

# SPOTLIGHT

## KEEP NORTH CAROLINA WORKING



**MINIMUM WAGE HIKES HURT  
THE VERY PEOPLE THEY'RE  
SUPPOSED TO HELP**

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Studies

## ABOUT THE AUTHOR



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Jon Sanders studies regulatory policy, a veritable kudzu of invasive government and unintended consequences. As director of regulatory studies at the John Locke Foundation, Jon gets into the weeds in all kinds of policy areas, including electricity, occupational licensing, hydraulic fracturing, the minimum wage, poverty and opportunity, state rulemaking, film and other incentives programs, certificates of need, and cronyism. A classical liberal, which for the uninitiated doesn't mean a socialist who happens to like Mozart, Jon takes to heart the revolutionary declaration that all are created equal and endowed with the unalienable rights of life, liberty, the pursuit of happiness, property, and the enjoyment of the fruits of their labor. He shares the belief with Milton Friedman and Gary Becker that "the greatest beneficiaries of capitalism are those at the bottom of the income ladder" and agrees with Julian Simon that "the ultimate resource is people."

Jon holds a master's degree in economics with a minor in statistics along with a bachelor of arts degree in English literature and language from North Carolina State University. This left brain/right brain confluence sometimes causes Jon to cite Jane Austen in discussing energy, Chaucer in lending regulations, C.S. Lewis in overregulation, and Shakespeare pretty much whenever he thinks he can get away with it. He's also prone to drop pop-culture references as the mood strikes.

Prior to joining the research division at JLF, Jon researched issues in higher education for the John William Pope Center for Higher Education Policy. Jon has also taught economics as an adjunct for N.C. State and the University of Mount Olive.

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# KEEP NORTH CAROLINA WORKING

## Minimum Wage Hikes Hurt the Very People They're Supposed to Help

In 2013 President Barack Obama joined Democrats in Congress pushing for an increase of the federal minimum wage to \$10.10 per hour.<sup>1</sup> Such an increase of \$2.85 per hour would have been a sizeable boost (39 percent) over the current minimum wage of \$7.25 per hour.

In 2015 they upped their call to a \$12 per hour minimum wage.<sup>2</sup> Some state Senate Democrats in North Carolina urged the same here.<sup>3</sup> More recently, liberal politicians, media, and activists have demanded the minimum wage be \$15 per hour on the basis of “faith and morality”<sup>4</sup> and to “boost the economy” and put “more workers in the active economy.”<sup>5</sup>

At the same time a small handful of cities across the nation implemented steps toward a \$15 per hour minimum wage. In 2016 the General Assembly prevented cities from taking such action in North Carolina<sup>6</sup> as part of its state constitutional oversight of local government.<sup>7</sup>

Although advocates believe such a massive increase in the minimum wage would help the economy and employment, economic research consensus finds that the effect of increasing the minimum wage on employment is negative. Furthermore, raising the minimum wage has the bitter unintended consequence of putting the *very people out of work* that well-intentioned supporters think it would help: the poorest, the least skilled, and the disadvantaged.

The bigger the hike, the more painful the toll on the most vulnerable workers.

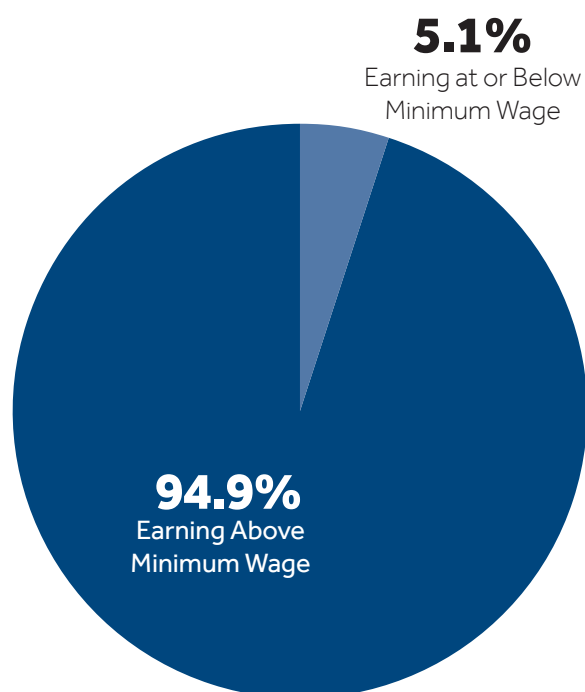
The consequences in North Carolina of hiking the minimum wage would be negative and potentially very large, depending on how big the increase.

