Research & Commentary: Illinois Proposes Minimum Wage Hike

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State legislatures are hardly strangers to bills that would increase the minimum wage, particularly following the economically tumultuous year that was 2020. The Prairie State is no exception. The Illinois House of Representatives has introduced House Bill 353, legislation that would amend the state's minimum wage law by increasing the minimum wage to $20 per hour for essential workers for the duration of the COVID-19 public health emergency, effective immediately.

House Bill 353, on its face does, lacks commonsense. Of all those in Illinois who have been disproportionally affected and financially impaired by the pandemic, essential workers would be last on that list as their jobs and paychecks are always guaranteed. While the bravery and work of essential workers during the pandemic should be distinguished, flippantly increasing their minimum wage to $20 per hour would only provide further economic harm.

Given the economic upheaval of 2020, it is not surprising that some lawmakers are considering implementing minimum wage increases to provide a sense of economic relief. However, as a rule, minimum wage hikes are a deeply flawed and ineffective way to improve the economy, regardless of who receives the hike. Arbitrary minimum wage hikes produce unintended consequences that often inflict even more pain upon the very people they are supposed to benefit. For example, minimum wage hikes are one of the most significant reasons grocery stores and fast-food chains have moved toward self-checkout kiosks in place of employees, especially teenagers, who have often previously occupied those entry-level positions.

Moreover, minimum wage hikes rarely meet the expectations of the well-intended policymakers who advocate for them. For example, they do not raise the living standards in any appreciable way for individuals and families, yet illogical wage increases have the propensity to shutter small businesses for good. A recent study by the Congressional Budget Office titled "The Effects on

Employment and Family Income of Increasing the Federal Minimum Wage," examined how increasing the federal minimum wage to $10, $12, or $15 per hour by 2025 would adversely affect employment and family outcomes, especially among teenagers and those at the bottom rungs of the income ladder.

At the national level, a recent report from the Employment Policies Institute (EPI) found that a $15 per hour federal minimum wage hike would cost the U.S. economy two million jobs. The EPI study notes that of those two million, the jobs most likely to vanish are those in the restaurant and hospitality industries. These two sectors were decimated during the pandemic. Forcing businesses in these industries, particularly small businesses, to drastically raise their labor costs would devastate the few that have hung on during this harrowing period.

The negative economic effects of a $15 per hour minimum wage hike are evident. House Bill 353, which would raise essential workers' hourly wage to $20 per hour would likely produce a host of socioeconomic consequences, both intended and unintended.

As history shows, minimum wage hikes are seldom viable economic solutions. A 2007 study from economists at the University of California-Irvine and the Federal Reserve Board comprehensively examined the body of work on the subject and found 85 percent of the studies they considered credible demonstrate minimum wage hikes cause job losses for less-skilled employees. Furthermore, a 2010 study by economists at Cornell University and American University found no reduction in poverty in the 28 states that raised their minimum wage laws from 2003 to 2007. While politically popular, the downstream effects of minimum wage increases have created long-term consequences for state revenues and budgets.

It is disingenuous for lawmakers to push minimum wage hikes, which result in business closings and increased unemployment, especially when unemployment remains high. According to a brief published by the Congressional Research Service, during the pandemic, the national unemployment rate reached catastrophic levels, unseen in decades. Even more worrisome, the U.S. labor participation rate has fallen precipitously since the onset of the pandemic.

Finally, the proposed wage hikes in HB 353 are associated with state-declared states of emergency, which should be avoided. Governors throughout the nation exercised far too much unilateral power during the pandemic. And many continue to do so. Passing legation that would amend enact minimum wage hikes associated with governor-declared conditions creates far too many conflicts of interest. Legislators in Illinois and their constituents should be concerned with minimizing the governor's power during such a time, not allocating more power to him. Additionally, most essential workers possess jobs that are also highly unionized, creating many incentives for gubernatorial corruption.

Although an attempt to bolster the minimum wage for essential workers during a state of emergency is commendable, the overall economic effects of minimum wage hikes do little to raise Americans out of poverty and do even less for local economies. All of the negative economic effects associated with minimum wage hikes should be considered with House Bill 353. Particularly, in a time when we are on the brink of another possible economic downturn fueled by inflation and excessive federal spending.

The following documents provide more information about minimum wage laws.

Busting Five Myths about the Minimum Wage

http://blog.heritage.org/2013/03/05/busting-5-myths-about-the-minimum-wage/

James Sherk of The Heritage Foundation debunks five myths about minimum wage hikes, often used by proponents of minimum wage laws: “A higher minimum wage would help some workers, but few of them are poor. The larger effect is hurting the ability of potential workers living in poverty to get their foot in the door of employment. A minimum wage hike might help politicians win plaudits from the press, but it wouldn’t reduce poverty rates.”

Unintended Consequences of Raising the Minimum Wage

http://mercatus.org/publication/unintended-consequences-raising-minimum-wage

Antony Davies of the Mercatus Center examines arguments for and against minimum-wage increases and presents new results comparing employment for workers with differing educational attainments.

The Negative Effects of Minimum Wage Laws

https://www.heartland.org/publications-resources/publications/the-negative-effects-of-minimum-wage-laws

Mark Wilson of the Cato Institute reviews the economic models used to understand minimum wage laws and examines available empirical evidence. Wilson describes how most of the academic evidence shows minimum wage laws have negative effects, and he discusses why some studies produced seemingly positive results.

The Effects on Employment and Family Income of Increasing the Federal Minimum Wage

https://www.cbo.gov/system/files/2019-07/CBO-55410-MinimumWage2019.pdf

The Congressional Budget Office examines how increasing the federal minimum wage to $10, $12, or $15 per hour by 2025 would affect employment and family income across the nation. This shows that while minimum wage increases will provide some level of raised wages for some individuals, it will also lead to many workers across the nation losing their jobs.

Two-thirds of American favor raising the federal minimum wage to $15 an hour

https://www.pewresearch.org/fact-tank/2019/07/30/two-thirds-of-americans-favor-raising-federal-minimum-wage-to-15-an-hour/

The Pew Research Center conducted a survey in the spring of 2020 regarding the public approval of raising the federal minimum wage to $15 an hour. This shows the overwhelming trend of many across the nation believing that minimum wage increases are a viable way to pull Americans out of poverty.