



# Higher Minimum Wages Support Job Growth as the Economy Recovers From COVID-19

By Justin Schweitzer and Kyle Ross | November 03, 2021

Many business owners and executives seem to share the belief that everyone is paid the true value of their work, whether that is \$30 million a year or \$7.25 an hour. In that vein, they often argue that minimum wage laws set an unnatural price floor that prevents people who would be willing to work for less from doing so, ultimately increasing business expenses and costing millions of jobs.<sup>1</sup> This argument conveniently ignores the human needs for food, shelter, and financial security that leave workers with little choice but to accept poverty wages in a society that does not adequately provide any of these basic needs.<sup>2</sup> Indeed, the U.S. economy largely rewards those same business owners with extraordinary profits garnered directly from the exploitation of desperate low-income individuals and families.

Yet countless studies show that increases to minimum wages have not resulted in massive job losses.<sup>3</sup> While the federal minimum wage in the United States has been stuck at \$7.25 for more than 12 years—losing 21 percent of its value during that time due to inflation<sup>4</sup>—many states and cities have raised their own minimum wages above the federal level without suffering serious setbacks to their economies.<sup>5</sup> Several states have also eliminated the tipped minimum wage, which has remained at \$2.13 per hour federally since 1991, increasing pay and reducing poverty among workers in tipped industries.<sup>6</sup> This is particularly important given that tipped minimum wages are rooted in a history of racism and sexism<sup>7</sup> and subject many tipped workers to abusive working conditions.<sup>8</sup>

For months, U.S. employers—particularly those in the low-wage service industry—have complained of “labor shortages,”<sup>9</sup> laying most of the blame on the enhanced unemployment benefits that were passed under the American Rescue Plan and the Coronavirus Aid, Relief, and Economic Security (CARES) Act. However, numerous studies and recent data show that unemployment insurance did not significantly discourage people from seeking or taking good jobs,<sup>10</sup> but actually stimulated the economy to the tune of billions of dollars in consumer spending.<sup>11</sup>

Rather than an unwillingness to work, the so-called labor shortage has been driven by the ongoing pandemic,<sup>12</sup> a lack of affordable and accessible child care,<sup>13</sup> the market's difficulty matching workers with the right employers,<sup>14</sup> and the need for better pay and working conditions.<sup>15</sup> Many businesses have found attracting workers much easier after improving conditions and increasing wages.<sup>16</sup> In reality, the story of the U.S. economy in 2021 is not about a shortage of workers, but a shortage of good jobs.

A new analysis presented in this issue brief shows that having higher minimum wages and eliminating subminimum wages has not hindered job growth. Indeed, employment in the predominantly low-wage leisure and hospitality industry has recovered *faster* in states that guarantee better pay for low-wage workers. The fact of the matter is that successful businesses in the United States can easily afford to pay a living wage to all of their workers without being significantly harmed financially.

One way to ensure better wages in leisure and hospitality and all industries throughout the country is for Congress to pass the Raise the Wage Act.<sup>17</sup> Under this bill, workers would receive a minimum wage of \$15 per hour after several years of gradual increases, indexed to median wages thereafter; additionally, subminimum wages for tipped, disabled, and temporary teenage workers would increase over several years until they equal the default minimum wage.<sup>18</sup> States also have the ability to bring pay for workers up to a truly livable standard by passing their own versions of the Raise the Wage Act, as Delaware did this year by increasing its minimum wage to \$15 an hour by 2025.<sup>19</sup>

Employment in the predominantly low-wage leisure and hospitality industry has recovered faster in states that guarantee better pay for low-wage workers.

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### States with higher and more equitable minimum wages have seen a quicker recovery

The leisure and hospitality industry, which includes a high number of front-line workers vulnerable to COVID-19 exposure, was devastated by the onset of the pandemic. Between February 2020 and April 2020, the industry lost 8.2 million jobs, or 49 percent of its prepandemic total—significantly more than any other industry.<sup>20</sup> But widespread vaccine distribution beginning in early 2021 sparked a sustained nationwide economic recovery, growing employment between January 2021 and September 2021 by 3.4 percent overall,<sup>21</sup> in leisure and hospitality, employment grew by 16.8 percent, or 2.2 million jobs, in that time.<sup>22</sup> However, job growth in leisure and hospitality has varied significantly across states, particularly when comparing by minimum wage and tipped minimum wage levels.

