# Economic recovery and minimum wages

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COVID-19 is wreaking havoc on American jobs. State-enforced shutdowns and social distancing have resulted in 26 million Americans being laid off and furloughed in recent weeks. Policymakers may soon start loosening business restrictions, hoping for a strong jobs recovery. Sadly, an immediate V-shaped rebound is unlikely, in part because of government policies. At the federal level, the $2.2 trillion relief bill greatly expanded unemployment benefits, which will discourage near-term job seeking.

But longer-lasting damage may result from existing and planned state policies. High minimum wages will dissuade cash-strapped businesses in industries affected by the virus from re-hiring, even after lockdowns and extraordinary unemployment insurance measures are lifted. The federal minimum wage is $7.25 per hour, but 29 states impose higher minimums. Some jurisdictions most affected by COVID-19 have high local wage floors, such as New York City at $15 per hour.

In normal times, minimum wages set above market levels reduce the demand for lower-skilled employees because businesses won't pay more than the value workers add. That effect can be masked by a growing economy, however, because businesses are expanding and need to attract more workers.

In downturns such as today, minimum wage laws have a sharper effect because businesses are focused on restraining their payroll costs. Many businesses will still hesitate to re-hire at the same wages when the economy picks up again, because their earnings are down and their debt is higher. Furthermore, ongoing social distancing is creating new costs and uncertainties.

That's why it's concerning that minimum wage rates have been rising sharply across the country. Half of the states have raised their rates in the past three years, while the number of local governments with their own higher minimums has jumped from five in 2012 to 52 today. More than a dozen states have scheduled future minimum wage increases. All of these increases will undermine a rapid jobs recovery.

Indeed, recent minimum wage increases will particularly affect industries harmed by COVID-19. A new Bureau of Labor Statistics analysis has found that "occupations with lower wages are more common in the shutdown sectors than elsewhere in the economy … Consequently, shutdown policies disproportionately affect workers in lower paying jobs." It is those jobs that minimum wage policies threaten.

According to the BLS, industries most exposed to shutdowns with high concentrations of lower-wage jobs include restaurants and bars (12.3 million workers), other retail (6.5 million), travel and transportation (3.5 million), entertainment (2.6 million), and personal services (2.1 million). Even when shutdowns are lifted, consumers will hesitate to sit in crowded restaurants, vacation in hotels, and go to theme parks until a vaccine for the virus is rolled out.

At the same time, many of these businesses will face costs from purchases of protective gear and new safety protocols such as the spacing of tables in restaurants and workplaces in factories. The business financial squeeze combined with wage inflexibility from minimum wage laws will undermine hiring and accelerate shifts to labor-saving technologies.

The federal minimum wage increased just as the last recession was starting. Economists Jeffrey Clemens and Michael Wither found that in states which did not have their own higher minimums already there were "significant, negative effects on the employment and income growth of targeted workers."

Today, it is high state and city minimum wages that will cause the most harm. In New York state, about 1 million people worked as retail salespersons, fast food workers, cashiers, wait staff, cooks, and bartenders before the pandemic. Many of their employers will not be able to afford the state's $11.80 minimum wage nor New York's City's $15 minimum in a struggling post-pandemic economy.

During booms, some businesses might absorb minimum wage increases through taking a short-term profit hit, although in the longer run they might reduce new hiring or trim worker benefits so that profits recover. Right now though, most businesses don't have profit cushions or scope to raise their prices, so there will be more immediate risks to employment.

For these reasons, state and local governments should rescind recent minimum wage increases and suspend scheduled hikes. Some policymakers have woken up to the new realities. Hayward, Calif., is delaying a minimum wage increase until next year, and Virginia Gov. Ralph Northam wants to delay his state's planned increase. Other states with scheduled increases include Arkansas, California, Connecticut, Illinois, Maryland, Massachusetts, Michigan, Missouri, Nevada, New Jersey, New Mexico, New York and Oregon.

Minimum wage laws have always been a barrier to job opportunities for the lowest skilled, most inexperienced workers. But today's deep recession centers on industries that employ millions of lower-paid workers, making the laws more damaging than usual. With revenues cratering at most businesses, policymakers should rescind recent and future minimum wage increases to pave the way for a stronger jobs recovery.

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