

Minimum Wage

SUMMARY

- One percent of Pennsylvania workers earn the minimum wage, an all-time low.
- Gov. Josh Shapiro proposed raising the minimum wage to \$15 an hour. Recent analysis by Pennsylvania's Independent Fiscal Office (IFO) finds a \$12 minimum wage will eliminate 5,000 jobs.
- There is more at stake than pay. Studies show minimum wage mandates can reduce worker hours and benefits, resulting in net harm to workers.
- Instead of wage mandates, state government can help by reducing barriers to employment like licensing and permitting, restructuring assistance programs to reward employment, and expanding education opportunities.

HISTORY OF MINIMUM WAGE PROPOSALS

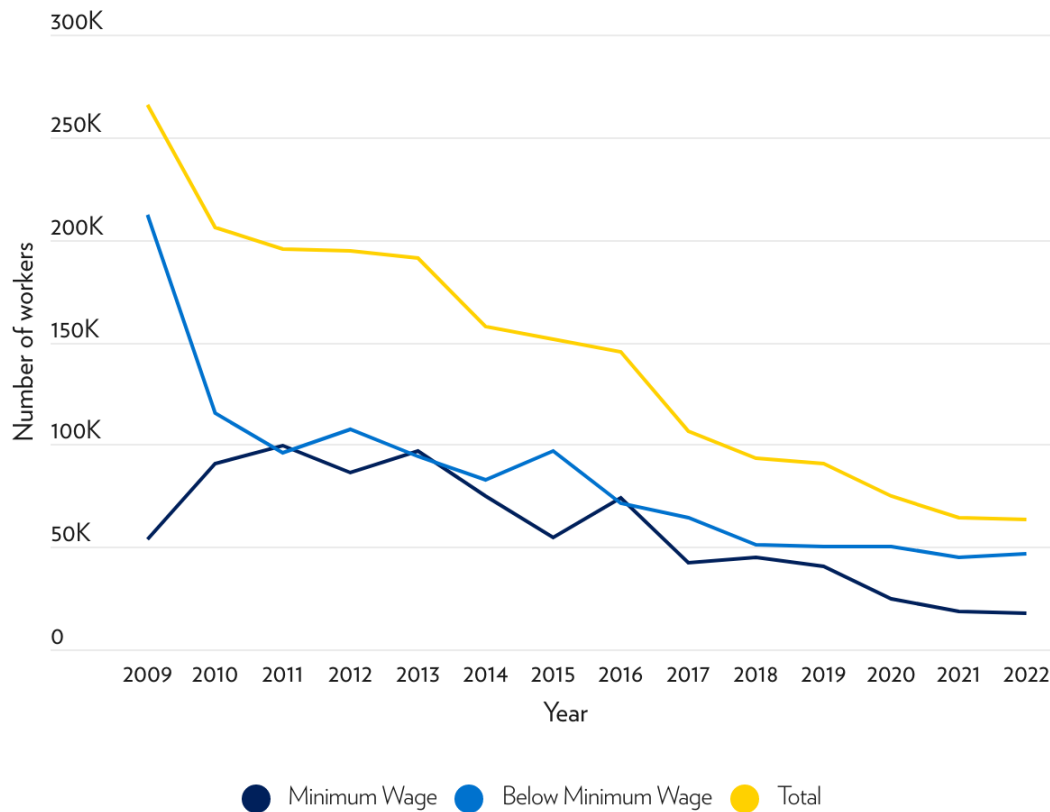
Shapiro's call for a \$15 minimum wage is a continuation of former Governor Wolf's proposals to raise the wage to \$12 and index it to inflation. In 2016, Wolf raised the minimum wage for most government workers to \$10.15.

HOW MANY PENNSYLVANIANS EARN THE MINIMUM WAGE?

- According to 2022 [U.S. Bureau of Labor Statistics](#), about 63,600 Pennsylvanians are earning at or "below" the \$7.25 minimum wage.¹ This is equivalent to 1 percent of all workers, an all-time low. The number of "at-or-below" minimum wage workers fell by 40 percent from 2017 to 2022.
 - About 17,400 Pennsylvanians earn exactly the minimum wage.
 - About 46,200 Pennsylvanians earn less than the minimum wage. These are tipped workers whose tips must bring their earnings above minimum wage.
 - About 418,000 Pennsylvanians earn between the minimum wage and \$12, again a decrease from 2021.
 - Another 510,000 Pennsylvanians earn between \$12 and \$15.
- Nationally, just 1.4 percent of all wage and salary workers paid hourly earn the minimum wage, a steady decline from 5.2 percent in 2011.

Decline of Pa. Minimum Wage Workers

Since the last minimum wage increase, the number of minimum wage and below (tipped) workers consistently declined in Pennsylvania.



Source: Minimum Wage Advisory Board, "Analysis of the Pennsylvania Minimum Wage," (Harrisburg: Minimum Wage Advisory Board, Pennsylvania Department of Labor and Industry, March 2007-2023), <https://www.workstats.dli.pa.gov/Products/MinimumWageReports/Pages/default.aspx>.

