



Raising the Minimum Wage in St. Louis

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Overview

- The Proposal
- Disemployment Effects
- Training Effects
- Is there a better way to help low wage workers?

The Proposal

- Raise St. Louis Minimum Wage by stages to \$11 by Jan. 1, 2018
- Exempts small businesses (15 or fewer workers, \leq \$500k)
- Sheltered workshops (FLSA exempt) are covered

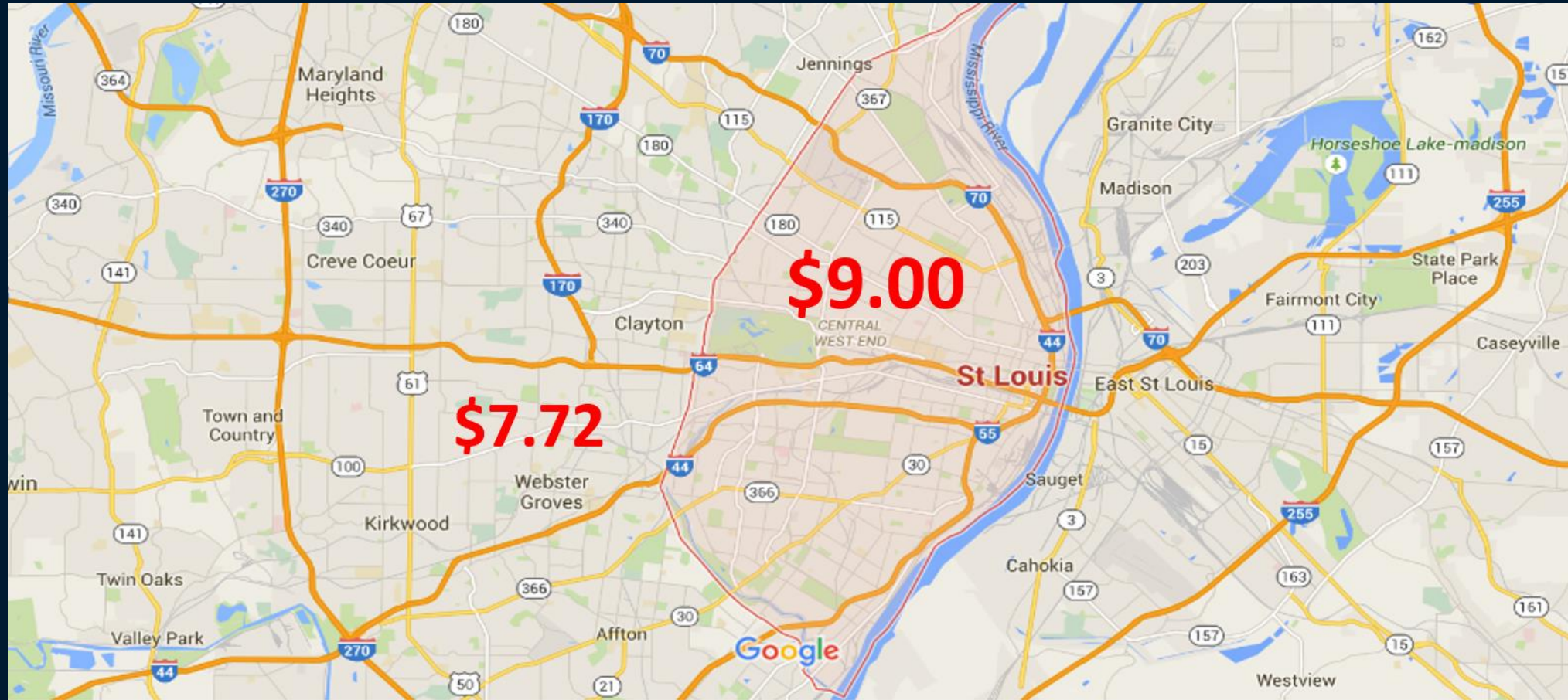
Today



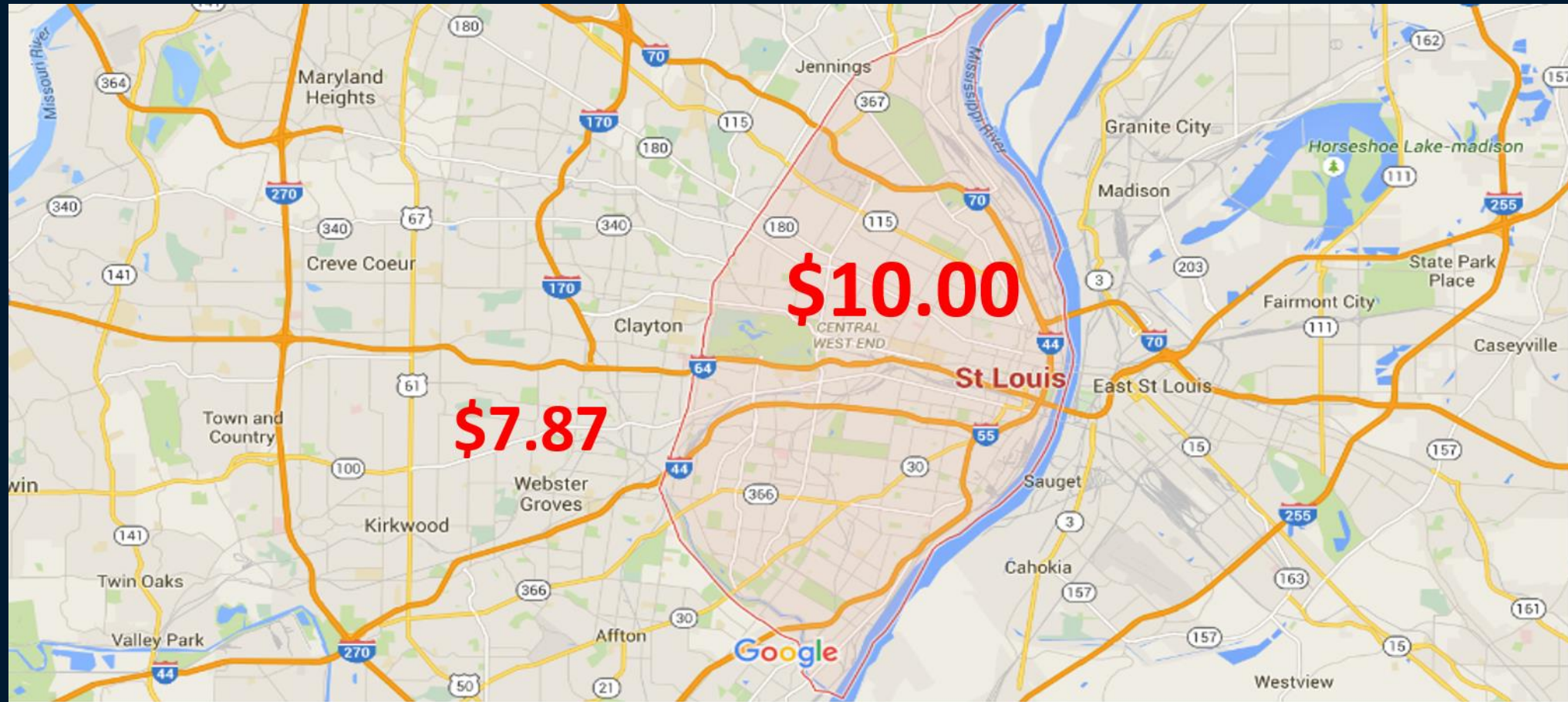
October 1, 2015



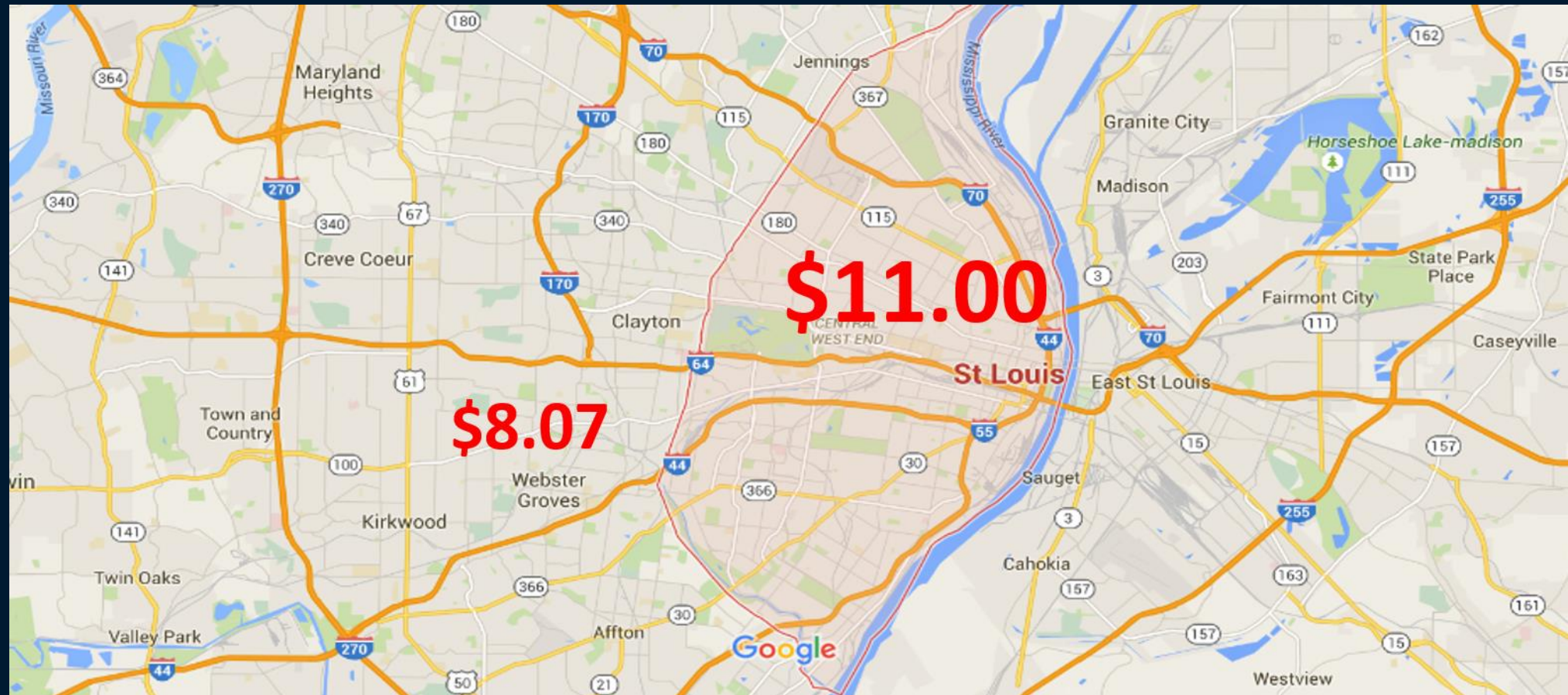
January 1, 2016



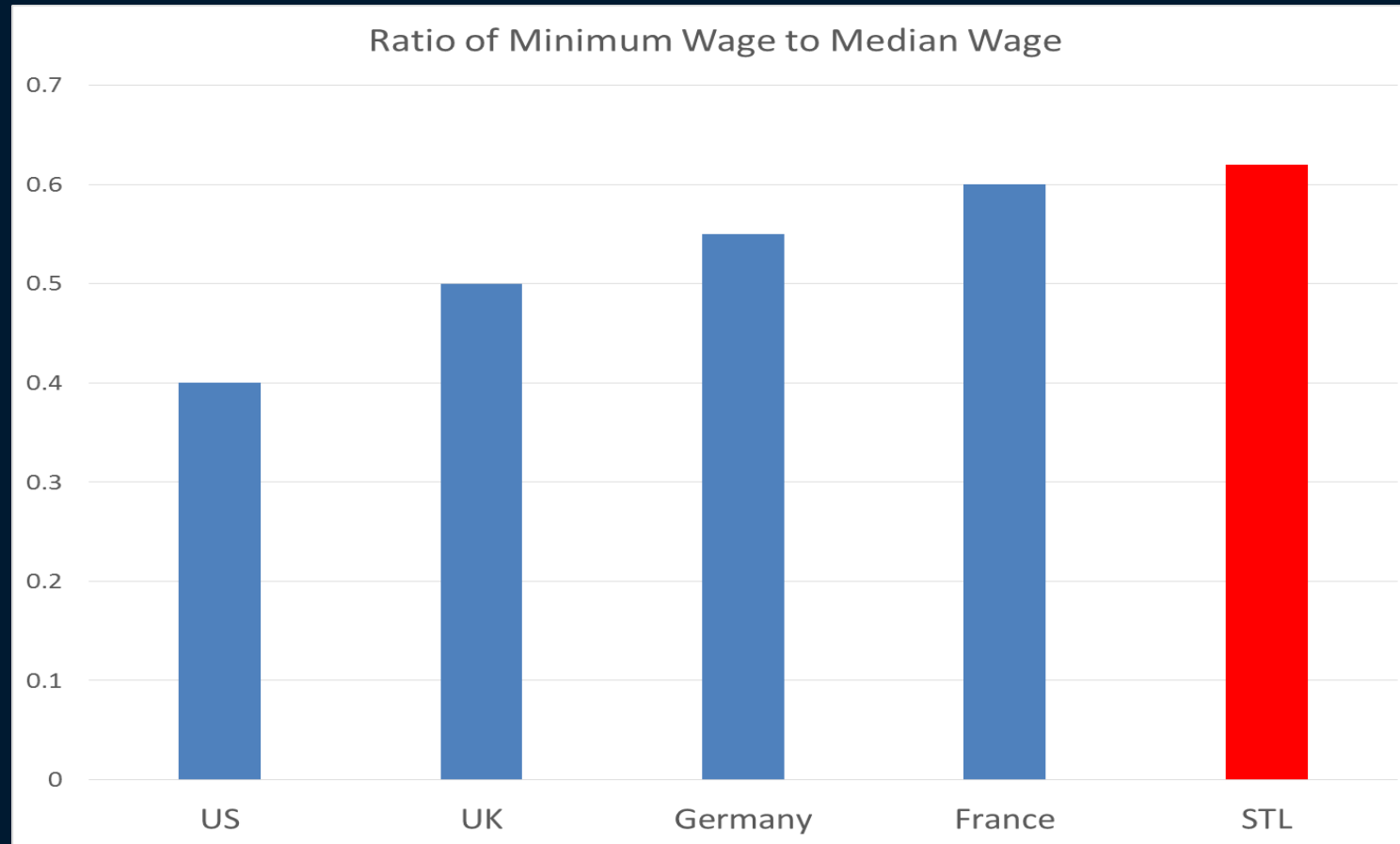
January 1, 2017



January 1, 2018

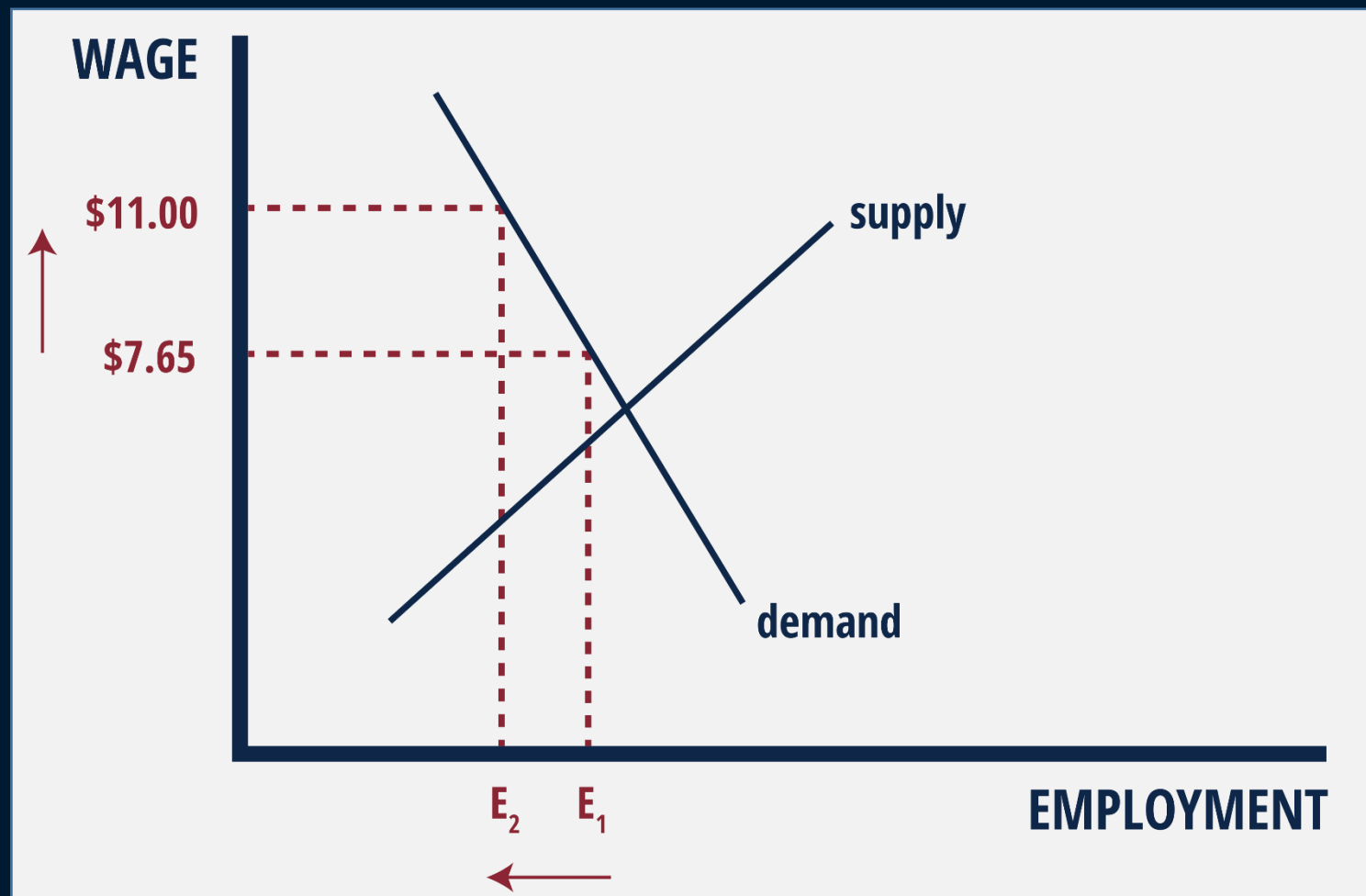


An International Comparison



