

THE PERVERSE EFFECTS OF INCREASING THE FEDERAL MINIMUM WAGE RATE

Intuitively it doesn't make sense to mandate that low skilled, minimally educated and little experienced workers in New York City and Jackson Mississippi be paid the same dollar amount. Even cursory awareness of relative living costs reveals the vast difference between the two cities. Yet Federal law mandates a uniform minimum wage rate across the US. Because previous increases were modest and spread out the perverse effects outlined below were either ignored or glossed over. However, with recent pushes for wage rates with magnitudes in the order of \$15/hour the adverse effects can no longer be prudently dismissed.

The truncated table below provides a glimpse of the uneven effects of a uniform nationwide minimum wage rate. The second column lists the relative price index for each respective city indicating, for example, that the living costs in Buffalo are half those in the borough of Manhattan. Thus, if the Federal minimum wage rate were increased to \$10.1/hour (third column) workers in Buffalo would require only \$9.98 to have the same purchasing power as the average minimum wage worker in US. However, New York City workers would require \$21.42 per hour to enjoy the same purchasing power as \$9.98 in Buffalo and \$10.1 in the average US city. Thus, Buffalo workers gain \$.12 more per hour as a result of the increased Federal minimum. However, workers in Manhattan need \$21.42/hour to purchase what \$9.98 will buy in Buffalo and \$10.1 in the average US city. Needless to say, workers in New York City eligible for the Federal minimum wage would not make \$21.42/hour even after the imposition of the \$10.1 mandate. Note: Any positive effects of these changes would be limited to those workers fortunate enough to keep their jobs in the process.

On the other hand, the last column gives the relative employer burden of any uniform change in the minimum wage rate. The employer burden is the reciprocal of the relative price index. Thus, the burden on employers in Buffalo is twice that of Manhattan. That is, employers in Buffalo have to give up twice the purchasing

power of employers in Manhattan for any given increase in the Federal minimum wage. The difference is particularly acute when comparing fast food franchises in both cities. Put differently, a uniform increase in the minimum wage provides a powerful incentive for fast food providers to relocate to Manhattan, or, for that matter, workers to relocate to Buffalo.

City, State	Relative Price Indx ¹	USA@10.1	USA@15	SF@15	NY@15	Employer Burden
Phoenix, Ariz.	0.98	9.92	14.73	8.32	6.94	1.02
Los Angeles, Calif.	1.53	15.46	22.97	12.97	10.83	0.65
San Francisco, Calif.	1.77	17.88	26.55	15.00	12.52	0.56
Colorado Springs, Colo.	0.97	9.75	14.48	8.18	6.82	1.04
Buffalo, N.Y.	0.99	9.98	14.82	8.37	6.99	1.01
New York, Manhattan	2.12	21.42	31.82	17.97	15.00	0.47

[Source: ACCRA Cost of Living Index, ACCRA, P.O. Box 100127, Arlington Va., 22210. Web: www.coli.org.](http://www.coli.org)

Column five shows the impact of setting the minimum wage in San Francisco to \$15 and scaling all other cities accordingly. Column six performs the same operation for New York City. Thus, if the minimum wage increases to \$15 in NYC then workers in Buffalo would only require \$6.99 to have the same purchasing power wage. However, the current Federal minimum is \$7.25 meaning that workers in Buffalo already have the equivalent purchasing power of workers in NYC even after the increase to \$15/hour in NYC.

One nagging issue is the equal protection clause of the US Constitution. Does 'equal' mean the 'same' or does it mean the 'equivalent'? Economic conditions are not the same nationwide nor should efforts be wasted in an attempt to make them the same. However, equivalence seems a natural and reasonable pursuit.

One possible solution to this conundrum is to leave the Federal minimum wage rate as is and simply allow cities to set their own minimum wage rate. In each case, the respective cities would, presumably, set their minimums commensurate with

comparable wages and prices within their own communities. A second and even simpler solution is to let individual markets determine local wage rates.

In sum, the idea to mandate a significant increase in the Federal minimum wage rate is one that carries with it potential and substantial dislocation effects. The outcome for worker compensation and employment is ominous. Likewise, employer burden would be highly disparate throughout the entirety of the US.