As shown in Figure 1, states with higher minimum wages have seen faster job growth in the leisure and hospitality industry since January 2021. States with a minimum wage of more than \$12 an hour saw industrywide employment growth

of 25 percent, compared with only 7 percent growth in states still using the federal minimum of \$7.25. Although there was some variation from state to state, there is a clear trend that states with higher minimum wages have seen more job growth.

**FIGURE 1**  
**States with higher minimum wages have grown employment in low-wage industries faster**

Change in leisure and hospitality employment by minimum wage level since January 2021

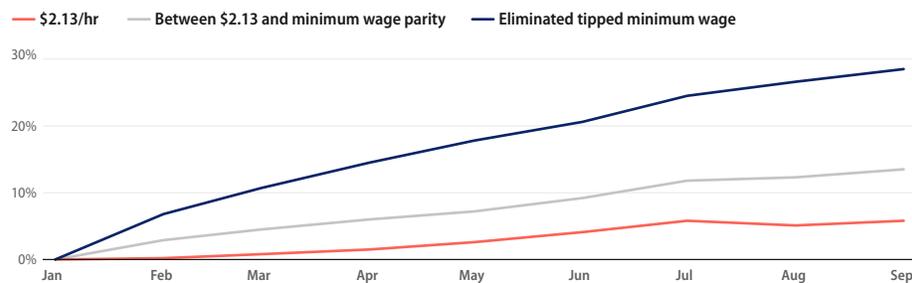


Note: Data are seasonally adjusted. Data for September 2021 are preliminary  
 Source: U.S. Bureau of Labor Statistics, "State Employment and Unemployment Archived News Releases," available at <https://www.bls.gov/bls/news-release/laus.htm#current> (last accessed October 2021)

Similarly, Figure 2 shows that states that have already eliminated the tipped minimum wage had faster job growth in the leisure and hospitality industry than states that still retained subminimum wages for tipped workers. States without a tipped minimum wage had 29 percent growth in leisure and hospitality jobs between January and September of this year, while states using the federal tipped minimum of \$2.13 only grew by 6 percent over the same period.

**FIGURE 2**  
**States that have eliminated the tipped minimum wage have grown employment in relevant industries faster**

Change in leisure and hospitality employment by minimum wage level since January 2021



Note: Data are seasonally adjusted. Data for September 2021 are preliminary  
 Source: U.S. Bureau of Labor Statistics, "State Employment and Unemployment Archived News Releases," available at <https://www.bls.gov/bls/news-release/laus.htm#current> (last accessed October 2021).

In many ways, the leisure and hospitality industry is the poster child for low-quality jobs. It is by far the lowest-paying industry, with an average wage for production and nonsupervisory employees of \$14.91 per hour as of February 2020, which was more than \$6 less than the next lowest-paid industry of trade, transportation, and utilities.<sup>23</sup> Benefits, too, are minimal and harder to come by: Only half of leisure

and hospitality workers receive paid sick leave, and just 32 percent have access to health care benefits.<sup>24</sup> Wage theft, exploitive scheduling, and abuses such as sexual harassment are also rampant in the industry.<sup>25</sup>

In the new economic reality created by COVID-19, \$15 an hour is quickly becoming the minimum expectation for workers, especially for those in undesirable and even dangerous front-line jobs.<sup>26</sup> Since the start of the recovery in January 2021, average wages have been increasing across all industries, but especially in leisure and hospitality.<sup>27</sup> Newfound worker power resulting from the high demand for labor and changing standards for acceptable work conditions<sup>28</sup> have pushed businesses across the country to improve their compensation, incentives, qualification expectations, and work environments to attract and retain workers.<sup>29</sup> For example, some restaurants are now paying tipped employees a full minimum wage or higher, allowing workers to keep tips on top of that hourly rate.<sup>30</sup>

While many low-wage employers have had to raise wages to attract workers during the economic recovery, businesses in states that already had higher minimum wages were able to staff up faster than those in lower-wage states, likely in part because businesses in higher-wage states did not have to raise pay by nearly as much to reach a sufficient wage offer. Likewise, in the eight states<sup>31</sup> that have eliminated the tipped minimum wage, businesses have more experience operating profitably in an environment where workers do not want their livelihoods to be totally reliant on customers' generosity.