Sources: International values (2012) from Neumark, 2014. STL estimated using BEA data and assuming a 3.0 percent growth of median wages from 2015 to 2018

Supply and Demand for Labor



Disemployment effects

- National, state, local MW increase
 - In general, local disemployment effect will be larger than national
 - Federal estimate (CB0): 10% increase in MW → 3% reduction in employment
 - Local STL effect will likely be much larger
 - Movement across city line

Disemployment Effects (cont.)

- Ability to “pass on” cost increases
 - For-profit businesses
 - Not for-profit businesses
 - Commercial (e.g., BJC)
 - Donative (SMI, Charities)

Disemployment Effects (cont.)

- Short-run versus long run (substitution of K for L)
 - Recent research (Aaronson, French, Sorkin, 2014; Sorkin, 2014) suggests that long run effects of a permanent MW increase are much larger than SR.
 - “Fast food” versus independents (former more capital-intensive)

Disemployment Effects (cont.)

- McDonald's on the Champs-Élysées, Paris, of the screens where customers can place their orders and pay. After a short wait, you pick up your burger and fries at the counter.

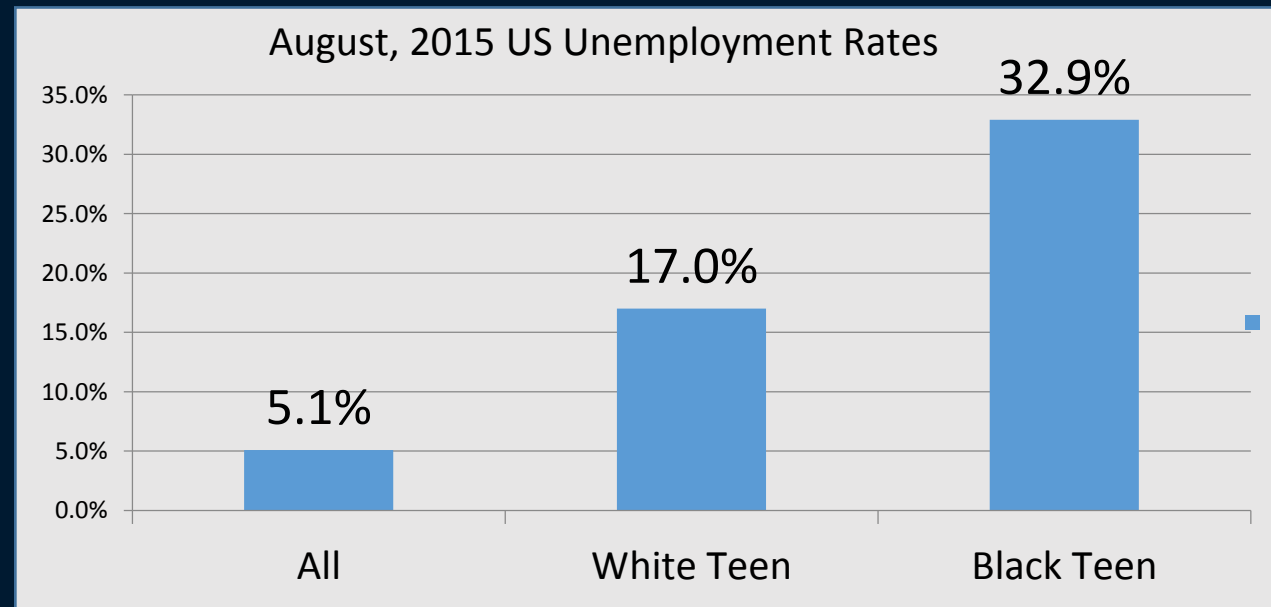


Disemployment Effects (cont.)

