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TO: Detroit City Council

FROM: David Whitaker, Director   
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RE: Crime and the Minimum Wage

DATE: October 17, 2023

Councilmember Coleman A. Young, II requested LPD provide a report regarding the relationship between the minimum wage and crime. The following is our response to this request.

The benefits and effects of an increase in the minimum wage has been a point of extensive discussion around the country. On the federal level, both the Obama and Biden Administrations have pushed for an increase in the federal minimum wage.

States have their own minimum wage laws and many states have moved to increase their minimum wage. The current federal minimum wage for covered nonexempt employees is \$7.25 per hour. In cases where an employee is subject to both the state and federal minimum wage laws, the employee is entitled to the larger amount of the two minimum wages. <sup>1</sup>

In 2021, President Joe Biden signed an executive order raising the minimum wage for federal employees, federal contractors and tipped employees working on government contracts to \$15 an hour. This action

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<sup>1</sup> Minimum Wage | U.S. Department of Labor (dol.gov)

built upon a 2015 executive order signed by President Barack Obama, effecting federal contractors and employees which brought the minimum wage to its present level for these employees.<sup>2</sup>

In 2014, President Obama stated that one year before, he first asked congress to raise the federal minimum wage, “a federal minimum wage that in real terms is worth about 20 percent less than it was when Ronald Reagan took office”. Further stating that, “raising the federal minimum wage to just \$10.10, would lift millions of Americans out of poverty immediately. It would help millions more work their way out of poverty without requiring a single dollar in new taxes or spending.”<sup>3</sup>

The relationship between the minimum wage and crime is complicated and opinions are mixed. While some research suggests that increasing a worker’s wage can deter him from committing crimes, based upon the premise that the effect of a higher wage can raise the opportunity cost of crime for those who remain employed. On the other hand, research also indicates that raising the minimum wage can result in more persons committing crimes. Increases in the minimum wage are mainly targeted to improve labor market conditions primarily for young and unskilled workers; however, increasing the minimum wage may result in loss of employment. Thus, displacing workers and increasing the probability of them committing crimes.<sup>4</sup>

According to a research paper published by Science Direct, Journal of Public Economics, a \$15 federal minimum wage, proposed as part of the Raise the Wage Act of 2021, could generate median criminal externality costs of approximately \$766 million. This is attributed to minimum wage induced job loss and a subsequent increase in larceny arrests. Using data from the 1998-2016 Uniform Crime Reports, the study found that a 1 percent increase in the minimum wage is associated with a 0.2-0.3 percent increase in property crimes arrests among 16–24-year-olds. The study goes on to suggest that a \$15 federal minimum wage could generate approximately 309,000 additional larcenies. The most effected group was unskilled youth, however, there was no evidence that minimum wage hikes impact violent crime arrests.<sup>5</sup>

These studies conclude that if minimum wage increases cause non-trivial employment or hours decline among low-skilled workers, the labor market effect may lead to more property crime, either for income generating reasons or due to increased idleness or boredom from joblessness.

But, on the other hand, if minimum wage increases do not generate significant adverse labor demand effects, or if their negative employment/hours effects are small, then raising the minimum wage could be an effective anti-crime strategy.

There is strong empirical evidence to support the theory that criminal behavior is responsive to labor market conditions and the ability of employers to find workers. Studies that have examined changes in local employment conditions for populations on the margin of criminal behavior find that crime is positively related to unemployment rates and business cycles. Reports also show that recidivism also decreases when low skilled job opportunities specifically in construction and manufacturing (sectors more willing to hire ex-offenders) rise in communities to which ex-offenders are released.<sup>6</sup>

In 2016, President Obama’s Council of Economic Advisors (CEA) concluded that a minimum wage increase to \$12 an hour would have led to a 3-to-5 percent reduction in crime.<sup>7</sup>

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<sup>2</sup> Biden signs executive order raising federal contractors' minimum wage to \$15 an hour the increase from \$10.95 an hour will begin rolling out in January. April 27, 2021, By Dartunorro Clark

<sup>3</sup> Remarks by the President on Signing of Executive Order | whitehouse.gov (archives.gov)

<sup>4</sup> Science Direct, Review of Economic Dynamics, volume 32, April 2019, Pages 122-152 Crime and the minimum wage, Christine Braun

<sup>5</sup> Science Direct, Journal of Public Economics, volume 219, March 2023, the unintended effect of minimum wage increases on crime, Zachary S. Fone

<sup>6</sup> Science Direct, Journal of Public Economics, volume 219, March 2023, the unintended effect of minimum wage increases on crime, Zachary S. Fone

<sup>7</sup> Employment Policies Institute, Do Minimum Wage Increases Reduce Crime? - Employment Policies Institute (epionline.org)

Between 2015 and 2017, Seattle, Washington, became the first U.S. city to increase its hourly minimum wage to \$15, more than double the federal minimum wage and 60 percent higher than Seattle's previous minimum wage.

