Raising the Minimum Wage to $15 in Chicago by 2021

Effects on Incomes, Employment, and Prices

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EXECUTIVE SUMMARY

Chicago is considering increasing its minimum wage to $15 per hour by 2021, four years earlier than the rest of Illinois. Polls suggest that four-in-five Chicago residents support a $15 minimum wage.

- Recent research shows that raising the minimum wage boosts worker incomes while having little to no effect on employment, business growth, and consumer prices.
- A $15 minimum wage would directly affect more than 430,000 workers in the City of Chicago. Of these individuals, 60 percent are women, 24 percent are African Americans, 37 percent are Latinos and Latinas, 83 percent are U.S. citizens, and 57 percent are workers age 30 or older.
- A $15 minimum wage would boost the annual earnings of directly-affected workers by about $3,600 on average, increasing consumer demand and lifting approximately 100,000 Chicago residents out of poverty.
- As of May 2019, three cities with minimum wages of at least $15 per hour– San Francisco, San Jose, and Seattle– had lower unemployment rates than Chicago.
- The Chicago Minimum Wage Ordinance has had little to no effect on prices: From 2015 through 2018, the minimum wage increased by 45.5 percent– from $8.25 per hour to $12 per hour– but Chicago’s food prices only rose 1.6 percent faster than the rest of the Midwest.

By raising the minimum wage to $15 per hour by 2021, the City of Chicago can grow the economy, reduce income inequality, reduce worker turnover, and ensure that working-class families can maintain a decent standard of living.

INTRODUCTION

On July 1, 2019, the minimum wage increased to $13 per hour in the City of Chicago. The move was the final hike of the phased-in process initiated by the Chicago Minimum Wage Ordinance, passed on December 2, 2014. The city’s minimum wage is now set to be raised annually by the rate of inflation, with a cap of 2.5 percent. The cap on the cost-of-living increase means that, under current law, the city’s minimum wage would not increase to $15 per hour until 2025 at the earliest, the same year that the State of Illinois is set to reach a $15 per hour minimum wage (Seitz, 2019). With a higher cost of living in the City of Chicago than the rest of Illinois, there has been a new movement to boost the city’s minimum wage to $15 per hour before the rest of the state. As a result, 38 Chicago Aldermen and Alderwomen introduced the Raise Chicago Ordinance in July 2019, which would increase the city’s minimum wage to $15 per hour by 2021– four years earlier than the state– and phase out the sub-minimum wage for tipped workers and teen workers (King, 2019).

A vast majority of Chicago voters support raising the minimum wage to $15 per hour. In March 2014, an advisory referendum asked voters in 103 Chicago precincts whether the city should enact a $15 per hour minimum wage for large employers. The measured garnered overwhelming support, with 87 percent of Chicago voters responding “Yes” (Ballotpedia, 2019). Another March 2019 poll of Illinois voters by the Paul Simon Public Policy Institute at Southern Illinois University found that 81 percent of Chicago residents support raising the minimum wage to $15 per hour (Jackson & Leonard, 2019).
RECENT RESEARCH ON THE ECONOMIC EFFECTS OF RAISING THE MINIMUM WAGE

A June 2018 study by the Project for Middle Class Renewal at the University of Illinois at Urbana-Champaign and the Illinois Economic Policy Institute found that the policy is working largely as intended (Manzo et al., 2018). The minimum wage hike has already boosted annual incomes for at least 330,000 low-wage workers, with an average gain of 2.5 percent. Meanwhile, the City of Chicago did not fare worse on employment outcomes than the surrounding suburbs where the minimum wage had not changed. The authors found that the higher minimum wage had no effect on the unemployment rate but that it reduced working hours by 1.0 percent, on average, allowing employees to work fewer hours but earn higher annual incomes (Manzo et al., 2018). It is also worth noting that, as of May 2019, the unemployment rate was the same in Cook County (3.6%)—where local minimum wages are higher—as the rest of the state (3.6%) (BLS, 2019a).

These findings align with the preponderance of the economic research, which is nearly unanimous in concluding that minimum wage hikes are associated with higher incomes for workers. Recent research of 138 state-level minimum wage changes between 1979 and 2016 found that the number of low-wage jobs remained unchanged over five years following the hike but average worker wages increased (Cengiz et al., 2019). Similarly, a study of 51 minimum wage events in low-wage areas in the United States between 2005 and 2017 found positive wage effects but did not detect adverse effects on employment or hours (Godøy & Reich, 2019). Another analysis found that 37 of 41 peer-reviewed studies (90 percent) conclude that a higher minimum wage is associated with higher wages (Belman & Wolfson, 2014). In general, a 10 percent increase in the minimum wage is found to boost average incomes by about 1.2 percent (Belman & Wolfson, 2014; Dube et al., 2011; Reich et al., 2017). Previous studies have also found little to no impact of minimum wage laws on employment or hours (Gopalan et al., 2018). A meta-analysis of 64 studies found that a 10 percent increase in the minimum wage is statistically associated with a small 0.2 and 0.6 percent drop in employment or hours (Belman & Wolfson, 2014).