- Labor-Labor substitution
 - Least skilled of the low-skilled will be most likely to be pushed out of the market

labor supply County → City

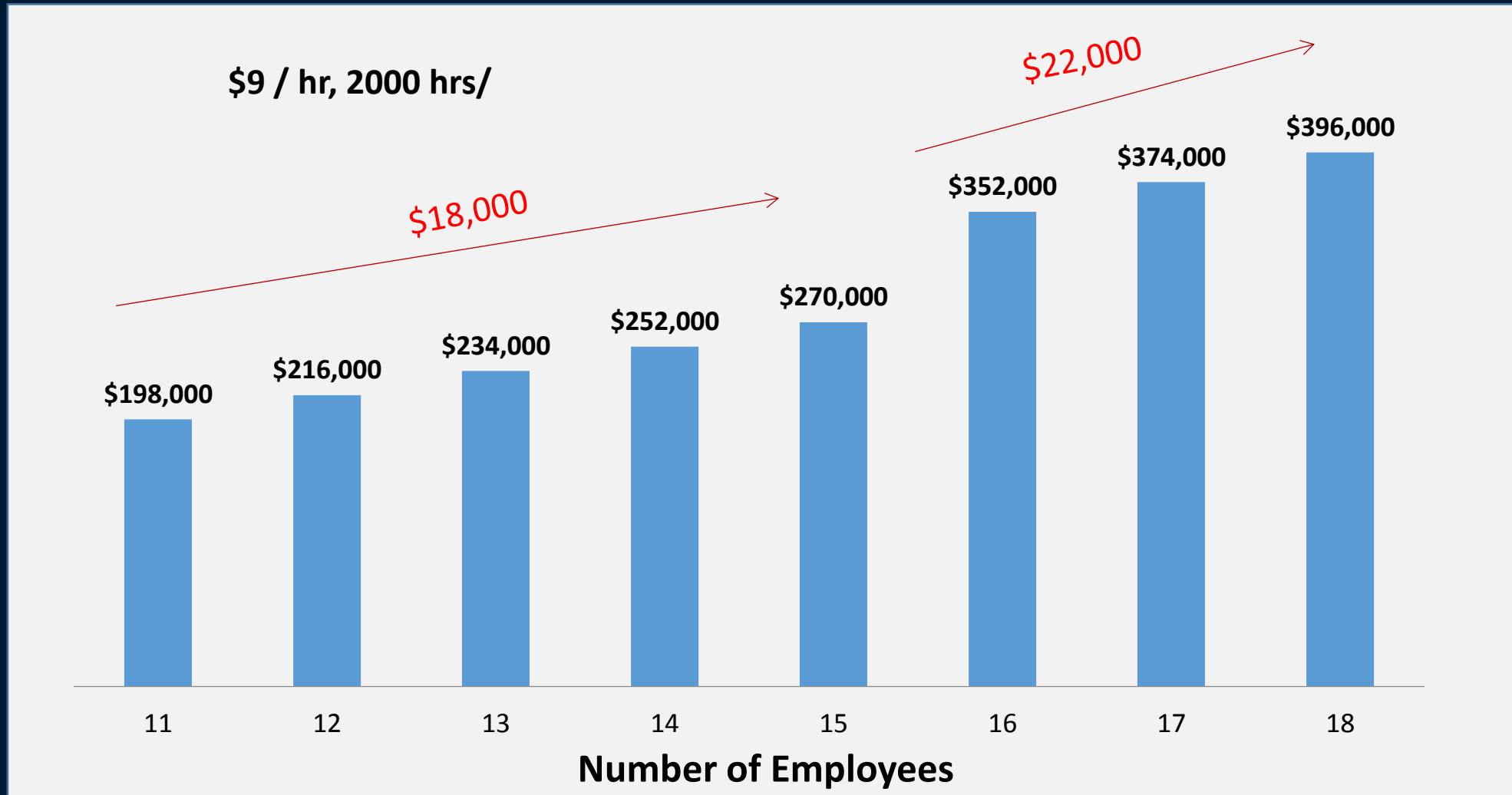
St. Louis City
Unemployment Rate (July)
7.1%



