Minimum Wage Policy and the Resulting Effect on Employment

By Alan Stonecipher and Ben Wilcox July 20, 2015



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Executive Summary

The federal minimum wage of \$7.25 per hour sets the floor at which most American workers are paid. States and local governments may set higher rates.

As of January 1, 2015, 29 states and the District of Columbia have enacted minimum wage rates higher than the federal requirement. The remaining states either have no minimum wage laws, set their own state minimums at the federal level, or require minimum wages lower than the federal rate; in those states the federal rate applies.¹

This study is focused on examining the question of whether increases in the minimum wage result in the loss of jobs. It contains three major components: (1) a review of existing studies on the issue; (2) comparing job growth in states that have raised the minimum wage since January 1, 2014, with states that have not; and (3) comparing the current number of jobs in cities and counties where a minimum wage increase has been in effect at least a year with the number of jobs before the raise went into effect.

Key Findings

- 1. The preponderance of research finds that raising the minimum wage does not cause job losses. Many academic studies have examined the question, using data going back to 1990. They "suggest that the effects of minimum wage increases on employment have historically been slightly negative, negligible, or sometimes even positive."
- 2. Economists cite several reasons why increases in the minimum wage, which raise employers' cost, generally do not cost jobs. Increased pay adds money to workers' pocketbooks and allows them to buy more goods and services, creating higher demand, which in turn requires hiring more workers. The higher wage may make it easier to attract applicants and results in less turnover of workers, lowering costs of employers.
- 3. In the 25 states plus the District of Columbia where the minimum wage has increased since January 1, 2014, through recently in 2015, job growth has been higher than in states where the rate did not go up. The number of jobs grew by 2.9 percent in those states from the last three months in 2013 to March-May 2015, compared to 2.6 percent in states where the minimum wage did not rise.
- **4.** Similarly, in all of the five cities and counties where increases in the minimum wage had been in effect for more than a year the number of jobs has grown. In two cities and three counties where the minimum wage increased, employment levels grew as measured the year before the wage was increased compared to the year after.

5. The results of the state and city case studies do not prove that a higher minimum wage results in job growth. But the results provide no indication that a higher minimum is associated with job losses.

Introduction

Efforts to raise the minimum wage nationally, in states and in cities have gained momentum in the last few years, partly as an attempt to address the issue of wage and income inequality. Proponents maintain that the current \$7.25 federal minimum wage, not raised for six years, has lost purchasing power and is inadequate to provide a decent standard of living. Opponents of raising the minimum wage – whether at the federal, state or city level – maintain that hikes will result in lost jobs.

Despite opposition, minimum wage increases have occurred in the private sector and at all levels of government, except Congress, in recent months and years. Walmart, for example, raised the minimum wage it pays to \$9 per hour beginning in April and says it will reach \$10 within a year. It joins other companies such as Gap, Costco and Whole Foods in paying more than the federal minimum wage.³

Twenty-nine states plus the District of Columbia now require employers to pay a minimum wage higher than the federal rate.⁴ In addition, 20 cities across the nation have raised the minimum wage since 2003, including four last year, and another five municipalities are considering wage-increase proposals.⁵ In Florida, a proposed constitutional amendment⁶ has been filed that, if it is on the ballot and wins approval in 2016, would raise the state's minimum wage to \$10 an hour. It's also likely the question of raising the federal minimum wage will be a topic of discussion in the presidential debates scheduled to begin in August, 2015.

This research report does not take a position on either side of the ongoing minimum wage debate. The report seeks to add independent and unbiased context to that debate and answer the question "does increasing the minimum wage result in job loss?" The report will analyze existing research as well as conduct new, more extensive research into states and local governments that increased the minimum wage in recent years.

