=9#reqid=9&step=1&isuri=1>.

³ Anna M. Stansbury and Lawrence H. Summers, “[Productivity and Pay: Is the link broken?](#)” *NBER Working Paper Series*, no. 24165, December 2017.

⁴ Robert Z. Lawrence, “Does Productivity Still Determine Worker Compensation?” in Michael R. Strain editor, [The U.S. Labor Market: Questions and Challenges for Public Policy](#), AEI Press, 2016. See also Strain (2019).

A \$15 MINIMUM WAGE WILL REDUCE EMPLOYMENT

Increasing the federal minimum wage from its current level of \$7.25 per hour to \$15 per hour over a six-year period will likely have a significant and negative effect on employment. The reduction in employment opportunities will be felt most strongly among workers with relatively fewer skills and workers with relatively less labor market experience (e.g., young workers).⁵

The effect that minimum wage increases have on employment is an area of active research among labor economists, with different studies reaching differing conclusions.⁶ And views on this issue differ among economists. In my research, I have found evidence that employment decreases when minimum wage rates are increased.⁷ And my reading of the economics literature leads me to conclude that the weight of the evidence suggests that minimum wage increases lead to non-negligible employment reductions.

In a 2014 analysis, the Congressional Budget Office examined the labor market effects of increasing the federal minimum wage to \$9 per hour and to \$10.10 per hour. CBO found that increasing the minimum wage to \$9 per hour would reduce employment by 100,000 workers, while also increasing the earnings of 7.6 million workers. CBO also found that a \$10.10 minimum wage would reduce employment by 500,000 workers while increasing earnings for 16.5 million workers.⁸ More generally, CBO's analysis highlights the tradeoff present in

⁵ Jonathan Meer and Jeremy West, "Effects of the Minimum Wage on Employment Dynamics," *Journal of Human Resources*, vol. 51, no. 2, spring 2016.

⁶ For example, Arindrajit Dube, T. William Lester, and Michael Reich, "Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties," *Review of Economics and Statistics*, vol. 92, no. 4, 2010; and David Neumark, J. M. Ian Salas, and William Wascher, "Revisiting the Minimum Wage-Employment Debate: Throwing Out the Baby with the Bathwater?" *Industrial and Labor Relations Review*, vol. 67, 2014.

⁷ For example, Jeffrey Clemens and Michael R. Strain, "[The Short-Run Employment Effects of Recent Minimum Wage Changes: Evidence from the American Community Survey](#)," *Contemporary Economic Policy*, vol. 36, no. 4, 2018. We study minimum wage increases enacted between January 2013 and January 2015, and find that increases exceeding \$1 per hour reduced employment among low-skilled population groups by just over one percentage point. We also found that smaller increases had smaller effects on employment.

⁸ Congressional Budget Office, "[The Effects of a Minimum-Wage Increase on Employment and Family Income](#)," February 2014.

minimum wage increases: Employment is reduced, but the earnings of employed workers increase.

Of course, minimum wage increases can be absorbed by firms through channels other than, or in addition to, reducing their employee headcount or the number of hours their employees work. For example, minimum wage increases are associated with reduced turnover,⁹ which can help defray the cost of higher wages by reducing recruiting and training costs. Modestly higher wage payments can induce greater effort among workers, increasing productivity. Minimum wage increases can reduce profit margins. Importantly, firms can raise the prices they charge for the goods and services they produce as a way to pass their higher wage bills onto their customers (who are often low-wage workers themselves).¹⁰

But recent research suggests that the larger the minimum wage increase, the more pronounced its effect on employment.¹¹ I expect that raising the federal minimum wage to \$15 per hour would significantly reduce employment among lower-skilled workers and less-experienced workers.

A \$15 MINIMUM WAGE IS FAR OUTSIDE OUR EVIDENCE BASE

A \$15 minimum wage is outside both the national and international evidence base. Perhaps the most relevant study available is of the effects of Seattle's decision to raise gradually its minimum wage from \$9.47 per hour to \$15. A team of researchers found that once the

⁹ Arindrajit Dube, T. William Lester, and Michael Reich, "Minimum Wage Shocks, Employment Flows, and Labor Market Frictions," *Journal of Labor Economics*, vol. 34, no. 3, 2016 and R. Kaj Gittings and Ian M. Schmutte, "[Getting Handcuffs on an Octopus: Minimum Wages, Turnover, and Employment](#)," *Industrial and Labor Relations Review*, vol. 69, no. 5, 2016.

¹⁰ Daniel Aaronson, Eric French, and James MacDonald, "The Minimum Wage, Restaurant Prices, and Labor Market Structure," *Journal of Human Resources*, vol. 43, no. 3, 2008.

¹¹ For example, Ekaterina Jardim, Mark C. Long, Robert Plotnick, Emma van Inwegen, Jacob Vigdor, and Hilary Wething, "[Minimum Wage Increases, Wages, and Low-Wage Employment: Evidence from Seattle](#)," *NBER Working Paper Series*, no. 23532, May 2018; Jeffrey Clemens and Michael R. Strain, "Minimum Wage Analysis Using a Pre-Committed Research Design: Evidence through 2016," *IZA Discussion Paper Series*, no. 11427, March 2018; and Clemens and Strain (2018).

minimum wage was as high as \$13 per hour for some workers, hours of work fell by 6.9 percent and employment fell by 5.9 percent.¹² But a 2016 headline from Vox captures the sentiment well: “California just passed a \$15 minimum wage. Even left-leaning economists say it’s a gamble.”

