February 16, 2023

The Honorable John R. Ashcroft
Missouri Secretary of State
Elections Division
State Information Center
600 West Main Street
Jefferson City, MO 65101

RE: Comments Regarding Minimum Wage Initiative Petitions

Dear Secretary Ashcroft:

As the Director of State Budget and Fiscal Policy at the Show-Me Institute, I respectfully submit the following comments in connection with Initiative Petitions 2024-050, 2024-051, 2024-052, 2024-053, 2024-054, 2024-055, 2024-056, 2024-057, 2024-058, 2024-059, 2024-060, and 2024-061.

Proposal #	Min. Wage	By Year
24-059, 24-060, 24-061	$15/hour	2027
24-056, 24-057, 24-058	$16.25/hour	2027
24-053, 24-054, 24-055,	$15/hour	2026
24-050, 24-051, 24-052,	$16/hour	2027

Over the past 15 years, the Show-Me Institute has published numerous reports and studies on the potential impact of raising the minimum wage in Missouri, and leading economists from across the country have published peer-reviewed, rigorous analyses of their own.[1] Taken together, this scholarship raises significant concerns about negative effects of large minimum wage hikes on employment, income growth, and public finances, both in the short run and especially over the long run as negative effects compound.

Employment Effects

Today, Missouri's minimum wage sits at $12/hour for private businesses, but as recently as 2018 was $7.85/hour. When Missouri voters were faced with the question of whether or not to raise the state's minimum wage in 2018, there was significant discussion regarding whether the increase would lead to a decline in employment. Even and Macpherson (2018) estimated that if Missouri's minimum wage increased to $12/hour, nearly 12,000 jobs would be lost.[2]

As in many scholarly endeavors, there is ongoing debate about the effects of the minimum wage. However, an examination of a growing body of the most recent research using the highest quality data and analytical techniques reveals significant drawbacks to large minimum wage hikes.[3] In particular, the

[1] David Neumark. Should Missouri Raise Its Minimum Wage? https://showmeinstitute.org/wp-content/uploads/2015/06/Policy%20Study_Minimum%20Wage%20No%2033_WEB_0.pdf
[2] William E. Even and David A. Macpherson. The Potential Effects of a $12.00 Minimum Wage in Missouri. https://showmeinstitute.org/wp-content/uploads/2018/09/20180904%20-%20Minimum%20Wage%20-%20Even_Macpherson.pdf
[3] Jeffrey Clemens. Making Sense of the Minimum Wage: A Roadmap for Navigating Recent Research. https://www.cato.org/policy-analysis/making-sense-minimum-wage-roadmap-navigating-recent-research#

evidence demonstrates that large minimum wage increases often produce higher joblessness among the targeted population of low-income workers (and would-be workers), weaker income growth over longer time horizons as they lose out on valuable job experience and training opportunities, and greater dependence on government benefits. In the past, minimum wage advocates have responded by pointing out that some individual businesses are simply *unable* to reduce staffing levels and still be viable, and thus there should be little fear of minimum wage induced job losses. While it is true that *some* businesses will maintain employment levels, the evidence also suggests that some of these businesses will go out of business entirely, and many others will cut employee *hours* before they reduce their employee *headcount*. Either way, the result is smaller paychecks than minimum wage advocates forecast. On top of that, employment *growth* slows in subsequent years, creating a compounding problem of reduced labor rather than an immediate spike in mass layoffs.

Consider the case of Seattle. When Seattle raised its minimum wage in 2015, businesses reduced the hours worked by low-wage employees. According to Jardim et. al (2018), the hours of minimum-wage workers in Seattle were reduced by 6% to 7% in response to the minimum-wage hike.[4] Further, total payroll for such jobs actually decreased, indicating that while workers may be earning more *per hour* than before the hike, and the total employment effects may be minimal, the total earnings for low-wage workers can still decline in spite of a wage increase.

Additionally, raising the minimum wage has been shown to change the way businesses make hiring decisions. In theory, if a market is perfectly competitive, the wage paid would correspond to an employee's productivity. But in reality this is often not the case. Specifically, as has been shown in Seattle and elsewhere when minimum wages are increased, workers with the least experience and lowest productivity are impacted the most.[5] Those with above-median experience and productivity receive the majority of the higher wage benefit, while those with less experience and lower productivity are left with fewer job opportunities or hours scheduled.