### Economic research consensus: higher wages for some, job losses for others

In 2006, economists David Neumark and William Wascher published a *Working Paper* at the National Bureau of Economic Research surveying the economic literature on minimum wages. Among their findings:

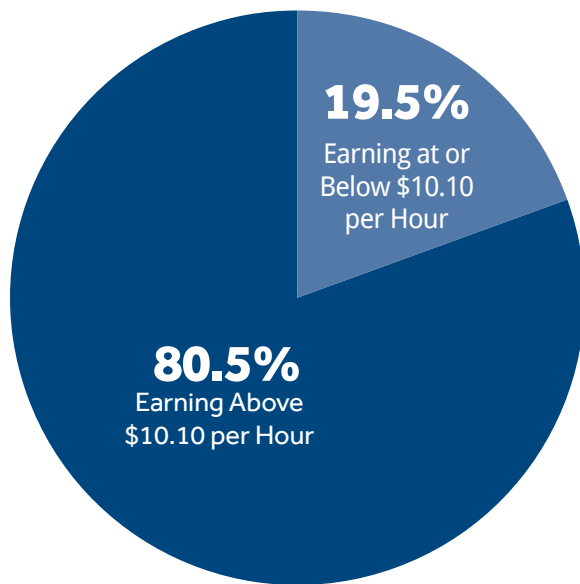
- Negative employment effects was a “relatively consistent” finding — especially from “almost all” of the studies providing the “most credible evidence”

### Proportion of North Carolina workers earning at or below the federal minimum wage in 2015



Source: Bureau of Labor Statistics, U.S. Dept. of Labor

## Proportion of North Carolina workers earning at or below \$10.10 per hour in 2012



Source: Andrew Hanson and Zackary Hawley, *Journal of Labor Research*

# ▼ 46,100

Estimated number of jobs North Carolina would lose by increasing the minimum wage to \$10.10 per hour



- Conversely, “very few — if any” studies provided “convincing evidence of positive employment effects”
- There was “relatively overwhelming evidence of stronger disemployment effects” for the least-skilled<sup>8</sup>

In 2013 and 2014 Neumark and Wascher, joined by economist J.M. Ian Salas, revisited the issue in light of new studies. They concluded that “the evidence still shows that minimum wages pose a tradeoff of higher wages for some against job losses for others, and that policymakers need to bear this tradeoff in mind when making decisions about increasing the minimum wage”<sup>9</sup> and that “the best evidence still points to job loss from minimum wages for very low-skilled workers — in particular, for teens.”<sup>10</sup>

The last large increase in the federal minimum wage was from \$5.15 to \$7.25 per hour (nearly 41 percent), a stepwise increase that started in July 2007 and concluded in July 2009.<sup>11</sup>

In 2014 economists Jeffrey Clemens and Michael Wither looked at how that increase affected low-skilled workers’ employment and income trajectories. They found it “had significant, negative effects on the employment and income growth” for low-skilled workers.<sup>12</sup>

A lower income trajectory is the result of the higher minimum wage keeping low-skilled workers from accumulating *experience* as well as income, artificially limiting their upward income mobility, even to rise just to the lower middle class.

Looking at 2009 data for teenagers, Algernon Austin, director of the race, ethnicity and the economy program at the Economic Policy Institute, found that

*In 2009, teens from poor families were less likely to find work than their middle-class peers. Poor African American teens, however, were the worst off: Only 20% were able to find work, compared with 31% of poor Hispanic teens and 36% of poor white teens.*<sup>13</sup>

In North Carolina, that increase caused a 3.6 percent employment decline among teenagers — but for teens without 12 years of education, the decline was much higher: 7.2 percent.<sup>14</sup>

In *five* years, employment of teenagers nationally had fallen by 10 percentage points. A Today/Reuters analysis in 2012 found that the teens hardest hit were also “those who may need the money most: teens from poor families in which a parent is out of work.”<sup>15</sup> Least affected: teens from wealthier families with working parents.

As Austin said to Today/Reuters, “In terms of need, it is backwards.”<sup>16</sup>

## Projecting impacts of raising the minimum wage

Skyrocketing the minimum wage to \$15 per hour would have deep impacts. That would be an increase of *107 percent*.

That’s over double the current minimum wage and would capture far, far more workers than a modest increase. How many? Roughly one-third nationally, and over 40 percent in North Carolina.<sup>17</sup>

In 2015 the University of New Hampshire Survey Center surveyed U.S. economists for the Employment Policies Institute. The survey found large majorities of economists opposed a \$15 per hour minimum wage and believed it would result in:

- Fewer jobs available
- Lower youth employment levels
- Lower adult employment levels
- Employers having to require greater skills for entry-level positions
- Small businesses having a harder time staying in business<sup>18</sup>

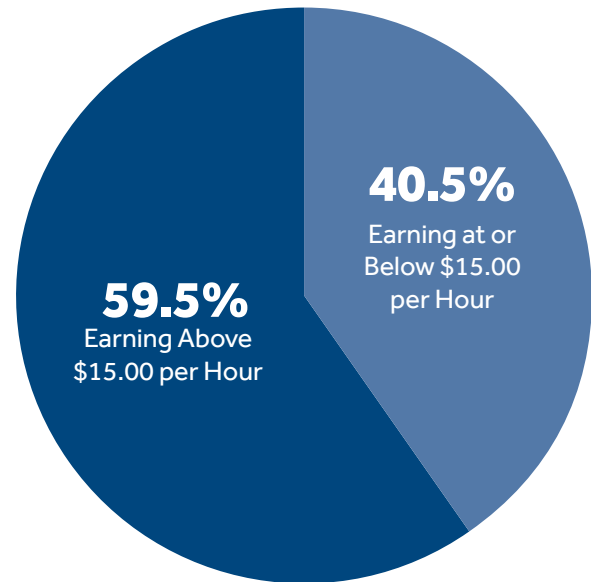
Raising the minimum wage would increase unemployment among young and unskilled workers. Why? Because employers would be more likely to expect their output to be less than the cost to hire them. That cost includes not only wages, but also unemployment insurance taxes, payroll taxes, and Obamacare penalties.

