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The lose-lose situation of a \$15 Pa. minimum wage

By Colin McNickle

The Law of Unintended Consequences will come back to haunt Pennsylvania businesses, their workers and the commonwealth's economy should the state nearly double the mandatory minimum wage by 2026, concludes an exhaustive analysis by the Allegheny Institute for Public Policy.

"If the Pennsylvania Legislature enacts, and the governor signs, a law requiring a \$15 per minimum wage, it will make the state much more uncompetitive than it already is and lead to even slower economic growth and a loss of jobs," say Jake Haulk, president-emeritus of the Pittsburgh think tank, and Frank Gamrat, its executive director.

Two primary issues arise with the higher wage-floor proposal.

"First, one of the major arguments for raising the minimum wage ... is that some other states have already adopted the \$15 minimum," Haulk and Gamrat note (in *Policy Brief, Vol. 23, No. 24*) "But there is a huge fallacy in that argument, namely the vast differences in cost-of-living between Pennsylvania and its cities and cities in those states.

"Secondly, [there are] likely damaging impacts on lower wage industries," stress the Ph.D. economists.

When comparing the minimum wage rates among states, cost-of-living obviously matters a great deal. The cost-of-living index is based on housing, transportation, food, entertainment and healthcare. These are critical elements when the argument turns on helping a person meet those needs.

"Pennsylvania's cost-of-living is much lower than many cities and states around the nation, especially those with minimum wage rates at or above \$15 per hour," the think tank scholars remind. "In short, using the fact other states have a \$15 or higher minimum wage is misguided in the extreme."

Data for 2022 wages by industry in Pennsylvania show there are five sectors with entry-level wages well below \$15 per hour, four of which have an overall average sector wage rate either under, or not much above, \$15.

“These industry sectors will be strongly impacted by a move to a \$15 per hour wage in terms of the push effect on wages above the entry-level rate,” Haulk and Gamrat say. The sectors include sales, food prep and service, personal care, building and grounds maintenance and health care support.

“Note, too, that firms in these sectors that are paying wages that are lower than the statewide average for that industry will be hit hardest and those paying above the statewide industry average -- but still far less \$15 per hour -- will face a smaller but still significant impact,” the researchers note.

Estimates show that 1.54 million workers in the five aforementioned industries—as of 2022 and if all are retained—would receive total wages of \$58.56 billion in 2026, a 19.9 percent jump from \$49.2 billion in 2022.

The economic effects of higher wages in these sectors could easily cause widespread pressure for higher wages in other economic sectors with 2022 average wages near the higher average wage rate created by the implementation of the \$15 hourly floor.

“In sum, a jump in the minimum wage to \$15 per hour will have substantial impacts on the economy and labor markets in Pennsylvania, with lower-income counties and struggling communities in wealthier counties suffering the biggest impact,” Haulk and Gamrat say. “Firms with already low profit margins and paying relatively low wages will be hit hardest.

“Finally, note that setting different minimums for counties would at best be a Band-Aid that will not prevent major economic dislocations in those counties as displaced workers look to other areas for jobs.”

As Rob Norton, of the *EconLib.com* website, reminds:

“The Law of Unintended Consequences, often cited but rarely defined, is that actions of people—and especially of government—always have effects that are unanticipated or unintended.

While “economists and other social scientists have heeded its power for centuries, for just as long, politicians and popular opinion have largely ignored it,” Norton notes.

And as Haulk and Gamrat have shown in their analysis of raising the Keystone State’s minimum wage to \$15 an hour, it would come at the peril of the public weal.

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