



Center on Wage and Employment Dynamics

POLICY REPORT
February 7, 2019

Institute for Research on Labor and Employment
University of California, Berkeley

Likely Effects of a \$15 Federal Minimum Wage by 2024

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Summary of testimony prepared for presentation at the hearing of the House Education and Labor Committee, Washington, DC, "Gradually Raising the Minimum Wage to \$15: Good for Workers, Good for Businesses, and Good for the Economy," February 7, 2019.

Thank you, Committee Chair Scott, Ranking Member Foxx and other Members of the Committee, for the opportunity to testify today about HR582, The Raise the Wage Act of 2019.

HR 582 proposes to increase the federal minimum wage in six steps, from its current \$7.25 level to \$15 by 2024. It would gradually eliminate, by 2027, the subminimum wage for tipped workers, which has stood at \$2.13 since 1991, and it would eliminate as well as the subminimum wages for youth and for workers with disabilities. The Act also calls for the federal minimum wage to be indexed annually after 2024 by the percentage increase of each year's BLS-calculated median hourly wage. HR 582 will of course have its largest effects in the 21 states that are still at \$7.25. I argue that these will be positive effects.

A \$15 per hour federal minimum wage in 2024 is the equivalent of about \$13.33 in 2019 dollars. HR 582 would thus raise the federal minimum wage beyond its previous peak, reached in the late 1960s, of about \$11.50, when expressed in 2019 dollars.

The early adopters of a \$15 minimum wage policy—Seattle in 2014 and Los Angeles in 2015—were told they were engaging in a bold experiment, moving into uncharted territory. In 2019, however, we have the early results from many recent minimum wage experiments. These include states that have reached \$12 per hour and cities that have already reached \$15 per hour. The examples also include percentage increases that are comparable to or exceed those in HR 582.

The actual increases in *real* wages from HR 582 would result from this bill therefore now do lie within our historical experience. We have a road map of its likely effects on employment, provided by the findings of the best recent minimum wage research by economists. Improvements in our research methods and data provide a more reliable road map than economists could provide in

2016. We no longer have to guess how the effects of minimum wages on teens or restaurant workers translate into effects on all workers. The newest studies supersede estimates from older ones.

These new studies indicate that the Act will have minimal to no adverse effects on employment and that they will have substantial positive dynamic effects on the lowest-wage areas of the U.S.

Why would minimum wage increases up to \$15 have such minimal negative effects? Minimum wage effects are concentrated in a small number of industries, most notably restaurants and retail, but also farming, janitorial services, security guards, home health care and residential and nursing care homes for the elderly and childcare. Minimum wage costs are mainly absorbed through slightly higher prices in these industries, by increased spending by low-income households and-- for eldercare and child care-- by increased public funding, most of it federal. Automation is much less of a factor; automation is happening anyway, as the costs of technology have fallen so much in recent decades.

Since the latitude to increase prices is more limited in manufacturing, jobs in manufacturing may be at risk. But the number of remaining low-wage manufacturing jobs in the \$7.25 states is quite small.

On the plus side, a \$15 minimum wage will generate a substantial economic stimulus because of the increased purchasing power for consumption. These effects, which will be greatest in the lowest-wage states, will offset any employment loss among low-wage manufacturing industries. The lowest-wage states will also experience lower outmigration and hence become more attractive locations for investment. Workers in these states will also be healthier

and more educated, more able to enter the workforce and to be more productive workers.

The greater positive effects for the lowest-wage states suggest the advantages of retaining a single national floor. Regional minimum wage differentials would have the disadvantage of locking in current inequality between higher and lower-wage areas. And subminimum wages for tipped workers and youth do not accomplish their goals of increasing employment.

A final important point: A new set of studies finds that minimum wage increases have substantial beneficial downstream effects on children and adults. They reduce child neglect and poverty and improve child educational outcomes. They also reduce adult smoking rates, absenteeism from work for health reasons, obesity and suicides. For example, a ten percent increase in the minimum wage would lead to 770 fewer suicides per year. These important downstream effects suggest that minimum wage policy should be evaluated, as are most other programs, on criteria that are broader than their effects on employment.