



An awful time for a minimum wage hike

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02/03/21

President Biden has proposed doubling the federal minimum wage from \$7.25 an hour to \$15 an hour. Democrats are pushing to include the increase in their \$1.9 trillion relief bill being debated in Congress. But with millions of people unemployed and small businesses struggling, now would be an awful time to impose such a costly mandate.

Biden's wage directive would eliminate jobs for younger and less-skilled workers whose economic contribution is worth less than \$15 per hour. There is debate about the magnitude of the possible job losses, but the Congressional Budget Office estimated that a federal \$15 minimum would cost 1.3 million jobs.

Biden's campaign website promised that he would create jobs for young adults to "reach full employment as fast as possible," but his minimum wage plan would do the opposite. Workers age 24 or younger are 58 percent of minimum wage workers. They need entry level jobs to start climbing the career ladder, but raising the minimum wage would break the bottom steps.

During the pandemic, more low-wage jobs disappeared than high-wage jobs. A Bureau of Labor Statistics analysis found that "occupations with lower wages are more common in the shutdown sectors than elsewhere in the economy." Thus, Biden's wage mandate would particularly harm parts of the economy damaged by the crisis.

Biden also promised, "Building back better means helping small businesses and entrepreneurs come out the other side of this crisis strong." But again, Biden's minimum wage plan would do the opposite. Many small businesses are suffering from lower revenues and higher safety-related costs from the pandemic, and they cannot afford a big increase in labor costs.

Small businesses typically have lower wage structures than big businesses. Average wages in private sector establishments with fewer than 100 workers are only half as high as in establishments with more than 1,000 workers. Almost half of minimum wage workers are employed at businesses with fewer than 100 employees. This means that a minimum wage increase would hit small businesses particularly hard.

A statistical analysis by Sudheer Chava, Alexander Oettl, and Manpreet Singh examined minimum wage increases and small business finances. They found, "Increases in the minimum wage ... lead to lower bank credit, higher loan defaults, lower employment, a lower entry and a higher exit rate for small businesses." The exit rate refers to businesses shutting down.

Over time, small businesses would adjust to a higher minimum wage by cutting low-skill positions, substituting machines for workers, reducing benefits, raising prices, and other changes. But in the near term, a wage mandate would impose a damaging blow to the finances of many small businesses, and that would be after small businesses took the brunt of the recession.

Looking ahead, we need a wave of business startups to fill the void of lost jobs and output from the downturn. We need, for example, more than 110,000 restaurant startups to replace the eateries closed over the past year. But a minimum wage increase would undermine entrepreneurial efforts by making restaurants and other startups more costly.

A statistical study by Xiaohui Gao found that increases in minimum wages reduce the survival rate of startup businesses. The problem Gao noted is that “new and young firms tend to have a workforce with [a] higher proportion of minimum-wage workers. They often tend to operate on thin or even negative profit margins, leaving them exposed to mandated increases in labor costs in their incipient years.”

The damage to small businesses and job opportunities from Biden’s proposal would vary across states because of widely differing economic structures. In 2019, average hourly wages in Massachusetts at \$31.58, for example, were 64 percent higher than average wages in Mississippi at \$19.27. A uniform minimum wage imposed across states with such different wage levels makes no sense.

States are free to impose higher minimum wages on their own, and 29 states currently have higher rates than the federal minimum. All the states could impose a \$15 wage rate if they wanted, but most have decided not to. There is no reason to think that federal leaders have better judgement than state leaders about their own economies, so there is no basis to override state choices.

In sum, Biden’s national wage mandate makes no sense in such a diverse country, and it makes even less sense right now when the country desperately needs small businesses to create new jobs for millions of displaced workers. We all want to get back to the broad-based income growth and historic fall in poverty we enjoyed before the pandemic, but that was based on market-driven growth, not federal interventions.

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