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POLICY BRIEF

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THE MINIMUM WAGE IN MISSOURI

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KEY TAKEAWAYS

- If enacted, a proposal on the November 5 ballot would revise Missouri's statutes to raise the state's minimum hourly wage for private businesses from \$12.30 to \$13.75 in 2025, and then to \$15 in 2026. Thereafter, the minimum wage would increase annually based on changes in the Consumer Price Index.
- As recently as 2018 Missouri's minimum wage was \$7.85 per hour. If voters choose to raise the state's minimum wage to the level proposed, Missouri will be tied with Illinois and Nebraska for having the highest minimum wage among Missouri and the eight states that border it.
- Despite claims from supporters of raising the minimum wage that it will help low-income families, decades of research suggest it's likely to have the opposite effect.
- Minimum wage increases have been shown to not only reduce employment for the people the policy aims to help but also reduce their hours worked and total earnings as well.

INTRODUCTION

On November 5, 2024, Missouri voters will be asked whether to amend the state's statutes to increase the minimum wage to $13.75 per hour on January 1, 2025, and $15.00 per hour on January 1, 2026.[1] Thereafter, Missouri's minimum wage would increase annually based on changes in the Consumer Price Index. Additionally, the initiative would require all employers (exempting only governmental entities, political subdivisions, school districts, and educational institutions) to provide one hour of paid sick leave to their employees for every 30 hours worked. While the proposal includes both the minimum wage and paid leave policies, and both would affect Missouri's economy, this policy brief will focus exclusively on the minimum wage.

In recent years, there has been an increased push across the country at both state and federal levels to raise the minimum wage, with a particular focus on achieving $15 per hour.[2] Proponents of higher minimum wages typically argue that the policy would be a boon for low-income workers because it will raise their pay and ultimately help them out of poverty. The policy is also popular because it is relatively easy to implement and obscures the economic costs. Instead of being a budget line-item that requires yearly government funding like many other anti-poverty efforts, a minimum wage is essentially a mandate for higher costs on businesses, though these costs ultimately end up falling on consumers and workers themselves.[3]

When the state arbitrarily increases the costs of labor, the effects are not borne evenly across different types of workers and businesses. Generally, the cost of increasing minimum wage laws will affect businesses that rely on low-skilled and entry-level workers who work on an hourly basis. When these businesses experience increased labor costs, we can expect a number of possible responses. First, a business may reduce hours or reduce employees in order to keep labor costs down. Second, a business may increase prices to pass along costs to customers. Third, a business may operate with reduced profit margins. Often some combination of the three responses occurs, and in some cases a business may even be forced to close. Long-established economic research demonstrates that increasing an employer's costs, as raising the minimum wage would do, often leads to a decrease in employment. Advocates for a higher minimum wage often dismiss the findings of this economic analysis, instead suggesting that the disemployment effects would be small or nonexistent, and that there are large social benefits to raising the wage floor.[4]

Fiscal estimates submitted with the proposal to increase the minimum wage suggest the initiative is likely to impact more than 300,000 Missourians if enacted.[5] Today, Missouri's minimum wage sits at $12.30 per hour for private businesses, but as recently as 2018 was $7.85 per hour.[6] If Missouri voters choose to raise the state's minimum wage to the level proposed, it will be tied (with Illinois and Nebraska) for the highest minimum wage among Missouri and the eight states that border it (Figure 1).

When voters were last faced with the question of whether to raise the state's minimum wage back in 2018, there was significant discussion regarding what potential negative effects adopting the policy might bring. As in many scholarly endeavors, there is ongoing debate about the effects of the minimum wage.

Over the past 15 years, the Show-Me Institute has published numerous reports on the potential impact of raising the minimum wage in Missouri. Leading economists from across the country have published peer-reviewed, rigorous analyses of their own. 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.

The following section of this report summarizes the growing body of research using the highest-quality data and analytical methods on the effects of raising the minimum wage.[*]

[*] Due to data limitations, time constraints, and the COVID-19 pandemic, this brief doesn't analyze the impacts of Missouri's 2018 increase of the minimum wage or provide new estimates, but instead summarizes published research on the topic to further inform the discussion on the proposal being faced by Missouri voters in 2024.

LITERATURE REVIEW

Employment

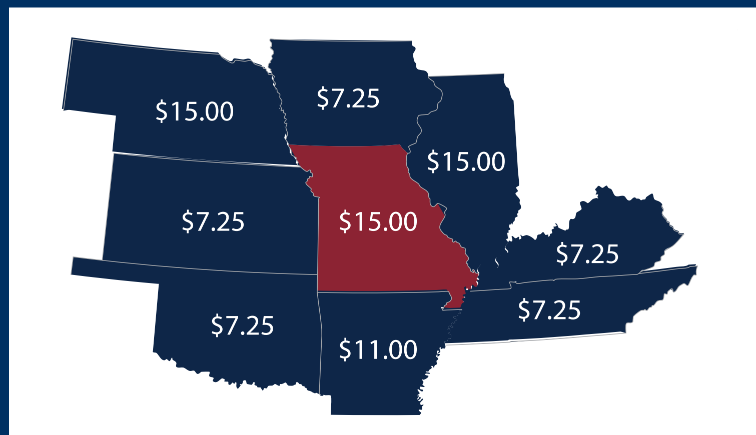
Historically, minimum wage research has focused on the policy's effect on employment. In 2022, David Neumark and Peter Shirley compiled the entire set of published studies on the employment effects of the minimum wage, totaling more than 100 such studies published since 1990.[7] Table 1 summarizes their findings. Neumark and Shirley concluded, as Table 1 shows, "there is a clear preponderance of negative estimates in the literature."[8]

More broadly, the 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.[9]

Figure 1

Minimum Wages of Missouri and Bordering States

If Missouri's minimum wage is raised to the level proposed, the state will be tied with Illinois and Nebraska for having the highest minimum wage among bordering states in 2026.