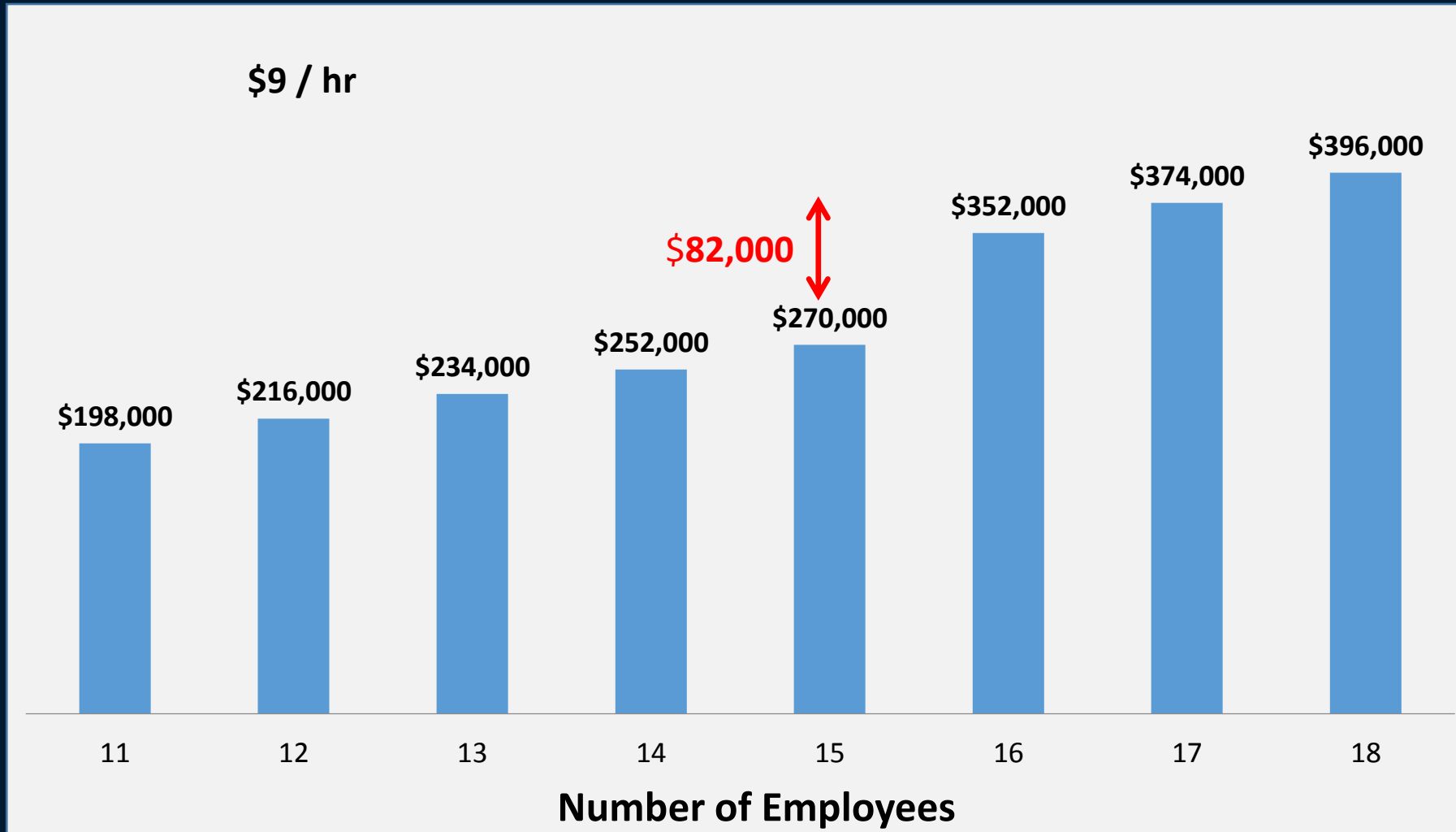
Exemptions

- Employers with 15 or fewer employees are exempt
- Sheltered workshop (with Fed waiver) are **not** exempt