A more comprehensive table is given below.

City, State	Relative Price Indx	USA@10.1	USA@15	SF@15	NY@15	Employer Burden
Montgomery, Ala.	0.96	9.71	14.42	8.14	6.80	1.04
Juneau, Alaska	1.32	13.29	19.74	11.15	9.31	0.76
Phoenix, Ariz.	0.98	9.92	14.73	8.32	6.94	1.02
Los Angeles, Calif.	1.53	15.46	22.97	12.97	10.83	0.65
San Diego, Calif.	1.41	14.24	21.15	11.95	9.97	0.71
San Francisco, Calif.	1.77	17.88	26.55	15.00	12.52	0.56
Colorado Springs, Colo.	0.97	9.75	14.48	8.18	6.82	1.04
Denver, Colo.	1.04	10.45	15.53	8.77	7.32	0.97
Washington, DC	1.38	13.92	20.67	11.68	9.75	0.73
Jacksonville, Fla.	0.92	9.33	13.86	7.83	6.53	1.08
Atlanta, Ga.	0.97	9.82	14.58	8.24	6.87	1.03
Honolulu, Hawaii	1.62	16.40	24.36	13.76	11.49	0.62
Chicago, Ill.	1.29	12.99	19.29	10.90	9.09	0.78
Springfield, Ill.	0.92	9.30	13.82	7.81	6.51	1.09
Des Moines, Iowa	0.94	9.53	14.16	8.00	6.68	1.06
Topeka, Kans.	0.92	9.29	13.80	7.80	6.51	1.09
Baton Rouge, La.	1.04	10.51	15.62	8.82	7.36	0.96
Baltimore, Md.	1.08	10.87	16.14	9.12	7.61	0.93
Boston, Mass.	1.37	13.82	20.52	11.59	9.67	0.73
Detroit, Mich.	1.07	10.77	15.99	9.03	7.54	0.94
Minneapolis, Minn.	1.03	10.36	15.39	8.69	7.26	0.97
Jackson, Miss.	0.92	9.32	13.85	7.82	6.53	1.08
St. Louis, Mo.	1.00	10.09	14.99	8.47	7.07	1.00
Billings, Mont.	0.98	9.85	14.63	8.26	6.90	1.03

Omaha, Neb.	0.92	9.32	13.85	7.82	6.53	1.08
Las Vegas, Nev.	1.10	11.09	16.47	9.31	7.77	0.91
Albuquerque, N.M.	1.03	10.43	15.50	8.75	7.31	0.97
Buffalo, N.Y.	0.99	9.98	14.82	8.37	6.99	1.01
New York, Manhattan	2.12	21.42	31.82	17.97	15.00	0.47
Charlotte, N.C.	0.94	9.44	14.03	7.92	6.61	1.07
Cincinnati, Ohio	0.95	9.61	14.27	8.06	6.73	1.05
Cleveland, Ohio	1.03	10.37	15.41	8.70	7.26	0.97
Oklahoma City, Okla.	0.92	9.29	13.80	7.80	6.51	1.09
Eugene, Ore.	1.10	11.06	16.43	9.28	7.74	0.91
Portland, Ore.	1.11	11.20	16.64	9.40	7.84	0.90
Philadelphia, Pa.	1.19	12.02	17.85	10.08	8.42	0.84
Memphis, Tenn.	0.90	9.08	13.49	7.62	6.36	1.11
Dallas, Tex.	0.95	9.62	14.28	8.07	6.73	1.05
El Paso, Tex.	0.92	9.24	13.73	7.75	6.47	1.09
San Antonio, Tex.	0.94	9.51	14.13	7.98	6.66	1.06
Salt Lake City, Utah	0.97	9.83	14.60	8.25	6.88	1.03
Richmond, Va.	1.01	10.20	15.15	8.56	7.14	0.99
Seattle, Wash.	1.19	11.98	17.79	10.05	8.39	0.84
Milwaukee, Wis.	1.01	10.20	15.15	8.56	7.14	0.99
Cheyenne, Wyo.	1.08	10.88	16.16	9.13	7.62	0.93

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