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Analysis of Existing Research

The preponderance of evidence from research studies as far back as 1990 indicates that raising the minimum wage does not result in the loss of jobs. An April 2015 report reflects the general findings of many who have examined the issue:

[E]mpirical studies suggest that the effects of minimum wage increases on employment have historically been slightly negative, negligible, or sometimes even positive.⁷

When higher wages are paid by an employer, economic theory holds that the employer will make changes to account for the increased costs. This applies whether the higher wages result from an increase in the minimum wage or from any other pay increase. The employer may make do with fewer workers, cut employee hours, make less in profits or pass the added cost on to customers.⁸

Why do economists conclude that there is little or no net job loss as a result of a higher minimum wage? A growing number of studies show that while an increased minimum wage may make some employers hesitant to hire more workers, the higher wage provides benefits that offset the number of net jobs. The increased pay adds money to workers' pocketbooks and allows them to buy more goods and services, therefore creating higher demand, which in turn requires hiring more workers. The higher wage may make it easier to attract applicants, and it also results in less turnover of workers, lowering costs of employers. The higher wage may make it easier to attract applicants, and it also results in less turnover of workers, lowering costs of employers.

The table below highlights some of the studies that have found only small effects, if any, from a hike in the minimum wage.

Researcher/Organization/Date	Type of Study	Summary of Findings
Institute for Research on Labor and	Comparison of minimum wages on	"no detectable employment losses
Employment, University of California-	adjoining counties across state	from the kind of minimum wage
Berkeley, 2010	borders from 1990-2006	increases we have seen in the United
		States."11
Institute for Research on Labor and	Comparison of restaurants in San	A variety of tests "lend confidence to
Employment, University of California-	Francisco and adjacent East Bay after	the finding that there was no job loss
Berkeley, 2007	S.F. raised minimum wage from	resulting from the policy. The
	\$6.75 to \$8.50 in 2004	employment findingsare similar to
		many existing studies on state-level
		minimum wage impacts –
		employment effects are generally
		small, positive, and not statistically
		significant."12
Congressional Budget Office, 2007	Testimony to congressional	"The potential employment and
	committee	unemployment impacts of raising the
		federal minimum wage rateare
		difficult to predict, but are likely to
		be small." ¹³

Center for Economic and Policy	"This report examines the most	"The weight of that evidence points
Research, 2013	recent wave of this research –roughly	to little or no employment response
research, 2010	since 2000–to determine the best	to modest increases in the minimum
	current estimates of the impact of	wage." ¹⁴
	increases in the minimum wage on	wage.
	the employment prospects of low-	
	wage workers."	
Economic Policy Institute, 2014	Letter signed by 600 economists	"In recent years there have been
	supporting increase in federal	important developments in the
	minimum wage from \$7.25 to \$10.10	academic literature on the effect of
		increases in the minimum wage on
		employment, with the weight of
		evidence now showing that increases
		in the minimum wage have had little
		or no negative effect on the
		employment of minimum-wage
		workers." ¹⁵
Bureau of Business and Economic	Changes in employment and growth	"The analysis shows that overall
Research, University of New Mexico,	rates in Santa Fe after a minimum-	employment levels have been
2006	wage hike from \$5.15 to \$8.50 in	unaffected by the living wage
	2004, compared to Albuquerque	ordinance."16
David Card, Department of Economics,	Reanalysis of 1994 study on the	"The increase in New Jersey's
University of California, Berkeley, and	effect of a 1992 New Jersey	minimum wage probably had no
National Bureau of Economic Research;	minimum wage increase on the fast-	effect on total employment in New
Alan B. Krueger, Department of	food industry	Jersey's fast-food industry, and
Economics, Princeton University, and		possibly had a small positive
National Bureau of Economic Research,		effect." ¹⁷
2000		
Center for Economic and Policy	Wage and employment effects of	"The results for fast food, food
Research, 2011	minimum wage increases in San	services, retail, and low-wage
	Francisco (2004), Santa Fe (2004),	establishments in San Francisco and
	and Washington, DC (1993)	Santa Fe support the view that a
		citywide minimum wages can raise
		the earnings of low-wage workers,
		without a discernible impact on their
		employment." (The D.C. increase
		was found to be too small to raise
I did C D	D 1: 1:00	wages in low-wage industries.) ¹⁸
Institute for Research on Labor and	Resolving differences in estimates of	"Put simply, our findings indicate
Employment, 2011	teenage unemployment	that minimum wage increases—in
		the range that have been
		implemented in the United States— do not reduce employment among
		teens." ¹⁹
		teens.