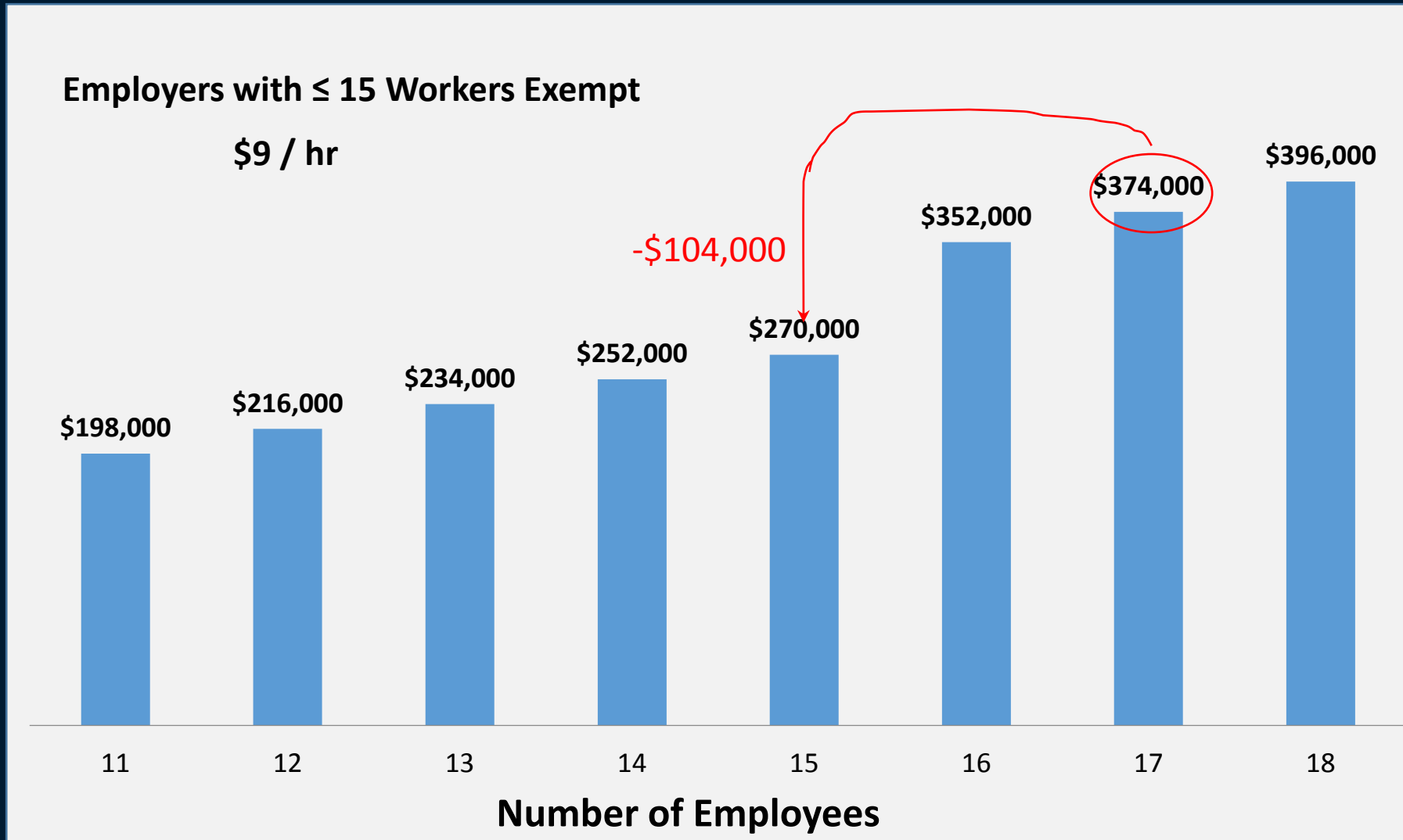
Payroll Costs



Payroll Costs (cont.)



Payroll Costs (cont.)



Training Effects

- “You can’t live on the minimum wage”
- You can’t train on the minimum wage
- Eliminates on-the-job training opportunities for young workers

Alternatives

- A Targeted Alternative to Minimum Wage
- “You can’t live on the minimum wage.”
 - Earned Income Tax Credit (EITC)
 - low income, low wage workers receive refundable tax credit.
 - No disemployment effect
 - Wages can still adjust to clear market
 - Federal
 - 2015: 3 kids, max=\$6242/ 2 kids, max =\$5548, etc.
 - 26 States have EITCs (not MO)
 - A few cities, metro areas (SF, NYC, Montgomery Co MD)
- Longer term solution
 - Better K-12 Education
 - Robust economic growth (4% not 2%, or in the case of MO .2%)

References

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