Other factors, such as vaccine take-up rates, have likely affected job growth and the economic recovery as well. This analysis found some correlation between higher minimum wages and vaccination rates among states, although not between subminimum wages and vaccination rates. However, vaccination rates alone only partially explain the divergence in economic recoveries.<sup>32</sup>

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States with higher and more equitable minimum wages are projected to surpass pre-COVID-19 employment sooner

Furthermore, despite losing a greater percentage of jobs at the start of the pandemic, states that guarantee higher wages for low-income workers are on pace to surpass their pre-COVID-19 leisure and hospitality employment levels months before the lower-wage states, as figures 3 and 4 show below.

Based on the current trend of job growth in leisure and hospitality since January 2021, states with a minimum wage greater than \$12 an hour would be expected to surpass their pre-COVID-19 employment levels in the industry by July 2022. States with a minimum wage between \$10.01 and \$12 an hour would be projected to reach pre-COVID-19 levels in August 2022. Meanwhile, states using the federal

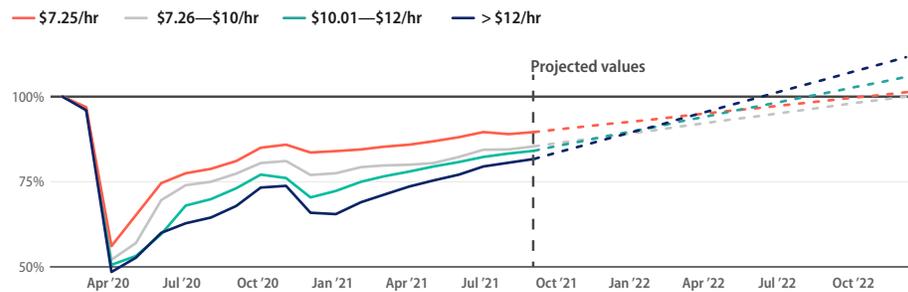
States that guarantee higher wages for low-income workers are on pace to surpass their pre-COVID-19 leisure and hospitality employment levels months before lower-wage states.

minimum of \$7.25 would not reach prepandemic employment levels in leisure and hospitality until November 2022, and states with a minimum wage between \$7.26 and \$10 would not get there until December of next year.

**FIGURE 3**

**States with higher minimum wages are on pace to return to pre-COVID-19 levels of leisure and hospitality employment months ahead of other states**

Employment as a percentage of February 2020 employment level, by minimum wage level



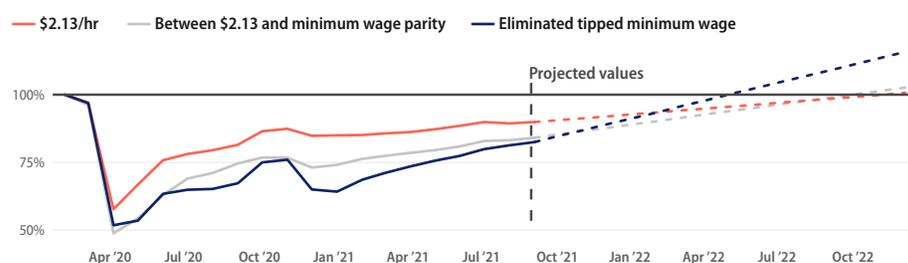
Note: Data are seasonally adjusted. Data for September 2021 are preliminary  
 Source: U.S. Bureau of Labor Statistics, "State Employment and Unemployment Archived News Releases," available at <https://www.bls.gov/bls/news-release/laus.htm#current> (last accessed October 2021).

Likewise, states that have eliminated the tipped minimum wage are projected to meet prepandemic leisure and hospitality employment levels by May 2022; states using a tipped minimum wage greater than \$2.13 per hour are not expected to meet prepandemic employment levels until October 2022; and states using the federal tipped minimum of \$2.13 are not projected to reach prepandemic employment levels until December 2022.

