

Research & Commentary: Arizona Minimum Wage Hike Proposal Would Crush Businesses That Survived COVID-19

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In this Research & Commentary, Samantha Fillmore examines a Senate Bill in Arizona that would raise the minimum wage to \$20 per hour.

Following the financial roller coaster that was 2020, all state legislatures are beginning sessions reeling from budget deficits due to lost tax revenue courtesy of the coronavirus-related recession. Because of the perilous economic situation, many states are considering quick fixes to address their budget problems, even though these quick fixes will likely make matters worse over the long term. For example, the Grand Canyon state is currently considering legislation in the Senate that would raise the minimum wage. Senate Bill 1758 would increase Arizona's minimum wage to \$20 per hour beginning January 1, 2022. The bill also includes a provision that would index the state's minimum to increase each year based on inflation.

It is not surprising that some Arizona lawmakers are considering implementing a huge minimum wage hike in a feeble attempt to provide relief to their struggling 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.

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. A recent study by the Congressional Budget Office, titled "The Effects on Employment and Family Income of Increasing the Federal Minimum Wage," examines how increasing the federal minimum wage to \$10, \$12, or \$15 per hour by 2025 would adversely affect employment and family outcomes.

According to the study, a \$15 per hour federal minimum wage would boost the wages of 17 million workers. However, it would also push 1.3 million workers out of a job. In almost every scenario, minimum wage hikes result in some workers seeing their wages rise, while many more lose gainful employment.

Minimum wage hikes have a myriad of unintended consequences to all businesses, especially small businesses—the backbone of the American economy. Minimum wage increases in Arizona

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 in the union 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.

Currently, Arizona's minimum wage is \$12.15 per hour, which is almost \$5 above the national minimum wage. A monumental jump to \$20 per hour in less than one calendar year would unduly harm the small businesses that have somehow managed to survive despite the many challenges 2020 presented. In September 2020, Arizona was in the top four states hit hardest when in terms of small business permanent closures per 1,000, following Hawaii, California, and Nevada, respectively, according to Yelp's September Economic Impact Report.

Failed 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 Arizona, 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 will certainly create challenges for Arizona'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 Arizona lawmakers to push minimum wage hikes, which as a function of themselves result in businesses closing and increased unemployment, especially when unemployment has skyrocketed due to the ongoing pandemic. According to Wallethub, Arizona experienced a 70.4 percent increase in unemployment from December 2019 to December 2020.

Furthermore, Arizona already has the seventh-highest minimum wage in the country following California, the District of Columbia, New York, New Jersey, Colorado, and Massachusetts, respectively. Something many of those states have in common is a mass exodus of residents and businesses, which will likely happen in Arizona if SB 1758 were to pass.

Steep and sudden minimum wage hikes almost always lead to higher tax rates, as seen in states like California and New York. In fact, New York and several other states with excessive tax burdens are seeing mass exoduses that are increasing due to the fallout surrounding the COVID-19 pandemic and accompanying lockdown orders from mostly Democratic leaders. According to

the U.S. Census Bureau, net domestic out-migration from 2010 through 2019 saw 1.4 million leaving New York; 912,000 leaving California; and 865,900 fleeing Illinois.

The Arizona legislature would do well to attempt to incentivize Americans to move to the Grand Canyon State, instead of taking measures to increase the minimum wage and taxes.

Although attempts to bolster a minimum standard of living and protecting low-skilled workers in a pandemic-world are commendable, the evidence is clear: minimum wage hikes do more harm than good. Raising the state's minimum wage to \$20 per hour would do little to raise Arizonans out of poverty while annihilating entry-level jobs throughout the state. As such, legislators in Arizona should consider all of the economic and social harm that Senate Bill 1758 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.