Minimum wage hikes have small or negligible effects on employment for many reasons. First, there is evidence that a higher minimum wage reduces worker turnover, as employers become more diligent in their hiring practices (Schmitt, 2013; Dube, Lester, & Reich, 2011; Reich et al., 2017). Turnover costs reduce worker productivity and an estimated 63 percent of the productivity losses occur prior to the departing worker’s exit (Kuhn & Yu, 2019). An analysis of 11 case studies found that the “typical cost of turnover for positions earning less than $30,000 annually is 16 percent of an employee’s annual salary” (Boushy & Glynn, 2012). Turnover reductions can help low-wage industries absorb labor cost increases associated with hikes in the minimum wage (Pollin & Wicks-Lim, 2015). Employers may also make efficiency improvements, compress wages by delaying or limiting bonuses for higher-skilled workers, or absorb higher labor costs through lower profits (Schmitt, 2013). Finally, there is evidence that raising the minimum wage stimulates the economy through increased consumer demand (Aaronson et al., 2011; Manzo et al., 2018).

A PROFILE OF CHICAGO WORKERS DIRECTLY AFFECTED BY A $15 PER HOUR MINIMUM WAGE

A $15 minimum wage could mean a $3,600 average raise for more than 430,000 Chicago workers (Figure 1). The majority of the workers directly affected by a $15 minimum wage in the city would be women (60 percent) and workers aged 30 years old and older (57 percent). An estimated 132,000 white workers (30 percent), 104,000 African Americans (24 percent) and 161,000 Latinos and Latinas (37 percent) would see
their hourly incomes improve as a result of the policy change. In addition, approximately 6,000 military veterans would be directly impacted by a $15 minimum wage by 2021.

Figure 1: Profile of Chicago Workers Directly Affected by a $15 Per Hour Adult Minimum Wage

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Directly Affected Workers</th>
<th>Share of Directly Affected</th>
</tr>
</thead>
<tbody>
<tr>
<td>All directly affected workers</td>
<td>436,000</td>
<td>100.0%</td>
</tr>
<tr>
<td><strong>By gender identification</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employed women</td>
<td>260,000</td>
<td>59.7%</td>
</tr>
<tr>
<td>Employed men</td>
<td>176,000</td>
<td>40.3%</td>
</tr>
<tr>
<td><strong>By racial or ethnic background</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>White workers</td>
<td>132,000</td>
<td>30.2%</td>
</tr>
<tr>
<td>African American workers</td>
<td>104,000</td>
<td>23.8%</td>
</tr>
<tr>
<td>Latino and Latina workers</td>
<td>161,000</td>
<td>37.1%</td>
</tr>
<tr>
<td><strong>By other characteristic</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employed veterans</td>
<td>6,000</td>
<td>1.5%</td>
</tr>
<tr>
<td>Workers 30 years or older</td>
<td>247,000</td>
<td>56.7%</td>
</tr>
</tbody>
</table>

Source(s): 2018 Current Population Survey Outgoing Rotation Groups (CEPR, 2019). Estimates are for workers aged 18 years or older who are paid by the hour, not employed in the agricultural industry, not self-employed, and “actively connected” to the labor market (i.e., working at least 5 hours per week). Estimates are rounded to the nearest thousand.

A $15 Minimum Wage Would Have Large Impacts on Communities in Chicago

A $15 minimum wage would boost the wages of directly-impacted workers by thousands of dollars per year (Figure 2). On average, the minimum wage hike would increase the annual earnings of workers currently earning less than $15 an hour by about $3,600 across in Chicago. Although a $15 minimum wage might cause an initial drop in labor demand as employers consider reducing hours, delaying new hires, shifting cost increases across their workforce, or adjusting employment levels, the increased consumer demand from working-class families would offset much of these losses. Across the entire city, a $15 per hour minimum wage would boost total worker income by an average of 1.8 percent. As a result, the number of workers who would benefit from the minimum wage hike would exceed any potential drop in working hours from low-wage jobs. A recent study of one million hourly wage employees in over 300 firms and across 23 industries found that existing minimum wage employees were no less likely to be employed after a minimum wage hike but that the number of employees earning low wages decreased (Gopalan et al., 2018).

