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Research & Commentary: Evidence Shows Minimum Wage Hike Would Be Bad For Missouri

Samantha Fillmore

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

Like most state legislatures, Missouri is kicking off 2021 focused on economic matters after a highly tumultuous 2020. The Show-Me State is currently considering legislation that would increase the state's minimum wage. More specifically, House Bill 1051 proposes raising the state's minimum wage to $15 per hour by 2026. The newly proposed legislation would raise the minimum wage from $10.30 per hour by $1 per year, until it reaches $15 by January 1, 2026.

Every state has experienced a shortfall in previously projected tax revenues due to state and federally imposed lockdowns and shelter-in-place orders. In addition, the number of Americans and Missourians that have been financially strapped by the shutdown is staggering.

Therefore, it is not surprising that some Missouri lawmakers are considering implementing a minimum wage hike in a feeble attempt to provide relief to their besieged constituents. However, this is a deeply ineffective way to improve the economy. Moreover, arbitrary minimum wage hikes produce unintended consequences that often 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.

Economists Grace Lordan and David Neumark showcase the effects of minimum wage hikes in relation to the increase of automation as a replacement for people in low wage jobs in their working paper, People Versus Machines: The Impact of Minimum Wages on Automatable Jobs. Lordan and Neumark find that raising the minimum wage increases the likelihood that low-skilled workers may become unemployed or employed in inferior jobs, based on data collected from 1980 to 2015.

At the national level, 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 a foolish decision. 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.

While minimum wage hikes inflict a myriad of unintended consequences upon all businesses, their effects are exacerbated when it comes to small businesses—the fulcrum of the American economy. In Missouri, a minimum wage hike 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 coronavirus pandemic, which sent shockwaves throughout the small business ecosystem that are still being reconciled. 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.

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. Thus, minimum wage hikes, like the one being considered in Missouri, could result in further reducing the revenue flow to the state coffers, exacerbating the budget shortfall caused by the pandemic. While seemingly politically popular, the downstream effects of a minimum wage increase would certainly create more challenges for Missouri'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 Missouri lawmakers to push minimum wage hikes, which routinely result in business closings and increased unemployment, especially when unemployment has skyrocketed due to the ongoing pandemic. According to Wallethub, Missouri experienced a 68.9 percent increase in unemployment from December 2019 to December 2020.

Although attempts to boost a minimum standard of living and protecting low-skilled workers in a pandemic-world are praiseworthy, the evidence is clear: minimum wage hikes accomplish neither of these objectives. Raising the state's minimum wage to $15 per hour would do little to elevate residents of Missouri from poverty while annihilating entry-level jobs and small businesses throughout the state. As such, legislators in Missouri should consider all of the economic harms and social disenchantment that House Bill 1051 would inflict upon the Show-Me State.

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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