WHO MAKES THE MINIMUM WAGE?

- Minimum wage earners are **more likely** than the average Pennsylvania worker to be white, female, below the age of 34 with no college experience, and unmarried.²
- Most minimum wage workers have no children (93 percent) and work part-time (70 percent).
- More than half of minimum wage earners (54 percent) live in households with total incomes above \$60,000.

WHAT IS THE IMPACT OF A MINIMUM WAGE INCREASE?

The latest **IFO analysis** estimates a \$12 minimum wage would result in a raise of about \$1,700 per year for 635,000 directly affected workers.³ This comes at a **cost of 5,000 jobs**.

- Raising the minimum wage to \$12 would also indirectly impact about 684,000 workers receiving near minimum wages. The IFO estimates a total of 927,500 additional workers would be impacted by a raise to \$15.
- Critically, the IFO assumes workers that retain their jobs do not see a significant cut in hours. But experience shows these workers often see dramatic reductions.

It is unclear what the state budget impact would be from these wage mandates. Wolf’s administration projected Medicaid savings offset by higher Children’s Health Insurance Program (CHIP) utilization and childcare assistance subsidies.

WAGES ARE RISING FOR WORKERS

Minimum wage advocates assume the government must force businesses to offer higher wages, but post-pandemic job shortages led to substantial wage growth in traditional minimum wage occupations.

- Median weekly earnings for all workers were 7.4 percent higher, year over year, at the end of 2022, according to national [Labor Department data](#). Those earnings outpaced the consumer inflation rate of 7.1 percent in the fourth quarter, from a year earlier.⁴
- **For workers most likely to make the minimum wage, the gains were even larger.** The bottom 10th of wage earners—about \$570 a week—saw their pay increase by nearly 10 percent. And weekly pay for workers between 16 and 24 years old rose more than 10 percent.
- In 2021, McDonald’s announced it would [raise hourly wages](#) by an average of 10 percent for more than 36,500 workers at its company-owned stores (pushing average hourly wages to \$15 by 2024).⁵
- Consumer giants Amazon, Costco, and Target have all [voluntarily increased wages](#) in recent months to meet or exceed the \$15 threshold as they expand and need to staff up.⁶
- Both the [Sheetz](#) and [Wawa](#) convenience store chains, alongside eateries [nationwide](#), have announced wage increases or signing bonuses since COVID.⁷

RAISING THE MINIMUM WAGE CAN HARM WORKERS

A study, summarized in the [Harvard Business Review](#), examined the impact of the minimum wage on firms’ scheduling practices in the retail industry and showed that a \$1 increase in the minimum wage leads to a 27.7 percent increase in the number of workers scheduled per week, but a 20.8 percent reduction in weekly hours per worker.⁸

Notably, fewer hours worked not only resulted in reduced total wage compensation but also affected eligibility for certain fringe benefits (e.g., health insurance), a net loss for worker welfare.

A study from the [Competitive Enterprise Institute](#) details how mandated wage increases reduce other employer-based benefits such as tips, health insurance, employee discounts, flexible hours, and tuition assistance.⁹

MINIMUM WAGE HIKES ARE SHORT-SIGHTED

State laws should bolster long-term prosperity. Raising the entry-level wage harms entry-level employees the most—those that need the work experience to move into family-sustaining careers. Studies show there is no link between higher minimum wages and permanent poverty alleviation.

According to an [Employment Policies Institute](#) study by economists from the University of California and the National Bureau of Economic Research: “each \$1 increase in the minimum wage has, in disadvantaged neighborhoods over the past three decades, increased poverty rates and the receipt of public assistance by roughly three percent.”¹⁰

REFORMS CAN RAISE WAGES WITHOUT REDUCING JOBS OR BENEFITS

If Shapiro and policymakers are concerned about increasing wages and lifting people out of poverty, they should pursue the following proven reforms:

- **Lower the cost of doing business:** From truly transparent and consistent permitting to accelerating the reduction of the Corporate Net Income Tax (CNIT), it is possible to raise wages and increase hiring. According to a [Mercatus Center](#) study, a one-percentage-point drop in the state CNIT would likely increase annual economic growth by 0.1 to 0.2 percent.¹¹
- **Reward hard work:** Restructure welfare programs to encourage employment, like restoring Employment and Training requirements in the Supplemental Nutrition Assistance Program (SNAP) and avoid the arbitrary benefit cliffs childcare subsidies and other assistance programs that discourage employment and [trap families in poverty](#).¹²
- **Lower barriers to employment:** [Scale back professional licensing requirements](#) to give low-wage earners the opportunity to increase their incomes through entrepreneurship.¹³
- **Give kids a lifeline:** Passing a [Lifeline Education Opportunity Account](#) for kids attending failing schools gives them access to quality education. Higher academic achievement is tied to [higher lifetime incomes](#).¹⁴

¹ Minimum Wage Advisory Board, “Analysis of the Pennsylvania Minimum Wage,” (Harrisburg: Pennsylvania Department of Labor and Industry, March 2023) 10,

<https://www.workstats.dli.pa.gov/Documents/Minimum%20Wage%20Reports/Minimum%20Wage%20Report%202023.pdf>.