Economic simulations reveal that a $15 minimum wage by 2021 would grow Chicago’s economy (Figure 2). Chicago’s annual gross domestic product (GDP) would increase by nearly $700 million. The economic impact is due to higher consumer demand from low-income households at local retailers, restaurants, and

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1 Drawing on the economic research, Figure 2 assumes that every 10 percent increase in the minimum wage causes a 1.2 percent increase in worker incomes and a 0.5 percent decrease in working hours (or “labor demand”). These estimates are from a comprehensive analysis of dozens of peer-reviewed minimum wage studies (Belman & Wolfson, 2014).

2 The analysis assumes a potential small change in labor demand, in accordance with much of the economic research. The analysis suggests that total hours worked may fall by about 22.2 million hours on net, or a 0.8 percent drop in total hours of employment across all workers in Chicago, but research finds that these lost hours are typically spread out among the affected workers, who potentially work a little less but earn more overall per year (Cooper, Mishel, & Zipperer, 2018).
small businesses. By raising wages for low-income workers and stimulating economic activity, the city’s poverty rate would be expected to decrease by 3.7 percent, lifting 100,000 Chicago residents out of poverty (Dube, 2017; Schmitt, 2014). Moreover, estimates from a 2016 study by researchers at the University of Illinois at Urbana-Champaign and the University of Illinois at Chicago indicate that a $13 per hour minimum wage reduced the housing cost burden so much that nearly 45,000 renters now spend less than 30 percent of their incomes on housing, a 14 percent decrease in the number of cost-burdened renters. By raising the minimum wage to $15 per hour, an additional 26,000 renters would no longer be burdened by housing costs, a 2 percent decrease (Nolan et al., 2016).

![Figure 2: Change in Earnings, Labor Demand, the Economy, and Housing from $15 Minimum Wage](image)

<table>
<thead>
<tr>
<th>City of Chicago</th>
<th>Directly Affected Workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated workers impacted</td>
<td>436,000</td>
</tr>
<tr>
<td>Average earnings change for directly-affected workers</td>
<td>$3,600</td>
</tr>
<tr>
<td>Average change in labor demand</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Average change in worker income</td>
<td>+1.8%</td>
</tr>
<tr>
<td>Net impact on regional economy</td>
<td>+$690.6 million</td>
</tr>
<tr>
<td>Net impact on the poverty rate in Chicago</td>
<td>-3.7%</td>
</tr>
<tr>
<td>Net change in Chicago residents below the poverty line</td>
<td>-100,000</td>
</tr>
<tr>
<td>Impact on renters who are housing cost burdened</td>
<td>-2%</td>
</tr>
</tbody>
</table>

*Source(s): 2018 Current Population Survey Outgoing Rotation Groups (CEPR, 2019). Estimates are for workers aged 18 years or older who are paid by the hour, not employed in the agricultural industry, not self-employed, and “actively connected” to the labor market (i.e., working at least 5 hours per week). Economic estimates are from an economic impact analysis simulation model (IMPLAN, 2019). Estimates on housing cost burden are from a previous report by authors at the University of Illinois at Urbana-Champaign and the University of Illinois at Chicago (Nolan et al., 2016). Estimates on poverty are based on elasticity estimates by University of Massachusetts Amherst economist Arindrajit Dube (Dube, 2017; Schmitt, 2014). Estimates are rounded to the nearest thousand.*

**WHAT ARE THE UNEMPLOYMENT RATES IN LARGE CITIES WITH HIGH MINIMUM WAGES?**

The minimum wage has been at the forefront of state and local policy action to boost earnings for workers. A total of 44 localities have adopted minimum wages above the state minimum wage (EPI, 2019). Among cities with a population of at least 700,000 residents, six currently have higher minimum wages than the City of Chicago. These include: San Francisco ($15.59 per hour), San Jose ($15 per hour), Seattle ($15 per hour), the District of Columbia ($14 per hour), New York City ($13.50 per hour for small employers and $15 per hour for large employers), and Los Angeles ($13.25 for small employers and $14.25 for large employers). In addition, only the District of Columbia and New York City have a lower sub-minimum wage for tipped employees; the other four have one uniform wage floor for both tipped and untipped workers (UCB Labor Center, 2019).