Hristos Doucouiagos, School of	Meta-analysis of 64 U.S. studies on	"[A]n adverse employment effect is
Accounting, Economics and Finance,	minimum wage increases	not supported by this large and rich
Deakin University, Australia; T.D.		research record on the employment
Stanley, Department of Economics,		effects of minimum wage
Hendrix College, Conway, Arkansas,		regulation."20
2014		

One other report summarizing minimum wage studies deserves attention and space in this report. It is a March 2014 review requested by Seattle's mayor of minimum wage studies before the city council voted to raise its minimum wage to \$15 incrementally over seven years. It concludes:

Economists have increasingly recognized that raising the minimum wage does not automatically mean that employment will fall. Increased labor costs can be absorbed through a variety of other channels, including savings from reduced worker turnover and improved efficiency, higher prices, and lower profits....

To date, three rigorous studies have examined the employment impacts of San Francisco's and Santa Fe's local minimum wage laws. Each finds no statistically significant negative effects on employment or hours....

A larger body of economic research investigates the effects of state and federal minimum wage increases. These studies compare employment trends for states or counties that have different minimum wages. The best studies make comparisons to nearby states or counties to control for regional economic trends. These studies also find no statistically significant negative effects on employment or hours at an aggregate level or for low-wage industries such as restaurants and retail stores, or for specific groups of workers such as teens.

Researchers find that increases in the minimum wage reduce employee turnover, translating into a reduction in direct costs (recruitment, selection, and training of new workers) and a reduction in indirect costs (lost sales, lower quality service, and lost productivity as the new workers learn on the job). Some studies have also identified additional benefits of higher wages, including improved morale, improved work performance, and reductions in absenteeism. Researchers have not found evidence that employers absorbed minimum wage increases by reducing health benefits or pensions.

In summary, our assessment of the research evidence indicates that minimum wage mandates raise the incomes of low-wage workers and their families, and that the costs to businesses are absorbed largely by reduced turnover costs and by small price increases among restaurants.²¹

Estimate of Job Losses Disputed

One report that projects job losses from a federal minimum wage hike from the current \$7.25 to \$10.10 over three years deserves mention. A Congressional Budget Office report in 2014 projected that while the hike would increase pay for 16.5 million Americans and add \$31 billion to workers' earning when fully implemented, some job losses might occur. CBO estimated that the increase "would reduce total employment by about 500,000 workers, or 0.3 percent...As with any such estimates, however, the actual losses could be smaller or larger; in CBO's assessment, there is about a two-thirds chance that the effect would be in the range between a very slight reduction in employment and a reduction in employment of 1.0 million workers."²²

If that estimate were correct, and the job loss were to be 0.3 percent in Florida, about 24,000 of Florida's more than 8,000,000 jobs²³ would be lost. But because Florida's minimum wage is already higher than the federal minimum, even that number of jobs lost would be lower.

However, the projection that even minor job losses would occur is disputed by some economists, who argue that the CBO study fails to consider the impacts of higher wages on productivity and reducing costly employee turnover and absenteeism.²⁴

State Case Studies

In addition to the studies cited above, one study by the Center for Economic Policy and Research found that the 13 states in which the state minimum wage increased on January 1, 2014, experienced higher job growth than the states where no increase occurred. In the January through May, 2014, period, job growth averaged 0.99 percent in those 13 states, compared to 0.68 percent in the remaining states. The authors said that while the comparison "can't establish causality, it does provide evidence against theoretical negative employment effects of minimum-wage increases."