Note: Data shown reflect expected minimum wages in 2026 for bordering states, and assumes Missouri voters approve the proposal.

Source: National Conference of State Legislatures

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.[10] 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 will be 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%–7% in response to the minimum-wage hike.[11] Further, total payroll for such jobs actually decreased, indicating that even if workers earn more per hour than before a hike and the total employment effects are modest, the total earnings for low-wage workers can still decline in spite of a wage increase.

Who Benefits?

An important distinction when discussing minimum wage policy is that minimum wage laws mandate higher wages for low-wage workers, which is not the same as mandating higher earnings for low-income families. In

Table 1: **Summary of Research on the Effect of Minimum Wage Increases**

The vast majority of published academic studies on the employment effects of the minimum wage show that raising the minimum wage has a negative effect on employment.

Figure [category of study]	% Negative	% Negative, $p \leq 0.1$*	% Negative, $p \leq 0.05$†	% Positive	% Positive, $p \leq 0.1$*	% Positive, $p \leq 0.05$†
All	79.2	53.8	46.2	20.8	5.4	3.8
Median study estimates	75.7	48.6	40.0	24.3	7.1	4.3
Federal variation	82.4	52.9	47.1	17.6	2.9	0.0
State variation	81.1	56.8	47.3	18.9	4.1	4.1
Case studies	65.0	45.0	40.0	35.0	15.0	10.0
Teens	80.0	57.8	42.2	20.0	2.2	2.2
Young adults	82.5	57.1	46.0	17.5	1.6	1.6
Less educated	78.6	50.0	50.0	21.4	7.1	7.1
Low-wage industries	64.5	32.3	32.3	35.5	16.1	9.7
Directly affected workers	75.0	75.0	62.5	25.0	0.0	0.0

** $p \leq 0.1$ indicates that the findings were statistically significant at the 10% level.*

† $p \leq 0.05$ indicates that the findings were statistically significant at the 5% level.

Note: The interpretation of the table is as follows: of the entire set of published studies the authors considered, 79.2% of them found that minimum wage increases have a negative effect on employment. The state variation estimates are of the subset of included minimum wage studies that focused on changing state minimum wages.

Source: David Neumark and Peter Shirley. Myth or Measurement: What does the new minimum wage research say about minimum wages and job loss in the United States? NBER Working Paper Series, March 2022. https://www.nber.org/system/files/working_papers/w28388/w28388.pdf.

other words, minimum wage (low-wage) workers aren't necessarily from low-income families, and low-income families don't necessarily have any low-wage workers. Often, minimum wage workers are teenagers from middle-class families.[12] This distinction is important, because raising the minimum wage has been shown to change the way businesses make hiring decisions.[13]

In markets that are highly competitive, the wage paid closely corresponds to an employee's productivity. Consistent with this relationship, workers with the least experience and lowest productivity are most negatively impacted by large minimum wage hikes, as has been shown in the Seattle case.[14] 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. As a result, the most disadvantaged and inexperienced individuals may be the most adversely affected by an increase in the minimum wage. Rather than experiencing higher wages, they may end up experiencing unemployment.

So, who are these workers? Even and MacPherson outlined the following characteristics of the workers most likely affected by a minimum wage increase in their 2018 report.[15] They found:

- Approximately 44 percent would be under the age of 24
- Nearly 25 percent would not have a high school diploma (in many cases because they are still in high school)
- More than 80 percent of the affected workers would come from families with incomes well above the poverty level
- Those under the age of 24 would account for approximately 69 percent of the job losses

In other words, raising the minimum wage impacts the youngest and lowest-skilled workers the most. This is also why most economists agree that the minimum wage is a "blunt instrument" for redistributing income toward low-income families.[16] Despite many of the affected workers being younger and from higher-income families, there will still be some low-skilled workers from low-income families who are hurt by a higher minimum wage, and they are the precisely the ones the policy was presumably intended to help.

No One-Size-Fits-All Response

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 with different degrees of flexibility with regard to making changes to reduce labor costs, even if only over the longer term.[17]

In Missouri, the three industries with the most minimum-wage workers are food services, retail, and nursing-care facilities.[18] 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.[19] 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, nursing care facilities may be one of the industries with the greatest reason for concern, because it's unclear with the state's aging population how easily the cost of higher wages will be absorbed.[20]

Short-Run and Long-Run Impacts

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.[21]

CONCLUSION

While the stated aim of reducing poverty among low-income Missourians is laudable, the research summarized in this brief suggests that raising the minimum wage to achieve that goal is not a wise approach. In fact, the evidence suggests that minimum wage increases could do more harm than good for those the policy is purportedly trying to help. Wages are not an isolated lever that policymakers can pull without causing unintended consequences. When the cost of labor increases, businesses must make decisions in response to those higher prices. These decisions can negate or offset the benefits of higher wages and often have deleterious overall effects on the economy.

Minimum wage increases have been shown to reduce employment for both young and less-skilled workers. For those who keep their minimum-wage jobs, their hours are likely to be reduced in the short run and have a higher chance of being eliminated altogether in the long run. In net, there's little evidence to suggest that raising the minimum wage yields any monetary benefit to low-income families, and it might in fact make them worse off.

There's no getting around the fact that raising the minimum wage, as the proposed initiative would do, poses a serious risk to Missouri's economy, both today and for years to come. There are proven policies for improving the economic circumstances of low-income Missourians, but raising the minimum wage isn't one of them.

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