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Effects of a minimum wage hike on low wage industries and the state economy

Overview: Once again the specter of a large economy-damaging boost in the state's minimum wage is now front and center in the Legislature with plans to raise the rate from the current \$7.25 per hour in steps to eventually reach \$15 by 2026.

Background issues

Two major issues are addressed in this *Policy Brief*. First, one of the major arguments for raising the minimum wage to \$15 per hour is that some other states have already adopted the \$15 minimum. 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, the likely damaging impacts on lower wage industries are estimated.

Cost-of-living differences and implications

Currently, there are only three states and the District of Columbia with minimum wages at or greater than \$15 per hour: California (\$15.50), District of Columbia (D.C.) (\$16.10), Massachusetts (\$15.00) and Washington (\$15.74). These states, and D.C., are well known for having a high cost-of-living. To better compare the Pennsylvania proposal of \$15 per hour, this analysis examines the cost-of-living between a city in each state and the average of three Pennsylvania cities: Pittsburgh, Philadelphia and Erie. This analysis uses a cost-of-living calculator from *NerdWallet.com*.

For example, jobs earning California's minimum wage in San Francisco adjusted for the cost-of-living gap would have the buying power of \$8.39 per hour in Pittsburgh, \$8.79 in Philadelphia and \$7.33 in Erie. This means that a Pennsylvania job at the \$15 minimum wage would produce the same purchasing power as a \$27 per hour job in San Francisco.

At \$16.10, D.C. has the highest nominal minimum wage in the nation. Adjusted for the cost-of-living difference the D.C. minimum wage's purchasing power would be equivalent to \$10.34 in Pittsburgh, \$10.87 in Philadelphia and \$9.00 in Erie for a three-city average of \$10.07 (37.5 percent lower).

The \$15 minimum wage in Boston would translate to the three-city Pennsylvania average of \$9.72. Meanwhile, for Seattle, that state's minimum adjusted for the difference in cost-of-living would have the purchasing power of \$10.17 per hour, the average for the three Pennsylvania cities. Looked at another way, a \$15 minimum in Pennsylvania would be the equivalent of \$23 per hour in Boston and Seattle.

When comparing the minimum wage rates among states, cost-of-living obviously matters a great deal. The cost-of-living index is based on costs of 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. In short, using the fact other states have a \$15 or higher minimum wage is misguided in the extreme.

Industry effects in Pennsylvania

Bear in mind that the cost of labor is not limited to the hourly wage rate but also includes the cost of allowable sick days, earned vacation days, insurance and the firms' matching Social Security and Medicare payments. All of these costs will rise in tandem with the increase in wage rates.

Moreover, boosting the wage rate of the lowest-paid and entry-level workers to \$15 per hour will necessitate upward wage adjustments for employees currently earning more than the current minimum, including those earning \$15 or more. Employees who have put in the time and have the knowledge and experience to currently earn \$15 per hour will not sit still to see their experience and knowledge be devalued.

Firms with low profit margins already and paying well below \$15 per hour currently will be very hard hit by the mandated increase and many will be forced to close or layoff workers. Meanwhile, the openings for younger, inexperienced workers will be diminished, robbing them of the opportunity to gain valuable workplace experience. Off-the-books employment and self-employment will no doubt rise as well in reaction to the massive wage boost. A textbook example of unintended negative—but easily predictable—consequences.

Finally, mandating a minimum wage boost to \$15 will have substantially different impacts on Pennsylvania counties where the range of average annual wages in 2022 ranged from \$43,520 (with 20 in the \$43,000 to \$50,000 category) to a high of \$79,000 with several in the high \$50,000 range and four over \$60,000. All Pennsylvania data from the Department of Labor and Industry (paworkstats.geosolinc.com).

A comparison of Snyder County to Allegheny County makes the point. The average annual wage in Snyder was \$43,520, the median was \$36,250, the entry average stood at \$24,340 (roughly \$11.70 per hour) and the experienced worker averaged \$53,110. Allegheny County's average annual wages were \$60,670 with a median of \$47,200, an entry-level annual wage of \$28,200 (\$13.56 per hour) and experienced workers averaging

\$77,030. With an overall average annual wage \$17,000 below Allegheny County, the importance of the \$2 difference in entry-level wages in Snyder County is apparent. Boosting the wage to \$15 would mean a \$3.30 rise (30 percent) in Snyder and only a \$1.35 increase (9.9 percent) in Allegheny County.