² Minimum Wage Advisory Board, “Analysis of the Pennsylvania Minimum Wage,” 12–15.

³ Independent Fiscal Office (IFO), “Analysis of Revenue Proposals FY 2022–23 Executive Budget,” (Harrisburg: IFO, April 2022) 13, http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Revenue_Proposal_Analysis_2022_04.pdf.

⁴ U.S. Bureau of Labor Statistics, “Usual Weekly Earnings Summary,” Economic News Release, January 19, 2023, <https://www.bls.gov/news.release/wkyeng.nr0.htm>.

⁵ Sarah Hansen, “McDonald’s Is Raising Wages Amid Worries of Worker Shortage,” *Forbes*, May 13, 2021, <https://www.forbes.com/sites/sarahhansen/2021/05/13/mcdonalds-is-raising-wages-amid-worries-of-worker-shortage/?sh=3afc27647bf0>; Jack Kelly, “McDonald’s Offers Wage Increases, Child-Care Assistance, Paid Time Off and Help with Tuition to Attract Workers,” *Forbes*, July 14, 2021, <https://www.forbes.com/sites/jackkelly/2021/07/14/mcdonalds-offers-wage-increases-child-care-assistance-paid-time-off-and-help-with-tuition-to-attract-workers/?sh=2869b2f6214b>.

⁶ Sarah Hansen, “Could Covid-19 Worker Shortages Create A \$15 Minimum Wage—Even Without a New Law?” *Forbes*, May 15, 2021, <https://www.forbes.com/sites/sarahhansen/2021/05/15/could-covid-19-worker-shortages-create-a-15-minimum-wage-even-without-a-new-law/?sh=1b46072a4929>.

⁷ Sheetz Inc., “Sheetz Announces \$2/Hour Wage Increase and Summer Stimulus,” company release, May 10, 2021, <https://www.sheetz.com/newsroom/article?title=sheetz-announces-2hour-wage-increase--summer-stimulus->

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⁸ Qiuping Yu, Shawn Mankad, and Masha Shunko, "Research: When a Higher Minimum Wage Leads to Lower Compensation," June 10, 2021, *Harvard Business Review*, <https://hbr.org/2021/06/research-when-a-higher-minimum-wage-leads-to-lower-compensation>, summary of the research paper by Yu, Mankad, and Shunko, "Evidence of the Unintended Labor Scheduling Implications of the Minimum Wage," June 10 2021 [Revised May 23, 2022] 14, *Manufacturing & Service Operations Management*, forthcoming, <https://ssrn.com/abstract=3863757> or <https://dx.doi.org/10.2139/ssrn.3863757>; Independent Fiscal Office (IFO), "Analysis of Revenue Proposals FY 2022–23 Executive Budget," 14.

⁹ Ryan Young, "Minimum Wages Have Tradeoffs," *Competitive Enterprise Institute*, blog, October 27, 2014, <https://cei.org/content/minimum-wages-have-tradeoffs>.

¹⁰ David Neumark, Brian Asquith, and Brittany Bass, "Helping without Hurting: The Long-Run Effects of Anti-Poverty Policies on Disadvantaged Neighborhoods," (Washington, DC: Employment Policies Institute, June 2018) 2, <https://epionline.org/studies/helping-without-hurting/>.

¹¹ Keith Hall and Robert Greene, "Beyond Unemployment: Pennsylvania's Sluggish Labor Market," (Arlington, VA: Mercatus Center, July 12, 2013) 3, <https://www.mercatus.org/research/policy-briefs/beyond-unemployment-pennsylvanias-sluggish-labor-market>.

¹² Elizabeth Stelle and Tirzah Duren, "Tearing Down the Barriers to Prosperity: What Pennsylvanians Say about Poverty and Prosperity across the Commonwealth," (Harrisburg, PA: Commonwealth Foundation, February 21, 2023) 17–18, <https://www.commonwealthfoundation.org/research/pennsylvania-poverty-prosperity/>.

¹³ Katrina Currie, "Does Professional Licensing Protect Consumers or Big Business?" Commonwealth Foundation, November 18, 2010, <https://www.commonwealthfoundation.org/commentary/2010/11/18/does-professional-licensing-protect-consumers-or-big-business/>; Moiz Bhai and David Mitchell, "The Case for Nurse Practitioner Reform," Commonwealth Foundation, December 5, 2022, <https://www.commonwealthfoundation.org/research/nurse-practitioner-reform-full-practice-authority-pennsylvania/>.

¹⁴ Commonwealth Foundation, "HB 2169: Lifeline Scholarship Program," June 1, 2022, <https://www.commonwealthfoundation.org/research/hb-2169-lifeline-scholarship-program/>; Corey A. DeAngelis, "Unleashing Educational Opportunity: The Untapped Potential of Expanded Tax Credit Scholarships in Pennsylvania," Commonwealth Foundation, August 14, 2020, <https://www.commonwealthfoundation.org/research/unleashing-educational-opportunity/>.