

TANNER/Minimum wage hike destructive

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According to reports, lawmakers in Hawaii agreed to a four-step increase in the minimum wage from its current level of \$7.25, rising to \$10.10 by 2018. This increase would make them just the third state to impose a double digit minimum wage, along with Connecticut and Maryland. Proponents of the increase point to the high cost of living on the island, and say that, without this increase, low-wage workers will be consigned to living in poverty. They also point to the low unemployment rate in the state as a sign that the labor markets could absorb the increased minimum wage without significant job loss. These arguments fail to look at who the proposed increases would actually affect and do not properly account for the adverse effects this legislation could have on some segments of the population.

Despite claims to the contrary, relatively few Hawaiians would benefit from the increase. For one, the median wage for many sectors that are targeted by minimum wage legislation is already above the \$10.10 goal: the median wage for bellhops in 2012 was \$10.12, for cashiers it was \$10.41 and for amusement and recreation attendants it was \$11.87. Older, more experienced workers more likely to support a family are more likely to earn above the median wage, and thus be unaffected by the minimum wage hike. According to testimony before the state legislature, only around 14,000 people worked at the current minimum wage or less in 2012, but even this might overstate how many people would benefit from the increase; many of these workers were teenagers or secondary earners, after accounting for this, the number of full-time workers who are also the head of household falls to 3,700. Depending on which poverty measure you look at, there are between 173,000 and 231,000 people in poverty in Hawaii, so the tiny proportion of families that could benefit from the increase is little more than a drop in the bucket when looking at their broader poverty problems. The plight of these people is not trivial, but introducing broad ineffective policy that introduces distortions into the entire labor market is not the answer.

While it is true that topline unemployment rate (4.7 percent over the past four quarters) is significantly lower than the national average (7.1 percent), as is often the case, looking solely at a headline statistic leaves out many of the nuances needed to understand the context. When people not attached to the labor force or involuntary working part time for economic reasons are accounted for, their unemployment rate rises to 11.3 percent, closer to the national average, so claims that the labor market is strong enough to absorb the distortions of the minimum wage increase are not true.

The arguments so far have ignored the active harm this legislation could do, as some workers will be priced out of the labor market altogether or will see their hours decreased, reducing their take home pay. Due to the high cost of living, 6.2 percent of workers in Hawaii work multiple jobs, often supplementing their full time job with other work in the service or hospitality industry. When this legislation increases the minimum wage they can be paid, many businesses

will decide to cut hours or reduce the number of workers they add in busy months, instead hoping to increase productivity of the workers they do retain. While those retained workers will see an increase in pay, more will find their hours cut or be locked out of the job market altogether. Teenagers would also be likely to be priced out of their entry level jobs under this legislation, as employers will be unable to justify the increased cost of keeping them on for their low level of productivity; this would lead to lower human capital development, and more young Hawaiians could end up leaving for the mainland where there are more opportunities.

The cost of living is certainly higher in Hawaii than other states. A recent report from Vox found that Honolulu was the most expensive metropolitan area in the country, and my own research showed that the high cost of living in Hawaii was one of the reasons they had the most generous welfare package in the Work Versus Welfare study. This higher cost of living contributes to the broader problem of poverty in the state, which is without question a concern, but this minimum wage increase will do little to lift people out of poverty, and will actively harm others. It is not the answer the Aloha State needs.

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