

Research & Commentary: Given Hawaii's Economic Turmoil, Now Is The Worst Time For Minimum Wage Increase

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In this Research & Commentary, Samantha Fillmore examines a Senate Bill in Hawaii that would raise the minimum wage.

Like most state legislatures, Hawaii is kicking off 2021 focused on economic concerns after a highly tumultuous 2020. Lawmakers in the Aloha State are spending a significant portion of their legislative session analyzing the state's economic condition after an unforeseen plunge in tax revenue due to the coronavirus pandemic. In addition to the financial hardships of the state, elected officials are also grappling with the financial struggles of their constituents. Due to this, lawmakers in Hawaii are considering legislation that would increase the state's minimum wage. More specifically, [Senate Bill 676](#) proposes raising the state's minimum wage from \$10.10 per hour to \$12 by 2022.

Every state experienced a shortfall in previously projected tax revenues due to state and federally imposed lockdowns and shelter-in-place orders. Therefore, it is not surprising that some lawmakers in Hawaii are considering implementing a minimum wage hike in a feeble attempt to provide relief to their weary constituents. However, this is a deeply ineffective way to improve the economy. Moreover, arbitrary minimum wage hikes produce unintended consequences that can inflict even more pain upon the very people they are supposed to benefit. In almost every scenario, minimum wage hikes result in some workers seeing their wages rise, while many more lose gainful employment.

Minimum wage hikes rarely meet the expectations of the 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.

Minimum wage hikes have a myriad of unintended consequences to all businesses, especially small businesses—the backbone of the American economy. A minimum wage increase in Hawaii would force businesses to reallocate their costs to cover the increase in employees' wages, ultimately forcing them to alter spending elsewhere to offset their newly increased labor costs. More times than not, this results in reduced hiring, a reduction in work hours, and increased prices for consumers. This is often the small margin between staying open and bankruptcy for small businesses, which typically operate on slim margins to begin with.

As aforementioned, every state experienced some degree of state and federally imposed lockdowns and shelter-in-place orders due to the sudden onset of the coronavirus pandemic, which sent shockwaves throughout the small business ecosystem that are still being felt. Therefore, a minimum wage hike in 2021 could not be more ill-timed. In an analysis based on self-recorded closures in their database, Yelp estimates that 60 percent of U.S. businesses that have closed since the start of the COVID-19 pandemic have shut down permanently.

More specifically to the Aloha State, Hawaii has had the highest percentage of businesses both temporarily and permanently closed. When ranked by states, Hawaii tops the list with 9.4 permanent closures and 13.4 temporary closures per 1,000 businesses, according to Yelp's Local Economic Impact Report.

Hawaii relies heavily on revenue from travel and tourism, two activities devastated by COVID-19. Reports from the Hawaiian Department of Business, Economic Development and Tourism from 2019 show approximately 30,000 people arrived in Hawaii daily. Unsurprisingly, this number plummeted to less than 500 at the height of the coronavirus lockdown. This led to Great Depression-like unemployment levels for Hawaiians. According to Wallethub, Hawaii experienced a mind-boggling 291 percent increase in unemployment from December 2019 to December 2020.

A recent report from the Employment Policies Institute (EPI) found that a minimum wage of \$15 per hour would cost the U.S. economy two million jobs when analyzing the economic effects of a federal \$15 per hour minimum wage. The EPI study notes that of those two million, the jobs most likely to vanish are those in the restaurant and hospitality industries. Considering that these two sectors were decimated by the pandemic, this would be an unwise decision. Forcing businesses in these industries, particularly small businesses, to drastically raise their labor costs would decimate the few that have hung-on during this harrowing period.

Furthermore, closed businesses don't pay property taxes, income taxes, sales and use taxes, and the dozens of other licensing and regulatory fees that governments rely on for revenue. Therefore, minimum wage hikes, like the one being considered in Hawaii, could result in further restricting the revenue flow to the state, exacerbating the budget shortfall caused by the coronavirus pandemic. While seemingly politically popular, the downstream effects of a minimum wage increase would certainly create challenges for Hawaii's budget over the long term.

Minimum wage hikes are never a viable economic solution. 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.

It is disingenuous for lawmakers in Hawaii to push minimum wage hikes, which as a function of themselves result in businesses closing and increased unemployment, especially when joblessness has skyrocketed due to the ongoing pandemic.

Although attempts to bolster a minimum standard of living and protecting low-skilled workers in a pandemic-world are admirable, the evidence is clear: minimum wage hikes accomplish neither

of these goals. Raising the Aloha State's minimum wage to \$12 per hour would do little to raise Hawaiians out of poverty while annihilating entry-level jobs throughout the state. As such, legislators in Hawaii should consider all of the economic harm and social angst that Senate Bill 676 would inflict.

The following documents provide more information about minimum wage laws.

Busting 5 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.

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