This Integrity Florida study employed a method similar to the one cited above, although over a longer period. Using the latest state-by-state job figures reported by the Bureau of Labor Statistics, we compared job growth in the 25 states plus the District of Columbia in which the minimum wage increased from January 1, 2014, to January 15, 2015 (February 24 in the case of Alaska), with the states where no increase occurred. The baseline was the average of employees on nonfarm payrolls, seasonally adjusted, in October, November and December of 2013. That baseline was compared to the average number of workers in March, April and May 2015. The average growth of all states during that period was 2.7 percent.

The findings:

• Job growth was higher on average (2.9 percent) in states where the minimum wage went up than in the other states (2.6 percent). (See Appendix for list.)

- Twenty-one states recorded job growth above the 2.7 percent average of all states. Twelve of those states had raised the minimum wage.
- In the District of Columbia and eight states Alaska, California, Delaware, Massachusetts, New Jersey, New York, Rhode Island, South Dakota the minimum wage climbed \$1 or more during the periods compared. In those states and D.C., job growth was 3.1 percent, well above the 2.7 percent average of all states.

The finding that states that raised the minimum wage experienced more job growth than other states does not prove that higher minimum wages increase jobs. But the findings of this study provide no indication that minimum wage hikes cause job losses.

State Minimum Wages, 2013-2015

	2015	2014	2013
Alabama	7.25 federal rate	federal rate	federal rate
Alaska ²⁸	8.75 (eff. 2/24/15)	7.75	7.75
Arizona ²⁹	8.05	7.90	7.80
Arkansas ³⁰	7.50 (eff. 1/1/15)	7.25 federal rate	7.25 federal rate
California ³¹	9.00	9.00	8.00
Colorado ³²	8.23	8.00	7.78
Connecticut ³³	9.15	8.70	8.25
Delaware ³⁴	8.25 (eff. 6/1/15)	7.75	7.25
Florida ³⁵	8.05	7.93	7.79
Georgia	7.25	7.25 federal rate	7.25 federal rate
Hawaii ³⁶	7.75 (eff.1/1/15)	7.25	7.25
Idaho	7.25 federal rate	7.25 federal rate	7.25 federal rate
Illinois ³⁷	8.25	8.25	8.25
Indiana	7.25 federal rate	7.25 federal rate	7.25 federal rate
Iowa	7.25 federal rate	7.25 federal rate	7.25 federal rate
Kansas	7.25 federal rate	7.25 federal rate	7.25 federal rate
Kentucky	7.25 federal rate	7.25 federal rate	7.25 federal rate
Louisiana	7.25 federal rate	7.25 federal rate	7.25 federal rate
Maine ³⁸	7.50	7.50	7.50
Maryland ³⁹	8.00 (eff. 1/1/15); \$8.25 (eff. 7/1/15)	7.25	7.25
Massachusetts ⁴⁰	9.00 (eff. 1/1/15)	8.00	8.00
Michigan ⁴¹	8.15	8.15 (eff. 9/1/14)	7.40
Minnesota ⁴²	8.00	8.00 (eff. 8/1/14)	7.25 federal rate
Mississippi	7.25 federal rate	7.25 federal rate	7.25 federal rate
Missouri ⁴³	7.65	7.50	7.35
Montana ⁴⁴	8.05 (eff. 1/1/15)	7.90	7.80