A study examined the impact of this change on public safety. The study was motivated by the idea that since crime is sometimes the result of material deprivation, changes in the minimum wage might have implications for criminal activity: Boosting the minimum wage could raise workers' salaries (which could be associated with reduced crime). But if higher minimum wages spur employers to substitute capital for labor, this could increase unemployment (which could be associated with increased crime). The study found little evidence that Seattle's aggregate rate of violent or property crimes changed relative to other U.S. cities. It also found no meaningful adverse effects on low-wage workers' rates of employment.<sup>8</sup>

A related study published in the *Quarterly Journal of Economics* examined the effect of minimum wages on low wage jobs. Using 138 prominent state-level minimum wage changes between 1979 and 2016 in the U.S., it examined the effect of the minimum wage increase on employment changes on hourly wage earners, finding that the overall number of low-wage jobs remained essentially unchanged over the five years following the increase.<sup>9</sup> In other words, there were no notable effects on employment due to the increase in wages.

Growing numbers of business owners and organizations have backed a higher minimum wage. Many large employers have responded to pressure from workers and raised their starting pay scales, such as, Amazon<sup>10</sup>, Whole Foods<sup>11</sup>, and Costco<sup>12</sup>. The American Sustainable Business Council found that 61% of small business owners across the U.S. support raising the minimum wage. In some parts of the country, the number is even higher. It reaches 67 percent in the Northeast and the lowest support, in the South, still reached 58 percent. Businesses recognize that when employees are paid a higher wage, they tend to be more productive due to morale improvements, better health, less absenteeism and reduced “decision fatigue.” The center for American Progress also found that raising the minimum wage causes reduced employee turnover,<sup>13</sup>

Increasing the minimum wage would benefit millions of minorities in this country. If the federal minimum wage were raised to \$15 per hour, nearly one third (31%) of African Americans and one quarter (26%) of Latinos would receive a raise. More than half (51%) of workers who would benefit are adults between the ages of 25 and 54; only one in ten is a teenager. Further, a 15% minimum wage would begin to reverse decades of growing pay inequality between the most underpaid workers and workers receiving close to the median wage, particularly along gender and racial lines.<sup>14</sup>

In 1980, the federal minimum wage was \$3.10 an hour. This was the equivalent to \$11.58 today.<sup>15</sup> Which is even now more than the \$10.10 minimum wage in the state of Michigan.<sup>16</sup> The current federal minimum wage of \$7.25 leaves an individual who is working full-time, earning an income that is still close to the national poverty level. This is unacceptable. It is obvious that the minimum wage has failed to keep pace with the cost of living.

Since the fight for \$15 was launched by striking fast-food workers in 2012, states representing approximately 40% of the U.S. workforce, California, Connecticut, Florida, Illinois, Maryland,

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<sup>8</sup> Seattle's minimum wage increase did not change crime or employment rates (phys.org)

<sup>9</sup> The Effect of Minimum Wages on Low-Wage Jobs, Doruk Cengiz, Arindrajit Dube, Attila Lindner, Ben Zipperer *The Quarterly Journal of Economics*, Volume 134, Issue 3, August 2019, Published: 02 May 2019

<sup>10</sup> Arjun Panchadar, “Amazon Raises Minimum Wage to \$15, Urges Rivals to Follow”, Reuters, October 2, 2018

<sup>11</sup> Abha Bhattarai, “Amazon Boosts Minimum Wage to \$15 for All Workers Following Criticism”, Washington Post, October 2, 2018

<sup>12</sup> Sarah Nassauer and Micah Maidenber, Costco Raises Minimum Wage to \$15 an Hour, Wall Street Journal, March 6, 2019

<sup>13</sup> <https://bpr.berkeley.edu/2021/01/30/no-more-lies...>

<sup>14</sup> Why the U.S. needs a \$15 minimum wage, How the Riase the Wage Act would benefit U.S. workers and their families, January 26, 2021

<sup>15</sup> Cpi Inflation Calculator

<sup>16</sup> LEO - Michigan's Minimum Wage Set to Increase on January 1, 2023

Massachusetts, New Jersey, New York, Virginia, and the District of Columbia have approved raising their minimum wages to \$15 an hour.<sup>17</sup> In addition, the state of California has also proposed raising its minimum wage for fast-food workers to \$20 per hour in 2024.

Our nation is made up of diverse regions, with widely varying local economies. We know that the city of Detroit is the most impoverished large city in the nation. And we have a substantial unskilled workforce, made up of young adults, returning citizens, and single parent households. These individuals only want a chance to obtain gainful employment at a healthy living wage. An increase in the minimum wage is an obvious pathway to greater opportunity.

If we can be of further assistance, please do not hesitate to contact our office.

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<sup>17</sup> Why the U.S. needs a \$15 minimum wage, How the Raise the Wage Act would benefit U.S. workers and their families, January 26, 2021