



Analytics

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RE: Raising the Delaware Minimum Wage

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Senate Bill 105 is under review by the Delaware Senate Finance Committee. It would raise the State's minimum wage from the mandated \$9.25 per hour (as of October 1, 2019) to \$11.00 per hour as of January 1, 2020. The minimum wage would then increase \$1 per year until 2024, and thereafter be subject to a cost of living adjustment.

What does the economics research literature say?

Historically, the research literature demonstrates that a legislative increase in the minimum wage reduces employment. Some recent research, making comparisons between states that increased their minimum wage and states that did not, argue that there is no evidence that minimum wage increases cause job losses. The Economic Policy Institute, the media, and Congress have relied upon these four newer studies to drive the frenzy for a \$15 minimum wage.

What are we to make of this?

First, all the research on the minimum wage agrees that a legislated increase reduces employment by low-skilled workers.

Second, most of the research is misleading because it simply looks at the relationship between wage rates and employment...and ignores the evidence that increases substantially reduce the hours worked by low-wage employees.

Third, none of the research examines the impact of increased wages on the availability of benefits, particularly health benefits.

Fourth, most of the research ignores the level of competition in the industries affected by a legislative wage increase. Employers in more competitive industries are less able to raise prices to cover increased labor costs.

In Delaware there are currently almost 52,000 workers making less than \$11 per hour (BLS, OES, May, 2018). They are concentrated in food services (fast food and full service restaurants), retail, and supermarkets. These three Delaware industries employ almost 80,000 persons.

Food services, with over 1,800 establishments in Delaware, is certainly a competitive industry. Retail and supermarkets are now squeezed, losing market share to on-line sales and big box stores (e.g., Costco).



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In all three of these industries in Delaware, a 20% increase in wages (from \$9.25 to \$11.00), cannot readily be passed on in higher prices and obviously the least skilled workers will be the first to go.

Apparently, the Democrats in Delaware's State legislature do not believe that markets work. Mandating an \$11.00 minimum wage might just hurt the very semi-skilled workers for whom they are most concerned.

Since the 2007-08 recession, the State Legislature has raised every business tax...some twice...and driven up electricity costs by giving \$500 million to Bloom Energy. The proposed changes to the minimum wage are just further evidence of State government's disregard for the Delaware business community.

Dr. John E. Stapleford, Director
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