12-31-25

WSJ Print Edition

ECO

Higher labor costs push prices up, while fewer jobs and hours mean less money in workers' pockets.

UPWARD MOBILITY

The Minimum Wage Makes the Affordability Crisis Worse

Increasing the cost of hiring an employee is an odd way of addressing the supposed affordability crisis. Yet some of the same people complaining about consumer prices are also celebrating the minimum- wa ge hikes set to take effect on Jan. 1.

The National Employment Law Project, a left-wing advocacy group, reports that 19 states and 49 cities and counties will mark the new year by implementing a higher wage floor for workers. Later in 2026, four more states and 22 local jurisdictions will follow suit. "As affordability challenges grow," the report says, "NELP supports 2026 wage increases that move us toward a goodjobs economy, rooted in living wages for all."

Note

Advocates contend that minimum- wage hikes increase incomes and reduce poverty, but that depends. The government can force an employer to pay a minimum hourly rate, but it can't force the employer to hire someone in the first place, or to guarantee current employees a certain number of hours. Minimum--wage workers who keep their jobs and who retain the same number of hours benefit from an elevated minimum wage. But some employees will be let go, others will see their hours trimmed, and still others will never be hired because they've become too expensive to employ. Note These are only some of the trade-offs involved in increasing the minimum wage.

"This is a bad way to deal with affordability concerns," says American Enterprise Institute economist Michael Strain. "Businesses have to absorb higher labor costs in some way, and one way is by raising consumer prices. Another way is by reducing the number of people they employ. And things become a lot less affordable when you lose your paycheck."

In a forthcoming academic paper, Mr. Strain and Jeffrey Clemens analyze changes to the minimum wage in the decade preceding the Covid pandemic. They conclude that large increases harmed employment prospects for people with limited skills and work history—the same group who have experienced the most erosion in purchasing power since the pandemic. The authors estimate that "relatively large increases in minimum wages reduced employment

rates among individuals with low levels of experience and education by just over 2 and a half percentage points."

Between 2011 and 2019, California, New York state and the District of Columbia lifted their wage floors by 50%, 53% and 61%, respectively. New York City's minimum wage more than doubled between 2013 and 2020 and will rise to $17 an hour next year, 13% higher than in 2023. The biggest jump in 2026 will occur in Hawaii, where the mini--mum will rise by $2 to $16 an hour, a 14% increase. Nor is the trend limited to blue states. Republican-con--trolled Florida, Nebraska and Missouri are slated for significant increases in the coming year, another sign of the economic populism Note that has increasingly characterized GOP policymaking in the Trump era.

Nevertheless, in red and blue America alike, the lowest-paid workers tend to spend a larger share of their income on food, housing, medical care and other necessities, which makes them far more sensitive to price increases. Minimum--wage mandates can make their situation even more precarious. The minimum wage for fast-food workers rose to $20 an hour in California in 2024. The Journal reported that in anticipation of the increase, restaurants halted hiring and scaled back hours. Teenage unemployment in the Golden State was already about twice the national average. Increasing the price of labor hasn't helped.

Minimum-wage hikes aren't effective as an antipoverty tool either. The most reliable route out of poverty is finding a job—any job— and keeping it. Workers aren't paid the entry-level rate for very long. As productivity and experience increase, so do wages. What characterizes poor households isn't that people earn the minimum wage. It's that nobody works. To the extent that minimum-wage mandates hamper hiring, they don't alleviate poverty.

Americans are rightly upset about the sustained price pinch for food, energy, housing, autos and other goods since the pandemic. Polling shows that an overwhelming percentage of voters think the economy is in bad shape. President Trump campaigned on solving the problem and still blames Joe Biden, but polls show that voters now blame Mr. Trump. Democrats capitalized on economic anxiety in this year's off-year elections. The White House and Republicans in Congress will need to find a way to keep their opponents from doing the same thing in next year's midterm contests. Making it harder for people to find employment won't help their cause.

By Jason L. Riley

