
FLORIDA TAXWATCH

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The Impact of a \$15/hour Minimum Wage in Florida

In states across the nation, minimum wage policies continue to dominate political and economic discussions. Recently, two of the nation's largest states, New York and California, have both passed laws that will gradually raise the minimum wage in those states to \$15 per hour. While these decisions have been met with support and criticism, the impacts in each state will be followed closely across the nation.

The idea of a \$15 per hour minimum wage has also been discussed by state legislators in Florida. During the 2016 legislative session, Senate Bill 6 and House Bill 109 were introduced and proposed raising Florida's minimum wage to \$15 per hour starting in January of 2017.¹ The bills would have replaced Florida's existing floating minimum wage, which is currently \$8.05 per hour. Florida's minimum wage is reviewed each year, and either remains steady, or is increased to account for changes in the cost of living. While both bills died during the committee meeting process, the fight to raise Florida's minimum wage to \$15 per hour is likely to continue.² With this in mind, it is important that taxpayers and policymakers understand how an increase in the minimum wage to \$15 per hour would impact businesses, the job market, and the everyday lives of Florida residents.

Businesses

Currently, businesses in Florida employ approximately 183,000 minimum wage workers, roughly 2 percent of those employed throughout the state. While minimum wage workers are employed in a variety of fields, evidence points to the fact that a majority work in industries with small profit margins, such as restaurants and retail.³

The minimum wage in Florida has increased steadily over the past decade,⁴ but some businesses, such as JM Family Enterprises, have chosen to implement company-wide minimum wages that are above the state and federal guidelines.⁵ While these companies have had the ability to successfully implement increases on their own, the vast majority of businesses may not be able to absorb an increase in the minimum wage to \$15 per hour.

Using the most recent available data from the U.S. Bureau of Labor and Statistics, Florida TaxWatch estimated the overall labor costs of businesses employing minimum wage workers in the state of Florida. A conservative estimate shows that with an abrupt increase to \$15 per hour Florida businesses could expect to see a nearly \$2 billion (\$1,834,618,188) increase in the cost of minimum wage labor. This estimate only accounts for an increase in the

1 The Florida Senate. Senate Bill 6. 2016.

2 The Ledger. Battle for \$15 minimum wage coming to Florida. 17 April 2016.

3 Manhattan Institute for Policy Research. Issue Brief. July 2015.

4 Florida Department of Economic Opportunity. Florida Minimum Wage History 2000-2013.

5 Sun Sentinel. JM Family raises minimum wage to \$16 an hour. 5 August 2015.

cost of those workers that are currently making minimum wage (\$8.05 per hour); however, an increase in the minimum wage to \$15 per hour would raise the cost of labor of all those employees making less than \$15 per hour. Because the median wage in Florida is \$15.29 per hour,⁶ the proposed increase would raise the cost of nearly half of Florida's workforce, significantly impacting how businesses in Florida operate.

The Job Market

Such a dramatic increase in the cost of labor would force companies to adapt to a new business climate in the state, and the results could bring about unintended consequences that negatively impact the job market in Florida.

Recently, Seattle, Washington enacted a plan to steadily increase their minimum wage to \$15 per hour.⁷ The affluent city with a relatively low unemployment rate seemed to be well-suited to absorb the higher labor costs that stem from an increase in the wage floor; however, data show that the city has experienced an increase in the unemployment rate and in the number of those unemployed since the implementation of a \$15 minimum wage plan.⁸ Since April of 2015 (when the city began to phase in the minimum wage increase), Seattle has seen unemployment rise from 3.3 to 4.4 percent, and the number of those unemployed has risen by nearly 5,000 individuals.⁹ Many of the job losses can be attributed to businesses that have relocated, shut down, cut staff hours, or have put a freeze on hiring.¹⁰ Going forward, many business owners have raised concerns regarding their ability to adapt to the new minimum wage climate, understanding that failing to do so could result in having to close their businesses.¹¹

2 | In California, where they have also enacted a plan to raise their minimum wage to \$15 per hour, the change in minimum wage laws has forced businesses to contemplate relocation in order to remain profitable. Fred Donnelly, president of commercial airplane parts manufacturer, California Composites, announced that he intended to move his company to Fort Worth, Texas. Donnelly claimed the increase in the minimum wage left him no choice but to move his company, and the primary factor in the decision came down to the fact that California Composites is already locked into long term contracts with set prices. With the increase in California's minimum wage, Donnelly fears his company would fail to stay profitable if it were to stay in the state.¹²

Increasing the cost of labor also has companies looking for ways to adapt by automating more of their day-to-day functions. Businesses have already begun installing self-checkout stations that allow multiple checkouts to be overseen by one employee, cutting down on the number of cashiers that are needed;¹³ however, as wage floors continue to rise, companies will find it cost-effective to automate even more operations. Companies are already looking into various automated technologies that work in fields of customer service, order processes, and even cooking and preparing food at restaurants.^{14,15} A significant increase in automation due to rising labor costs could cut down on the number of available jobs for low-skilled individuals, leaving many worse-off than they currently are.

