Despite worsening economy N.Y. assemblymen drive minimum wage hikes

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Throughout 2021, many states have suffered from labor shortages, unprecedented inflation, and an ever-worsening supply chain crisis. Because of the perilous economic situation, several states are considering quick fixes to address their financial problems, even though these so-called quick fixes would likely make matters worse over the long term.

In New York, members of the Assembly recently introduced a bill that would hike the state's minimum wage. Specifically, A 7503 proposes raising the state's minimum wage from the current $12.50 per hour to $15 per hour, after December 31, 2023. If passed, A 7503 would incrementally increase the Empire State's minimum wage, beginning with an increase to $13.33 per hour by December 31, 2021, followed by an increase to $14.16 per hour by December 31, 2022, finally reaching $15 per hour in 2023.

In addition, Assembly Bill 7503 stipulates that if the rate of inflation is greater than zero for the most recent 12-month period ending in June based on the consumer price index for all urban consumers calculated by the United States Department of Labor, the minimum wage shall be increased accordingly.

Like all states, New York endured lockdowns 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 2022 could not be more ill-timed. In an analysis based on self-recorded closures in their database, Yelp estimates 60 percent of U.S. businesses have been devastated by the pandemic.

Given the ongoing economic upheaval, it is not surprising that some New York lawmakers are considering implementing minimum wage increases in an attempt to provide relief to their struggling constituents. However, this is a deeply flawed and ineffective way to goose 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. Sadly, minimum wage hikes are one of the most significant reasons grocery store and fast-food chains have moved toward self-checkout kiosks in place of employees, especially teenagers, who often occupy those positions.

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 become unemployed or employed in inferior jobs, based on data collected from 1980 to 2015.

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, especially among teenagers and those at the bottom rungs of the income ladder.

Minimum wage hikes also impose a myriad of unintended consequences upon all businesses, especially small businesses—the lifeblood of the American economy. Minimum wage increases force businesses to reallocate capital to cover the rise in employees' wages, ultimately forcing them to alter spending elsewhere to offset their newly increased labor costs. More times than not, this results in less hiring, a reduction in work hours, and higher prices for consumers. For many small businesses, a minimum wage hike can result in bankruptcy, as they are no longer able to remain profitable due to substantially increased labor costs.

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.

At the national level, a recent report from the Employment Policies Institute (EPI) found that a minimum wage hike would cost the U.S. economy two million jobs. The EPI study notes that of those two million, the jobs most likely to vanish are in the restaurant and hospitality industries. These two sectors were decimated by the pandemic. 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.

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, arbitrary minimum wage hikes could result in further restricting government revenue, exacerbating budget deficits caused by the pandemic. While politically popular, the downstream effects of a minimum wage increase would certainly create long-term challenges for New York.

It is unwise for New York lawmakers to push minimum wage hikes, which result in business closings and increased unemployment, especially when joblessness remains high due to the pandemic fallout. According to a brief published by the Congressional Research Service, during the pandemic, the unemployment rate reached catastrophic levels, unseen in decades. Even more worrisome, the U.S. labor participation rate has fallen precipitously since the pandemic began almost two years ago.

It is disingenuous for New York lawmakers to push minimum wage hikes, which result in business closings and increased unemployment, especially when unemployment remains high in the Empire State. According to Wallet Hub, New York experienced an 83.5 percent increase in unemployment from September 2019 to September 2021.

To make matters worse, we seem to be on the cusp of a period of significant inflation. The United States Postal Service (USPS) has recently projected its rate hikes through 2024 via a recent filing with Postal Regulatory Commission. The decision by USPS to include rate increases every six months through 2024 likely corresponds to their assessment of consumer price increases emblematic of inflationary pressure.

Although attempts to bolster a minimum standard of living and protect low-skilled workers are laudable, the overall economic effects of proposed minimum wage hikes accomplish neither of those worthy goals. Arbitrary minimum wage hikes, out of sync with the laws of supply and demand, would do little to lift struggling individuals and families in New York from poverty while destroying jobs and likely increasing government dependence.

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 Americans 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.