**FIGURE 4**

**States with no tipped minimum wage are on pace to return to pre-COVID-19 levels of leisure and hospitality employment months ahead of other states**

Employment as a percentage of February 2020 employment level, by tipped minimum wage level



Note: Data are seasonally adjusted. Data for September 2021 are preliminary  
 Source: U.S. Bureau of Labor Statistics, "State Employment and Unemployment Archived News Releases," available at <https://www.bls.gov/bls/news-release/laus.htm#current> (last accessed October 2021).

These estimations assume that current trends hold, without any major economic disruptions in the coming months. Nonetheless, the data so far are clear: Having higher minimum wages, and eliminating subminimum wages, has not impeded employment growth and, in fact, can play an important role in helping businesses attract and retain workers while supporting a thriving economy.

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## Dispelling myths about raising the minimum wage

Even though higher wages have not resulted in a wave of business closures, critics of raising the minimum wage and eliminating subminimum wages—namely business associations and conservative research and advocacy organizations—argue that doing so would result in massive layoffs and price hikes.<sup>33</sup> However, these arguments and potential negative effects are greatly exaggerated.

Opponents of a \$15 minimum wage often refer to a report from the U.S. Congressional Budget Office that estimates increasing the wage to that level would reduce employment by 0.9 percent, or 1.4 million workers, by 2025.<sup>34</sup> The report has since drawn criticism from economists who believe it overstates the potential job losses by placing heavier weight on studies that found more negative impacts, and that a more accurate estimate of job losses would be less than 500,000.<sup>35</sup> This is consistent with recent research trends that have found minimum wage increases to have little or no negative impact on employment,<sup>36</sup> and that any decline in income from potential employment loss would be more than offset by the greater earnings of millions of low-wage workers.<sup>37</sup> For individuals who do lose their jobs, it is important that they have access to a strong and modernized safety net system to support them while they look for employment.<sup>38</sup>

While critics are also quick to argue that higher labor costs will be passed on to consumers through higher prices for goods and services, price increases will not be as disastrous as some claim. Recent estimates of price increases range from just 0.36 percent to 0.58 percent for each 10 percent increase in the minimum wage.<sup>39</sup> These minor increases—only a few cents extra on a \$10 tab—would take place across several years and be more than offset by higher wages throughout the economy. A more legitimate concern is that business owners might reduce employee hours or replace full-time staff with part-time workers so they do not have to provide benefits such as health care or paid leave.<sup>40</sup> This is why it is also critical to pass fair workweek legislation at the state and federal levels—wherein employers are required to offer additional hours to existing employees before hiring new staff—to ensure that American workers are getting enough income to sustain themselves.<sup>41</sup>

In addition, claims that the federal minimum wage should vary regionally depending on costs of living are misleading.<sup>42</sup> A \$15 minimum wage is basically the lowest amount on which anyone can sustainably and healthily live in lower-cost states, and it still would not be enough to accommodate families of four or larger with two working adults both making minimum wage.<sup>43</sup> It must be the *floor* for the entire country, to be increased from that level as needed in higher-cost areas.

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## Conclusion

A \$15 minimum wage would give a pay increase to an estimated 32 million low-wage workers and lift 3.7 million people in the United States out of poverty.<sup>44</sup> Importantly, it would also address longstanding gender and racial inequities, as people of color, women, and women of color in particular are disproportionately represented among low- and minimum wage workers.<sup>45</sup>

While Congress must pass the federal Raise the Wage Act, state and local policymakers should also take their own steps to ensure that every single one of their workers receives at least \$15 per hour. In addition to eliminating poverty-level wages, providing workers with more economic opportunity, and decreasing the need to subsidize low incomes through the safety net to meet basic needs,<sup>46</sup> increasing the wage floor will provide an extra boost to the economy through the greater spending power of low-wage workers.<sup>47</sup> And on the employment side, raising the minimum wage would increase worker productivity and reduce staff turnover,<sup>48</sup> which decreases the costs of frequently hiring and training new staff.

It is long past time that every town, city, and state in the country be held to a higher standard that prioritizes people's financial security and well-being. The enormous benefits of helping workers earn a living wage will ultimately spur stronger economic growth and a more equitable society as the United States continues to recover from the economic fallout of the COVID-19 pandemic and beyond. The question is: Are employers and lawmakers willing to see that?

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## Endnotes

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