Impacts on most affected industry sectors

2022 data for 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. 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 than \$15 per hour—will face a smaller but still significant impact.

Food prep and service

This sector is almost certain to be the most affected by the rise of the minimum wage to \$15 per hour. The 2022 entry-level wage in Pennsylvania was \$9.68 and the average for all workers was \$14.17. Half of all employees earned less than \$13.33. Using reasonable assumptions regarding the effects of raising the minimum will have in pushing up the wage for all workers, the average wage in the sector will reach around \$18.57 after the raises predicated in the proposed law are fully implemented. This would be a 31 percent increase in pay. For firms in counties with lower average incomes than the state as a whole, entry-level and average wages might be lower than the state average for both the entry and all worker average which means the impact of a \$15 wage on production costs would be proportionally larger.

Statewide, the sector employed 452,980 people in 2022. Using the average industry wage and the number working and assuming a 35-hour work week, the sector's annual statewide wage cost would be \$11.68 billion. After the wage reaches \$15, and assuming the number of workers remains at the 2022 level, the wage cost would jump to \$15.31 billion.

The likelihood that businesses can raise prices enough to cover fully the jump in costs is low and will force firms to look for cost savings through automation and will almost certainly lead to fewer employees and significantly higher prices for products. The ability to raise prices will largely depend on the disposable income of area residents. Thus, in counties with relatively low incomes the impacts of the \$15 wage will be greater in terms of job loss and perhaps business closures.

Personal care services

The sector employed 124,200 statewide in 2022 and had an entry-level wage of \$9.95 and an overall average wage of \$15.87. Half of all employees earned under \$13.88. Following the rate hike to \$15 per hour, the entry-level wage will have risen by 50 percent from the 2022 level and the all worker average wage will increase by an estimated 28 percent to \$20.37. The wage cost statewide would rise from \$3.6 billion to \$4.6 billion if the employment level remains the same.

It is unlikely firms will be able to pass on all the mandated wage rate increased costs through higher prices, leading to layoffs and possible service reductions.

Health care support

Health care support services employed 330,750 workers in 2022 with an entry level wage of \$12.04 and an overall average wage of \$15.92. Boosting the wage to \$15 will push the entry rate up by 24.6 percent. The all-worker average rate would likely rise somewhat in tandem to \$18.88. As a result, the statewide wage cost would climb from \$9.58 billion to \$11.6 billion between the recent level and the \$15 per hour regime, assuming all workers remain on the job. And whether that happens will depend on the ability of providers to find other cost savings or raise prices enough to cover the higher employee costs, which will also include the rise in fringe benefit costs and employee matches for Social Security and Medicare.

Building and grounds maintenance

This sector statewide employed 159,600 workers in 2022, with entry-level wages averaging \$12.03; the overall average wage for all employees was \$16.76. A rise in minimum wage to \$15 would boost the average entry-level wage by 24.7 percent. The overall average wage for all workers, due to bracket push, could move to \$19.73, or 17.7 percent, resulting in the statewide wage cost for 159,600 workers increasing from \$4.87 billion to \$5.73 billion.

Of course, depending on the ability to pass along the higher overall employee cost to customers, higher prices could be problematic and result in layoffs.

Sales and related

The sales and related sector employed 473,790 workers with an entry-level wage average of \$11.06 per hour and an overall worker wage of \$22.60. After the minimum wage hike, the overall average wage is estimated to rise to \$25, or 10.6 percent, the lowest overall wage boost of the five sectors analyzed.

Nonetheless, the wage cost will go up from \$19.5 billion to \$21.6 billion. And overall employee costs will rise proportionately. The boost of nearly \$4 per hour for entry-level

workers could be problematic for individual businesses that have low profit margins and use a lot of new, inexperienced hires.

Overall effects on the five industry sectors

These estimates show that 1.54 million workers in the five 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 wage rate near the higher average wage rate created by the implementation of the \$15 per hour minimum.

Conclusion

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. 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.

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.

Jake Haulk, Ph.D., President-emeritus

Frank Gamrat, Ph.D., Executive Director

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Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079
E-mail: aipp@alleghenyinstitute.org
Website: www.alleghenyinstitute.org
Twitter: [AlleghenyInstil](https://twitter.com/AlleghenyInstil)