

-Minimum Wage Confounding, Tradeoffs, & Statistical Errors

Question: *Are there downsides to raising the legal minimum wage that outweigh apparent benefits?* Below are a mix of omitted variables, tradeoffs, and statistical errors in observing the effects of any mandated wage increases that differ from purely *market-clearing* raises.

1) **Business Cycle:** Increases in the minimum wage are often done after a recession. This conceals negative costs because the economy is already destined to improve as time goes on. Cities with an already booming economy can hide costs as well (such as Seattle's \$15/hr phase in).

2) **Who is Employed:** The workers most negatively impacted by the minimum wage are *uncredentialed workers with little or no work history* (often teens). *Total employment rates* by themselves fail to account for negative impacts on employment for this group.

3) **Total Hours Worked:** A minimum wage increase has no benefit for current workers it's intended to help if they lose a corresponding number of hours due to shorter and/or fewer shifts. This can even happen when companies are *voluntarily* raising the wages of workers.

4) **Non-Salary Benefits:** Anything from tips, bonuses, shift flexibility, or other various workplace benefits not necessarily tied to hourly salary can decrease and offset any mandated wage increases. It must be stressed that this is often the most challenging factor on this list to take into account because the kinds of non-salary benefits that exist vary from job to job.

5) **Price Increases/Supply Reductions:** The cost of goods and services in an area with a mandated wage increase can (and often does) go up to pay for the new labor costs, and/or the quality or amount of those same things you can get for the same price may drop (e.g. portion sizes at restaurants). Many argue price increases do not affect sales - if those higher prices did *not* affect sales, business would already have them to begin with.

6) **Effect on Smaller Firms:** Mandated wage increases can lead to the closure of "mom and pop" stores, yet show no major employment effects because those workers are now forced to work for major chain stores. This can be especially pronounced on cities with a higher number of locally-owned family businesses.

7) **Mobility Reduction:** The likelihood of rising into a higher-paying occupation may decrease. The reasons differ between entry-level and other workers:

- If the pay for jobs beyond entry-level are reduced to make up for minimum wage increases (what economists call "wage compression"), then minimum wage workers may soon find themselves competing with higher skilled workers. The skilled workers may find that an easier job that now pays more due to a wage increase is a worthy tradeoff.
- If the pay for higher skilled jobs goes down to make up for mandated wage increases, then moving up from entry-level jobs to more challenging occupations may no longer be seen as a worthy tradeoff for entry-level workers. Combining this with the other facet of wage compression mentioned above could mean a lower-paying economy overall.
- Welfare "cliffs" may also become more apparent for workers under minimum wage increases.

8) **Inflation Factor:** Minimum wage increases may have no measurably negative impact, yet have *no positive effect* if dollar purchasing power has decreased. This can be especially relevant if the wage increase is passed after a recession, and Federal Reserve interest rates are artificially low.

9) **Spillover Between Cities:** Workers who are more willing to commute or move between cities (and have a more established work history) may take advantage of a minimum wage increase in a city at the expense of entry-level workers who already live there. Those other workers may be forced to look elsewhere for a job. If this takes place, the net benefit for workers in general could be nothing or even negative even though employment statistics for cities may remain unchanged.

10) **Cost of Getting Work:** It may take far more time to find a job, and added requirements may be needed to get hired. Examples include a need for new credentials, volunteer service, or internship, etc. This is especially an issue for people who had no job to start with.

11) **Aggregates & Base Rates:** Some studies look at Federal increases in the minimum wage without seeing how much (if at all) they differ from more local legal municipalities. It's meaningless to talk about an increase from \$8-\$10/hr for instance if a more local area (such as a state or city) already had the latter amount as a legal wage floor. Many studies also will claim that massive *percentage* increases have been shown to have no negative impact without disclosing what the base rates (absolute dollar amounts) were.

12) **Arbitrary Focus:** Many studies fail to take into account all these factors listed in terms of their *combined* effect overall, as well as after enough time has passed for any given wage increase (especially those phased in over time) to impact labor markets. For example, someone might pick *one thing* from this list and insist it's absurd that it alone could even be significant.