Heterogeneity

Another important topic in the economic research on minimum wages is how the impacts vary across industries. Similar to how workers with different levels of experience and productivity are impacted differently, the same can be said for businesses that can more or less easily make changes to reduce labor costs, even if only in the longer term.[6]

In Missouri, the three industries with the most minimum-wage workers are restaurants, retail, and agriculture. Research suggests there may be a smaller effect on total employment in the restaurant industry as a result of a minimum wage increase, but it's also an industry more prone to reducing employee hours. Retail has been shown to be an industry capable of significantly lowering its workforce in response to cost pressures and changes in consumer demand. For Missouri, agriculture may be one of the industries with the greatest reason for concern because it's unclear how easily the cost of higher wages will be absorbed. If even a modest reduction in agriculture employment as a result of a minimum

[4] Ekaterina Jardim, Mark C. Long, Robert Plotnick, Emma van Inwegen, Jacob Vigdor, Hilary Wething. Minimum Wage Increase, Wages, and Low-Wage Employment: Evidence from Seattle. https://www.nber.org/system/files/working_papers/w23532/w23532.pdf

[5] Ekaterina Jardim, Mark C. Long, Robert Plotnick, Emma van Inwegen, Jacob Vigdor, Hilary Wething. Minimum Wage Increases and Individual Employment Trajectories. https://www.nber.org/papers/w25182

[6] Jeffrey Clemens, Lisa B. Kahn, Jonathan Meer. The Minimum Wage, Fringe Benefits, and Worker Welfare. https://www.nber.org/papers/w24635

wage increase occurs, that could be devastating to many rural communities and to the state's economy more broadly.

Static vs. Dynamic

Rather than apply a narrow, or static, view of the relationship between businesses and their employees, a more dynamic approach is preferable. The relationship between a business and its employees is complex, and the simple fact of the government requiring a higher wage does not invariably mean that the employee is better off so long as he is retained by the employer. As has been highlighted across several studies, research shows that businesses and employees will respond to a higher minimum wage in many ways, both immediately and in the future.

Thus far, most of the discussion has been around the short-term effects of a minimum wage increase, but over time, businesses that cannot ultimately absorb the higher labor costs will be forced to leave the market. And the businesses that can absorb those costs may need to adapt in order to do so, whether through further automation of tasks, or by hiring fewer workers, or limiting their hiring to high-skilled candidates. Taken together, these subtle yet important effects can have an enormous impact on a state's economy by altering total job growth for years, which in turn affects the potential for revenue growth or loss.[7]

Revenue Impact Estimate

Based on the previous analysis, and also a recent report by the Congressional Budget Office, there are compelling reasons to believe that a minimum wage hike would hurt Missourians and also lead to a *worse* fiscal picture for the state.[8] To summarize some of the pertinent findings:

- "Real income is reduced for nearly all people because increases in the price of goods and services weaken families' purchasing power." This increase in prices induced by a higher minimum wage would also raise costs to Missouri state government.
- Low-wage workers could face long-lasting reductions in family income from a higher minimum wage preventing them from developing their skills (e.g. due to reduced job experience and less access to training). Such a reduction in family income would reduce tax revenues.
- "Raising the minimum wage would probably reduce employment, capital, and efficiency, in CBO's assessment." Such an adverse macroeconomic change would negatively impact the ability of Missouri's economy to generate robust growth that is conducive to healthy public finances.
- The increased joblessness from the minimum wage would likely cause state spending on unemployment insurance and other similar government transfer programs to increase.

The impact on state revenues depends on a number of variables.

First is the number of individuals who will be directly impacted. These are workers who are currently employed in the private sector, are paid an hourly wage, and make less than $15/$16/$16.25 per hour. As businesses have recently been struggling to fill many positions following the COVID-19 pandemic, many have been raising wages by choice to attract workers. Based on previous estimates, it's reasonable to assume a base of around 300,000 Missourians could be impacted.

[7] Jonathan Meer and Jeremy West. Effects of the Minimum Wage on Employment Dynamics. https://www.nber.org/system/files/working_papers/w19262/w19262.pdf

[8] https://www.cbo.gov/publication/55410

Second is the effect on total wages. Research suggests that an increase in the minimum wage would result in a reduction in hours worked and total employment, which would in turn reduce the total wage impact. Following the estimates from the previously cited studies, the immediate loss of jobs could be around 12,000. There could then be a short-term reduction in hours worked by 6% to 7%.

Over the longer term, there's reason to believe the hours reduced and changes in total employment could keep total payroll in line with spending prior to the minimum wage hike. If this is the case, total wage growth would be minimal. Additionally, if businesses ultimately close or the state's job growth is impacted for multiple years, the result could be significantly lower total wages than today.

Conclusion

Considered in isolation, the minimum wage components of the Initiative Petitions pose a serious risk to the economy of the State of Missouri, notwithstanding the wide range of potential revenue impacts on state finances. Summary language should include an acknowledgment of the economic uncertainty regarding the implementation of these proposals.

Thank you for the opportunity to comment.

Sincerely,

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