

Almost all Americans, whether they live in Texas or California, admit that it is impossible to live on \$7.25 an hour. Nonetheless, the debate over President Joe Biden's plan to raise the federal minimum wage from that level to \$15 is about as polarised as any issue in the US.

Those opposed argue forcing up wages hurts business and cite studies showing lost jobs. Those in favour argue higher wages raise consumption, and cite studies showing no job losses. Amid the scaremongering and moralising, what we really need to know is what the increase would actually do. How much will costs rise? How much of this can be passed on to consumers?

The proposed path to \$15 an hour is via five hikes over four years averaging 15.6 per cent. In 2021, the minimum wage would rise from \$7.25 to \$9.50, a 31 per cent increase that is by far the largest percentage jump. Low-wage industries such as food services will be hit hardest. [Restaurant labour costs range from 25 to 40 per cent of sales](#). Fast-food chains, which tend to pay the lowest wages, often keep their costs below 30 per cent. [Using Congressional Budget Office estimates](#), I calculate that [fewer than 15 per cent of restaurant workers in the lowest wage states would be affected](#), with an average raise of 17.3 per cent. This means restaurant costs in the lowest wage states would forcibly rise by less than 1 per cent of sales in 2021, while nationally, costs would rise by 0.3 per cent.

That suggests the move to \$9.50 is extremely low risk. What of the remaining rises that would take the wage to \$15 in 2025? Let's be hyper-conservative and assume 100 per cent of restaurant workers benefit fully. To compensate for lost profits, I calculate that menu prices would need to rise by between 5 and 5.5 per cent in the first three years and 3 per cent in 2025. That is material but even this worst case of 3.8 per cent per annum is entirely manageable.

Will consumers be able to absorb these higher prices without reducing demand? Pre-Covid, the cost of eating out represented [6 per cent of US consumer spending](#). On the path to \$15, the necessary restaurant price increases equate to 0.3 per cent of consumer spending each year. For evidence about what this might mean, look back to 1996-7 when the federal minimum wage rose 21 per cent. Despite this, food service and bars grew faster than the overall economy.

There is a risk, but it is not to the sustainability of the restaurant industry as a whole. Rather wage rises will accelerate the cull of restaurants that were already struggling. Some low-skilled jobs may initially feel "lost" but if consumers continue to eat out and order in, higher-wage job openings will emerge. If employers opt to automate, they will create jobs for those who build, install and maintain new machines. That higher productivity should also lead to lower prices, allowing more consumer restaurant visits.

Policymakers should recognise that there is little to fundamentally fear from a move to \$15. However, timing does matter. Mid-pandemic is not the time to add burdens to business. When vaccinated consumers return to restaurants with pent-up demand and higher savings, they are likely to be less sensitive to prices than normal. That is a window of opportunity we should not miss.

If politicians think that \$15 won't work for lower wage communities, they could let states cap their minimum wage at two-thirds of average wages. To motivate hiring, allow businesses to pay a lower trial wage for the first 90 days to under-21s, the long-term unemployed, and the formerly incarcerated. Most employers would be happy to pay for those who impress. Give small businesses extra time to comply.

Finally, after we get to \$15, take politics out of the equation and index to inflation. Surely we can all agree that retaining consumer purchasing power is good for the economy.