So if the minimum wage were set at \$15 per hour, it would force the cost to employ anyone at that wage to be at least \$18.61 per hour.<sup>19</sup> Employers facing such a steep hiring cost would have to be extra selective out of business necessity. Automation (machinery, kiosks, etc.) would likewise become more price-competitive options for businesses.

How far-reaching the job losses would be with a spike in the minimum wage to \$15 per hour is an open question. No increase of the magnitude under discussion has ever been seen before. As far as that is, it’s not something that would have been anticipated in economic research literature.

The \$10.10 per hour minimum wage idea of 2013 was the subject of a study published in the December 2014 issue of the *Journal of Labor Research*. Economists Andrew Hanson of Marquette University and Zackary Hawley of Texas Christian estimated that increase, which

## Proportion of North Carolina workers earning at or below \$15.00 per hour in 2016



Source: James Sherk, Heritage Foundation

# ▼ 334,000

Estimated number of jobs North Carolina would lose by increasing the minimum wage to \$15.00 per hour





# “North Carolina’s policymakers should continue to keep the state minimum wage no higher than the federal minimum wage.”

as a 38 percent hike is several levels smaller than a 107 percent hike, would eliminate as many as 1.5 million jobs nationwide.<sup>20</sup>

Very recently, some economists have attempted to address the question of disemployment effects of a \$15 per hour minimum wage.

In July 2015, Douglas Holtz-Eakin, former Congressional Budget Office director and former chief economist of the Council of Economic Advisers under President George W. Bush, and economist Ben Gitis produced estimates for the \$12 per hour and \$15 per hour minimum wage proposals. Forcing the minimum wage to \$12 per hour would cost the nation 3.8 million jobs, they estimated. A minimum wage of \$15 per hour would destroy 6.6 million jobs.<sup>21</sup>

In July 2016, economist James Sherk estimated that raising the minimum wage to \$15 per hour would affect about one-third of workers nationally. It would reduce their employment by about 19 percent, which would mean 6.9 million fewer jobs.<sup>22</sup>

## Projected impacts for North Carolina

The minimum wage in North Carolina is tied to the federal minimum wage.<sup>23</sup> According to the Bureau of Labor Statistics, only 5.1 percent of hourly paid wage and salary workers in North Carolina were paid at or below the current minimum wage of \$7.25 per hour in 2015.<sup>24</sup>

An increase of the minimum wage to the \$10.10 per hour level proposed in 2013 would impact a much larger proportion of workers: 19.5 percent in 2012. Workers earning above the current minimum wage but below \$10.10 per hour would be included.

Hanson and Hawley estimated that raising the minimum wage to \$10.10 per hour would cost North Carolina over 46,000 jobs.<sup>25</sup>

According to the most recent estimates published by the Bureau of Labor Statistics, the *median* hourly wage in North Carolina was \$15.91 in May 2015<sup>26</sup> — only 91 cents higher than the \$15 per hour wage proposed to be

made the *minimum* hourly wage.

That alone implies heavy disemployment effects in North Carolina from forcing the minimum wage to \$15 per hour. Such a wage would impact *over 40 percent* of North Carolina workers.

Sherk estimated that raising the minimum wage to \$15 per hour would cost North Carolina *334,000 jobs* (full-time equivalent).<sup>27</sup>

## Conclusion and recommendations

Economic research consensus is clear on the negative effects of a higher minimum wage on low-skilled, poor, and teenage workers. Advocates who believe they will be helping them are confusing their good intentions with good outcomes.

A higher minimum wage can’t increase the skill level of any worker. It can’t expand payrolls. It can’t keep the hours offered by employers steady. It can’t make automation less price-competitive to more expensive human labor.

Finally, it can’t make employers stay in business.

All it can do is make it more expensive to employ low-level workers.

For teenagers (especially poor teens) and the least skilled, inexperienced, and poorest workers — the ones we’d like to see have more opportunities to become productive workers in North Carolina — they’re the ones most likely to be left behind by a minimum wage increase.

State policymakers have been wise to resist the pressure to raise the state minimum wage. There is no good reason to inflict any greater harm to the poorest, least skilled, and least experienced workers in North Carolina than the federal minimum wage already does.

For all these reasons, North Carolina’s policymakers should therefore continue to **keep the state minimum wage no higher than the federal minimum wage.**

They should also **urge their federal counterparts against increasing the minimum wage**, especially to the unprecedented cliffs of \$15 per hour.

# ENDNOTES

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