Cities that currently have higher minimum wages than Chicago’s $13 per hour minimum wage have similar local area unemployment rates (Figure 3). All three of the cities with minimum wages of at least $15 per hour—San Francisco, San Jose, and Seattle—had unemployment rates that were lower than Chicago as of May 2019. Unemployment rates were marginally higher in the three other cities—Washington, D.C., New

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3 The analysis uses IMPLAN, an input-output software that is considered the “gold standard” in economic impact analyses (Vowels, 2012). IMPLAN uses U.S. Census Bureau data to account for the interrelationship between businesses and households in a regional market, following a dollar as it cycles through the economy. The software uses multipliers to estimate the effect of a policy change—such as increasing employee compensation via the minimum wage (IMPLAN, 2019).
York City, and Los Angeles. The data fail to show any clear link between the minimum wage and the unemployment rate. To date, the Chicago Minimum Wage Ordinance has had no impact on the city’s unemployment rate (Manzo et al., 2018).

Figure 3: Unemployment Rates for Counties with Cities that Have Higher Minimum Wages than Chicago

<table>
<thead>
<tr>
<th>Locality</th>
<th>Current Minimum Wage</th>
<th>County</th>
<th>County Unemployment Rate (As of May 2019)</th>
<th>Sub-minimum Wage for Tipped Workers?</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Francisco</td>
<td>$15.59</td>
<td>San Francisco County, CA</td>
<td>1.9%</td>
<td>No</td>
</tr>
<tr>
<td>San Jose</td>
<td>$15.00</td>
<td>Santa Clara County, CA</td>
<td>2.1%</td>
<td>No</td>
</tr>
<tr>
<td>Seattle</td>
<td>$15.00</td>
<td>King County, WA</td>
<td>2.9%</td>
<td>No</td>
</tr>
<tr>
<td>Washington, D.C.</td>
<td>$14.00</td>
<td>N/A</td>
<td>5.9%</td>
<td>No</td>
</tr>
<tr>
<td>New York City</td>
<td>$13.50-$15.00</td>
<td>5 Counties in NY*</td>
<td>4.2%</td>
<td>Yes</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>$13.25-$14.25</td>
<td>Los Angeles County, CA</td>
<td>4.0%</td>
<td>No</td>
</tr>
<tr>
<td>Chicago</td>
<td>$13.00</td>
<td>Cook County, IL</td>
<td>3.6%</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Source(s): “Inventory of US City and County Minimum Wage Ordinances” from the University of California, Berkeley Labor Center (UCB Labor Center, 2019) and “Local Area Unemployment Statistics (LAUS)” from the Bureau of Labor Statistics at the U.S. Department of Labor (BLS, 2019a). May 2019 was the latest month for which (non-preliminary) estimates were available for each county at the time of writing (August 2019). *There are five counties within New York City corresponding to the city’s five boroughs: New York County (Manhattan), Kings County (Brooklyn), Bronx County (The Bronx), Richmond County (Staten Island), and Queens County (Queens).

**CHICAGO’S MINIMUM WAGE ORDINANCE HAS HAD LITTLE TO NO EFFECT ON PRICES**

The impact of a higher minimum wage on consumer prices is modest. One study estimated that a $0.50 increase in the federal minimum wage would cause food prices to go up by less than 1 percent (Lee, Schulter, & O’Roark 2000). Another study examined the effect of the minimum wage hike in San Jose, California at 886 restaurants in San Jose and surrounding Santa Clara County communities. The authors found that the minimum wage boosted incomes and had no negative impact on employment, but that firms slightly increased their prices. The results suggest that a 10 percent increase in the minimum wage is associated with a small 0.6 percent increase in restaurant food prices (Allegretto & Reich, 2016). However, in Seattle, there was no evidence of a change in supermarket food prices both one month and one year following enactment of the local minimum wage ordinance (Otten et al., 2017).

Figures 4 and 5 use show Consumer Price Index data for the Chicago-Naperville-Elgin metropolitan area, the Midwest region, and the United States (BLS, 2019b). The analyses begin in the first half of 2015, when the city’s minimum wage was the same as the state’s ($8.25 per hour), and end in the second half of 2018, when the city’s minimum wage was $12 per hour—a 45.5 percent hike. Since the beginning of 2015, prices for all items in the Chicago metro area have gone up by 4.7 percent. However, prices have increased more across the Midwest (5.0 percent) and across the United States (6.7 percent). The data fail to detect an impact of the Chicago Minimum Wage Ordinance on local prices for all items, which includes food and beverages, housing, apparel, transportation, medical care, recreation, education, and other goods and services (Figure 4).