A \$15 per hour federal minimum wage is a large and risky gamble, and is outside our evidence base, because it is such a high minimum wage relative to the existing distribution of wage rates. Data from the Bureau of Labor Statistics for May 2017 show that over half of all workers in Mississippi and Arkansas make less than \$15 per hour. Eight states, including those two, have a median wage less than \$16 per hour. In total, twenty states have a median wage less than \$17. In thirty-four states, over one-third of total employment is in occupations with a median wage of \$15 per hour or less.

These simple statistics show that a \$15 per hour federal minimum wage is not a modest policy change. It is a very large policy change. It will impact a very large share of the labor market. Such a large increase in the minimum wage would send labor market policy into uncharted waters, and would risk harming the very groups of workers and individuals the policy is designed to help.

EMPLOYMENT IS NOT THE ONLY RELEVANT OUTCOME

A minimum wage increase of this magnitude is also imprudent because of the likelihood that such a large increase will create unintended consequences. For example, recent research suggests that minimum wage increases during this decade have reduced the share of workers who report having employer-provided health insurance. This research finds that among workers in very low-paying occupations, coverage declines offset nine percent of the wage gains from

¹² Jardim *et al.* (2018).

minimum wage increases.¹³ In my own research, my coauthors and I have found that minimum wage increases are associated with decreases in self-reported health outcomes among men, particularly among unemployed men.¹⁴ These are just two channels among many along which unintended consequences of a policy change this dramatic could be transmitted.

LONGER-TERM EFFECTS

Minimum wages are typically increased to a certain dollar amount, where they remain in nominal terms until the next increase. They are typically not indexed to a measure of inflation — that is, they typically do not automatically increase as consumer prices increase. Therefore, as consumer prices increase, the purchasing power of the minimum wage decreases over time, falling each year until the next nominal increase. Likewise, the cost of the minimum wage to businesses decreases between nominal increases.

The Raise the Wage Act of 2019 calls for the federal minimum wage to be indexed to median wage growth to ensure that its purchasing power does not fall over time. This is another reason to be concerned about the effects of the act on employment.

Since inflation will erode the real value of a nominal minimum wage increase over time, businesses may view moderate minimum wage increases as a temporary increase in the cost of production. It is costly for businesses to change the way they produce goods and services — for example, by investing in automated checkout machines and hiring fewer cashiers — and businesses may be reluctant to make these types of changes in the face of a temporary increase in the cost of employing workers. But indexing the minimum wage to a measure of prices makes

¹³ Jeffrey Clemens, Lisa B. Kahn, and Jonathan Meer, “[The Minimum Wage, Fringe Benefits, and Worker Welfare](#),” *NBER Working Paper Series*, no. 24635, May 2018.

¹⁴ Brady P. Horn, Johanna Catherine Maclean, and Michael R. Strain, “[Do Minimum Wage Increases Influence Worker Health?](#)” *Economic Inquiry*, vol. 55, no. 4, 2017.

the increase more permanent, and businesses may be more willing to make significant changes to their operations in the face of such an increase.

Over the last fifteen years or so, it has become increasingly common for states to index their minimum wages to inflation.¹⁵ In a recent paper, my coauthor and I study whether employment responds differently to minimum wage increases in states that index their increases to inflation. We find that the immediate unemployment effect of an increase in the minimum wage in a state that indexes its minimum wage to inflation is around three times as large as the unemployment effect associated with nominal increases.¹⁶

EXPANDING OPPORTUNITY AND FIGHTING POVERTY

Young workers need to get their start in the labor market, using their first jobs to learn and gain invaluable experience. Lesser-skilled workers should have the opportunity to contribute to society through paid employment. Government should not erect barriers in their paths; it should expand their opportunities.

At the same time, no one who works full time and heads a household should live in poverty — regardless of the wage they can command in the labor market. These goals are not irreconcilable. Congress should focus on expanding earnings subsidies to help increase employment and pull workers and their families out of poverty.

¹⁵ For more information on state minimum wage regulation, see Jeffrey Clemens, Michael R. Strain, and Duncan Hobbs, “[A database on the passage and enactment of recent state minimum wage increases](#),” *AEI Economics Working Paper Series*, no. 2018-08, August 2018.

¹⁶ Peter Brummund and Michael R. Strain, “[Does Employment Respond Differently to Minimum Wage Increases in the Presence of Inflation Indexing?](#)” *Journal of Human Resources*, forthcoming. On long-run effects, see also: Isaac Sorkin, “Are there long-run effects of the minimum wage?” *Review of Economic Dynamics*, vol. 18, no. 2, April 2015 and Daniel Aaronson, Eric French, Isaac Sorkin, and Ted To, “Industry Dynamics and the Minimum Wage: A Putty-Clay Approach,” *International Economic Review*, vol. 59, no. 1, 2018.

Congress should not double the federal minimum wage. The benefits of a \$15 per hour minimum wage would accrue to middle-class households. The costs would be borne by workers with relatively fewer skills and less experience. Setting the wage floor substantially higher than the productivity of many workers will likely result in significant employment reductions. A \$15 per hour federal minimum wage is a risky gamble because it is so far outside our evidence base. There would likely be significant unintended consequences to such a high minimum wage. Indexing the minimum wage will likely exacerbate employment reductions and unintended consequences.

Workers deserve better than a minimum wage that will likely put so many of them out of work.