

POLICY BRIEF

Minimum Wage Hikes Will Worsen the Affordability Crisis

KEY FINDINGS

- A \$1 minimum wage hike triggers price increases up to 5.5%, according to a survey of decades of economic studies.
- These price increases would be greatest for the poorest 20% of U.S. households, according to a Stanford University study.
- In California, \$20 minimum wage for fast food workers resulted in fast food prices rising by more than 14%.

Rising costs for housing, food, and services have intensified affordability concerns across the United States. In response, minimum wage increases are frequently promoted as a way to help workers keep pace with inflation and improve affordability. However, evidence suggests otherwise.

ECONOMIC STUDIES SHOW WAGE HIKES INCREASE COSTS, WORSEN INFLATION

Economists studying wage hikes over decades have found minimum wage increases contribute to inflation by raising costs of everyday goods and services. That means wage hikes push affordability further out of reach.

A majority of American labor economists surveyed by EPI reported that higher minimum wages increase the overall cost of living, particularly for lower-income households.¹ One review of U.S. minimum wage studies, shows raising the minimum wage \$1 above the current \$7.25 federal rate could trigger price increases of up to 5.5%.²

1 Employment Policies Institute: <https://epionline.org/wp-content/uploads/2025/03/2022-04-EPI-Economist-Survey.pdf>
2 University of Leicester: <https://www.le.ac.uk/economics/research/RePEc/lec/leecon/dp06-9.pdf>

Economists have studied what this means for costs that matter most to Americans:



FOOD COSTS INCREASE:

A study by Federal Reserve Bank of Chicago and the U.S. Department of Agriculture researchers shows inflationary impacts can be even higher for food prices, especially at restaurants.³



RENT INCREASES:

A *Journal of Urban Economics* study finds a \$1 wage hike is associated with as high as a 10% increase in rent.⁴



CHILDCARE COSTS INCREASE:

A Heritage Foundation study found previously-proposed federal wage hikes could raise the cost of childcare by up to 20%, representing thousands more dollars in childcare costs for the average family.⁵

These inflationary effects hurt those in lower income brackets more. Research by a Stanford University economist finds that minimum wage increases generate the largest price increases for the poorest 20 percent of households, who are least able to absorb higher costs.⁶

RECENT EVIDENCE FROM CALIFORNIA'S \$20 FAST-FOOD MINIMUM WAGE

Recent developments in California provide a real-world illustration of these dynamics. In 2024, the state raised the minimum wage for fast-food workers from \$16 to \$20 per hour – one of the highest state-level wage hikes to date. Within one year of implementation, fast-food prices increased by more than 14%.⁷

These price increases are consistent with prior research on minimum wage pass-through effects and demonstrate how quickly wage mandates can translate into higher consumer prices.

3 Journal of Human Resources: <https://www.jstor.org/stable/40057364>

4 Journal of Urban Economics: <https://www.sciencedirect.com/science/article/abs/pii/S0094119021001030?via%3Dihub>

5 Heritage Foundation: <https://www.heritage.org/jobs-and-labor/report/how-17-federal-minimum-wage-would-drive-the-cost-childcare>

6 Journal of Political Economy: <https://www.jstor.org/stable/10.1086/679626>

7 Employment Policies Institute: https://epionline.org/app/uploads/2025/03/04012025_AB1228Anniversary_1.pdf

COSTS OF LIVING INCREASE FOLLOWING RECENT STATE & LOCAL WAGE HIKES

The latest available data from the U.S. Bureau of Economic Analysis shows higher wage mandates correlate with higher costs on the state level too.⁸ In 2023, the top five states with the highest minimum wages were all among the top 10 states for highest cost of living. States with the lowest cost of living all had minimum wage set at \$11 per hour or below.

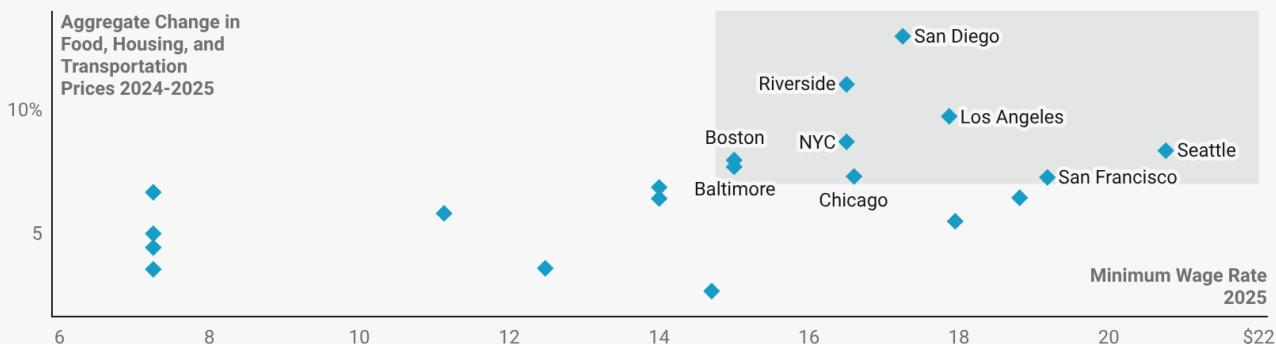
State	2023 Minimum Wage	Highest Cost of Living Rank
California	\$15.50	#1
New Jersey	\$14.13	#2
Hawaii	\$12.00	#3
Washington	\$15.74	#4
Massachusetts	\$15.00	#5

Table: Employment Policies Institute • Source: U.S. Bureau of Economic Analysis, 2023 • Created with Datawrapper

Recent data from metropolitan areas across the country shows high minimum wages are contributing to higher cost of living. According to the U.S. Bureau of Labor Statistics' most recent annual consumer price index data, there is a clear positive trend between higher minimum wage mandates and the rising cost of food, housing, and transportation.⁹ Statistical analysis by EPI shows that for every \$1 increase in state and local wage hikes, the overall cost of living in affected metropolitan areas rose by up to 2.5% in 2025, controlling for other economic factors.

In 2025, cities including Los Angeles, Seattle, and New York had some of the highest hourly minimum wage rates in the nation – topping \$16 or more. These areas had significantly higher cost of living compared to cities with lower mandates, like Atlanta, Dallas, and Miami.

CITIES WITH HIGHER MINIMUM WAGES HAVE HIGHER COST OF LIVING



Includes consumer price index for food, housing, and transportation. Source: Bureau of Labor Statistics • Created with Datawrapper

8 U.S. Bureau of Economic Analysis: <https://www.bea.gov/data/prices-inflation/regional-price-parities-state-and-metro-area>
9 U.S. Department of Labor Bureau of Labor Statistics: <https://www.bls.gov/regions/subjects/consumer-price-indexes.htm>