However, food and beverage prices have slightly increased in the Chicago metro area compared to the Midwest region and the U.S. average (Figure 5). Since the beginning of 2015, food and beverage prices have increased by 3.8 percent in the Chicago metro area. By contrast, the Consumer Price Index for food and beverages went up by 2.2 percent in the Midwest and 3.3 percent nationally. Food prices rose between 0.5 percent and 1.6 percent faster in the Chicago area during a period when the local minimum wage increased 45.5 percent. This suggests that a 10 percent increase in the minimum wage is associated
with a 0.1 percent to 0.3 percent increase in food prices. Consequently, if Chicago’s minimum wage was increased from $13 per hour to $15 per hour (15.4 percent) by 2021, food and beverage prices could increase by between 0.2 percent and 0.5 percent. For perspective, a Big Mac meal at McDonald’s located at 600 E Grand Avenue in Chicago was $5.99 as of August 2019 (Menu with Price, 2019). A price increase of between 0.2 percent and 0.5 percent would represent a 1 cent to 3 cent increase in the price of the meal from a $15 per hour minimum wage. Raising the minimum wage to $15 per hour would therefore have little to no effect on prices for Chicago residents.

Figure 4: Consumer Price Index for All Items for the Chicago Area, Midwest Region, and Nation

Source(s): “Inflation, Prices, and Spending” from the Midwest Information Office of the Bureau of Labor Statistics at the U.S. Department of Labor (BLS, 2019b). The base year (CPI = 100) is the first half of 2015.

Figure 5: Consumer Price Index for Food and Beverages for the Chicago Area, Midwest Region, and Nation

Source(s): “Inflation, Prices, and Spending” from the Midwest Information Office of the Bureau of Labor Statistics at the U.S. Department of Labor (BLS, 2019b). The base year (CPI = 100) is the first half of 2015.
MINIMUM WAGE HIKES MAY HAVE CONTRIBUTED TO LOWER WORKER TURNOVER IN COOK COUNTY

Figure 6 presents Quarterly Workforce Indicators data from the U.S. Census Bureau on the average quarterly turnover rate in the retail industry, a sector with a disproportionate share of low-wage employees who do not earn tips (LEHD, 2018; Kuhn & Yu, 2019; Cooper, 2017). Between 2014, the year before the Chicago Minimum Wage Ordinance went into effect, and 2017, when the city’s minimum wage reached $11 per hour and the county’s minimum wage was $10 per hour, the quarterly worker turnover rate fell by 0.6 percentage point in Cook County’s retail stores. Cook County’s retail industry saw a larger decrease in worker turnover (-0.6 percentage point) than the statewide change for Illinois (-0.1 percentage point). Meanwhile, retail employee turnover increased in Indiana (0.6 percentage point) and Wisconsin (0.2 percentage point), two states bordering Cook County that have wage floors tied to the federal minimum wage of $7.25 per hour. The Chicago Minimum Wage Ordinance and the Cook County Minimum Wage Ordinance may have reduced worker turnover among low-income employees (Figure 6).

Figure 6: Average Quarterly Turnover Rates for Retail Trade for Cook County, Illinois, Indiana, and Wisconsin

<table>
<thead>
<tr>
<th>Average Quarterly Turnover Rate</th>
<th>Cook County, IL</th>
<th>Illinois</th>
<th>Indiana</th>
<th>Wisconsin</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>11.03%</td>
<td>10.53%</td>
<td>10.75%</td>
<td>10.33%</td>
</tr>
<tr>
<td>2015</td>
<td>10.95%</td>
<td>10.63%</td>
<td>11.13%</td>
<td>10.48%</td>
</tr>
<tr>
<td>2016</td>
<td>11.00%</td>
<td>10.58%</td>
<td>11.35%</td>
<td>10.53%</td>
</tr>
<tr>
<td>2017</td>
<td>10.48%</td>
<td>10.45%</td>
<td>11.30%</td>
<td>10.50%</td>
</tr>
<tr>
<td>Change: 2017 vs. 2014</td>
<td>-0.55%</td>
<td>-0.08%</td>
<td>+0.55%</td>
<td>+0.18%</td>
</tr>
</tbody>
</table>

Source(s): Quarterly Workforce Indicators (QWI) from the Center for Economic Studies from the U.S. Census Bureau (LEHD, 2018).

CONCLUSION

A $15 minimum wage would boost earnings for more than 430,000 workers in the City of Chicago. Directly-affected workers would earn about $3,600 more per year, increasing consumer demand and lifting approximately 100,000 Chicago residents out of poverty. A $15 minimum wage would have little to no effect on both unemployment and prices in Chicago. A $15 minimum wage in Chicago by 2021, if enacted, would reduce income inequality, reduce worker turnover, and allow working-class families to maintain a decent standard of living.

SOURCES


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