6 U.S. Bureau of Labor Statistics. Occupational Employment and Wage Estimates Florida. May 2015.

7 Office of the Mayor of Seattle. \$15 Minimum Wage.

8 U.S. Bureau of Labor Statistics. Local Area Unemployment Statistics. May 2016.

9 U.S. Bureau of Labor Statistics. Local Area Unemployment Statistics. May 2016 *Data set used from April of 2015 to February of 2016.

10 NPR. Seattle Restaurants Scramble To Pay A Higher Minimum Wage. 9 May 2015.

11 NPR. Seattle Restaurants Scramble To Pay A Higher Minimum Wage. 9 May 2015.

12 89.3KPCC. Ahead of \$15 minimum wage, 1 company leaves California for Texas. 25 April 2016.

13 Investor's Business Daily. Wendy's Serves Up Big Kiosk Expansion As Wage Hikes Hit Fast Food. 11 May 2016.

14 Business Insider. Here's The Burger-Flipping Robot That Could Put Fast-Food Workers Out Of A Job. 11 April 2014.

15 Brookings. Rising minimum wages make automation more cost-effective. 30 September 2015.

The Economy and Everyday Lives of Consumers

Increasing the cost of labor, and thus the cost of operations, will force businesses to adapt. While this could include reducing staff hours, closing shop, or relocating, it will likely also lead to price increases for customers.

One example of labor costs being transferred to consumers can be seen in San Francisco, California. After the Bay Area enacted a plan to increase the city's minimum wage to \$15 per hour, fast food giant Chipotle responded by increasing the cost of menu items 10-14 percent in all the area's restaurants.¹⁶ In response to the increase in prices, Chris Arnold, Chipotle's Communications Director, stated that the increases were done "in part to offset higher labor costs."¹⁷ The price increases are not just affecting burrito lovers. Data from the U.S. Bureau of Labor Statistics show that prices for dining out in San Francisco, California rose 4.8 percent over a 12 month period beginning in February of 2015,¹⁸ which is significantly higher than the 2.6 percent increase observed on the national level during the same period.¹⁹

With increases in the costs of goods and services, consumers are likely to react in a few different ways. For one, consumers can choose to do business in neighboring states that are not affected by high wage floors and therefore do not have to increase the cost of their products.²⁰ In turn, local businesses that are not able to match the lower prices of their neighboring competitors would be at risk of losing customers. Secondly, consumers may choose to buy fewer goods in the market place due to higher prices,²¹ forcing businesses to close. If this were to happen, it could create a snowball effect of shrinking the market, therefore lowering the competition among businesses.

Conclusion

With many cities and states, including Florida, considering an increase in their minimum wage to \$15 per hour, it is vital that taxpayers and policymakers understand the possible effects such an increase can have on the states' businesses, job market, and economy. Early evidence has shown that even some of the most affluent areas in the U.S. have felt some negative effects, including an increase in unemployment and prices, after raising their wage floors. In a state like Florida, where the median wage is close to \$15, an immediate increase in the minimum wage to \$15 per hour would likely have negative effects on the state's economy and job market. It is important that policymakers in Florida closely follow how businesses and economies in states like New York and California acclimate to increases in the minimum wage, and use the data to help make decisions regarding Florida's minimum wage going forward.

16 American Enterprise Institute. Who'd a-thunk it? SF minimum wage increased 14% and local Chipotles just raised prices by 10-14%. 6 July 2015.

17 Entrepreneur. Chipotle Raises Prices in San Francisco After Minimum Wage Hike. 9 July 2015.

18 U.S. Bureau of Labor Statistics. Consumer Price Index, San Francisco Area. February 2016.

19 U.S. Bureau of Labor Statistics. CPI Detailed Report. February 2016.

20 Fortune. Seattle's min wage is America's highest, but here's the downside. 6 June 2014.

21 NPR. Seattle Restaurants Scramble To Pay A Higher Minimum Wage. 9 May 2015.

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