South Dakota Legislators Should Avoid Minimum Wage Hikes In 2023

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From coast to coast, every state across the nation has grappled with the many economic challenges 2022 has brought. Countless small businesses have yet to overcome pandemic-related labor shortages, the country has experienced record high inflation and gas prices, Wall Street has struggled, and global supply chain disruptions continue to substantially impact the economy. As 2022 comes to a close, now is the time for state lawmakers to ponder their policy positions for the 2023 legislative session.

Historically, some state lawmakers have advocated for quick "fixes" in response to perilous economic situations, such as minimum wage hikes. However, minimum wage increases in any state typically negatively impact businesses and individuals. Lawmakers in the Mount Rushmore State would benefit from considering all of the effects associated with such hikes.

A paramount concern surrounding increases in the minimum wage is the overall effect upon employment levels. Minimum wage hikes produce unintended consequences that often inflict even more pain upon the very people they are supposed to benefit. Though well-intentioned, minimum wage hikes are a substantial reason for the utilization of self-checkout kiosks by grocery chains and fast-food restaurants, which disproportionately eliminate jobs for vulnerable and low-income individuals.

A 2017 paper from the National Bureau of Economic Research (NBER) studies the effects of the aforementioned scenario, utilizing data collected from 1980 to 2015. The authors conclude that "increasing the minimum wage decreases significantly the share of automatable employment held by low-skilled workers… Our work suggests that sharp minimum wage increases in the United States in coming years will shape the types of jobs held by low-skilled workers, and create employment challenges for some of them."

Further illustrating the negative utility of such a policy, a widely-cited joint study between the Federal Reserve and the University of California-Irvine found that 85 percent of credible studies on the subject clearly demonstrate job losses for low-skilled workers.

A study by the Congressional Budget Office (CBO) examines how increasing the federal minimum wage by incremental degrees to $15 per hour by 2025 would adversely affect employment and household incomes. While the study does find that a minimum wage increase boosts some workers' wages, it also leads to job loss for many others, with small businesses often bearing the brunt of economic pain. The impact on small businesses is substantial, forcing them to reallocate scarce resources from profit-generating enterprises towards higher labor costs. Often, this results in lower hiring levels, work-hour reductions, and increased prices for consumers.

In fact, a recent report from the Employment Policies Institute (EPI) found that a minimum wage hike would cost the U.S. economy approximately two million jobs. The EPI study notes that of those two million, the jobs most likely to vanish are in the restaurant and hospitality industries already steamrolled by the pandemic. Forcing small businesses in these industries to raise their labor costs would inflict even more harm upon the few that have managed to survive.

According to the U.S. Bureau of Labor Statistics, South Dakota maintains a 2.3 percent unemployment rate. With additional economic uncertainty ahead, making any policy decisions that may lead to an increase in this rate should be avoided at all costs.

The country's continued macroeconomic vulnerability is also important to consider. While the economy has re-opened and unemployment rates have improved since their pandemic lows, the labor force participation rate has not rebounded in the same way. According to the U.S. Bureau of Labor Statistics, there were 10.1 million unfilled jobs on the last business day of August, according to their early October Economic News Release. As for inflation, the September 2022 Consumer Price Index (CPI) report exposed an increase of 8.2 percent, a .4 percent increase from August.

Increases in shelter, food, and medical care indices were the largest contributors. These price increases are felt by all Americans, with South Dakota being no exception. Seven percent of South Dakotans reported having a very difficult time meeting household expenses in June 2021. Comparatively, 14 percent of South Dakotans reported having a very difficult time meeting household expenses in May 2022, reflecting a 99 percent increase over the year.

Further, household inflation for the state of South Dakota as of May 2022 was 12.4 percent, which breaks down into an additional monthly cost per household of $682. This translates into an annualized cost per household of $8,185, according to figures provided by the United States Congress Joint Economic Committee.

Given the ongoing economic upheaval, it is unsurprising that lawmakers may be turning to minimum wage as a way to provide relief to their struggling constituents. Yet, these efforts are both ineffective and counterproductive ways of combating the problem, as they will drive up the costs of goods and services while putting many out of a job altogether.

Finally, it is important to recognize that a preponderance of small business failures would substantially decrease governmental revenue capture, as failed businesses would no longer contribute property taxes, income taxes, sales and use taxes, and various regulatory fees. While this policy might be politically popular, the downstream effects of a minimum wage increase would create significant budgetary challenges at the state and municipal levels.

Although attempts to bolster a minimum standard of living and protect low-skilled workers are laudable, the overall economic effects of forced minimum wage hikes accomplish neither of those worthy goals. Arbitrary minimum wage hikes, out of sync with the laws of supply and demand, would do little to lift struggling individuals and families in South Dakota from poverty while destroying jobs and likely increasing government dependence. Because of this, it is crucial for lawmakers in the Mount Rushmore State to consider other options and policy positions in the upcoming legislative session.