Nebraska ⁴⁵	8.00 (eff. 1/1/15)	7.25 federal rate	7.25 federal rate
Nevada ⁴⁶	8.25	8.25	8.25
New Hampshire	7.25 federal rate	7.25 federal rate	7.25 federal rate
New Jersey ⁴⁷	8.38	8.25	7.25
New Mexico ⁴⁸	7.50	7.50	7.50
New York ⁴⁹	8.75	8.00	7.25
North Carolina	7.25 federal rate	7.25 federal rate	7.25 federal rate
North Dakota	7.25 federal rate	7.25 federal rate	7.25 federal rate
Ohio ⁵⁰	8.10	7.95	7.85
Oklahoma	7.25 federal rate	7.25 federal rate	7.25 federal rate
Oregon ⁵¹	9.25	9.10	8.95
Pennsylvania	7.25 federal rate	7.25 federal rate	7.25 federal rate
Rhode Island ⁵²	9.00 (eff. 1/1/15)	8.00	7.75
South Carolina	7.25 federal rate	7.25 federal rate	7.25 federal rate
South Dakota ⁵³	8.50 (eff. 1/1/15)	7.25 federal rate	7.25 federal rate
Tennessee	7.25 federal rate	7.25 federal rate	7.25 federal rate
Texas	7.25 federal rate	7.25 federal rate	7.25 federal rate
Utah	7.25 federal rate	7.25 federal rate	7.25 federal rate
Vermont ⁵⁴	9.15	8.73	8.60
Virginia	7.25 federal rate	7.25 federal rate	7.25 federal rate
Washington ⁵⁵	9.47	9.32	9.19
West Virginia ⁵⁶	8.00 (eff. 12/31/14)	7.25 federal rate	7.25 federal rate
Wisconsin	7.25 federal rate	7.25 federal rate	7.25 federal rate
Wyoming	7.25 federal rate	7.25 federal rate	7.25 federal rate
District of Columbia ⁵⁷	10.50 (eff. 7/1/15)	9.50 (eff. 7/1/14)	8.25

Bold = states where minimum wage increased from January 1, 2014, through January 15, 2015. (Sources: U.S. Department of Labor, http://www.dol.gov/whd/state/stateMinWageHis.htm; National Conference of State Legislators, http://www.ncsl.org/research/labor-and-employment/state-minimum-wage-chart.aspx)

(Note: Some states have set no minimum wage in state law or set a minimum lower than the federal level. In those states, the federal \$7.25 minimum applies. If no effective date is noted, an increase went into effect January 1, 2014.)

City and County Case Studies

In addition to the states that have increased the minimum wage beyond the federal level, we examined employment data for five local governments where the minimum wage has recently increased. Local government job data is not reported by the Bureau of Labor Statistics on a seasonally-adjusted basis as is the case for state level data. Monthly data can vary due to seasonal factors like migrant workers and summer employment of teachers. Therefore, we chose to compare employment levels on a yearly basis to determine if the adoption of a higher

minimum wage adversely effected employment. We examined two months of employment data⁵⁸ for four cities and counties that increased the minimum wage between May 2014 and May 2015. All four cities and counties saw growth in employment.

City/County	Jobs 4/14	Jobs 4/15	Jobs 5/14	Jobs 5/15	Year % Change April	Year % Change May
Las Cruces, N.M. ⁵⁹	86,541	86,807	86,476	86,950(p)	+ 0.30%	+ 0.54%
Montgomery County Md. ⁶⁰	513,329	523,748	515,784	520,784(p)	+ 2.02%	+ 0.96%
Prince George's County Md. ⁶¹	451,519	460,639	452,993	462,359(p)	+ 2.01%	+ 2.06%
SeaTac Wa. ⁶²	13,438	13,899	13,410	13,750(p)	+ 3.43%	+ 2.53%

We also examined two months of employment data for Santa Fe County, New Mexico which saw an increase in its minimum wage effective April 26, 2014. We looked at data from January and February of 2014 and at the same two months in 2015. Santa Fe County saw growth in employment as measured before and after its minimum wage was increased.

City/County	Jobs 1/14	Jobs 1/15	Jobs 2/14	Jobs 2/15	Year % Change January	Year % Change February
Santa Fe County, N.M. ⁶³	67,045	67,705	68,183	68,506	+ 0.98%	+ 0.47%

The findings:

- There is no evidence that raising the minimum wage at the local government level resulted in a loss of jobs.
- To the contrary, all five local governments where the minimum wage increased enjoyed varying degrees of employment growth as measured before and after the wage increase.

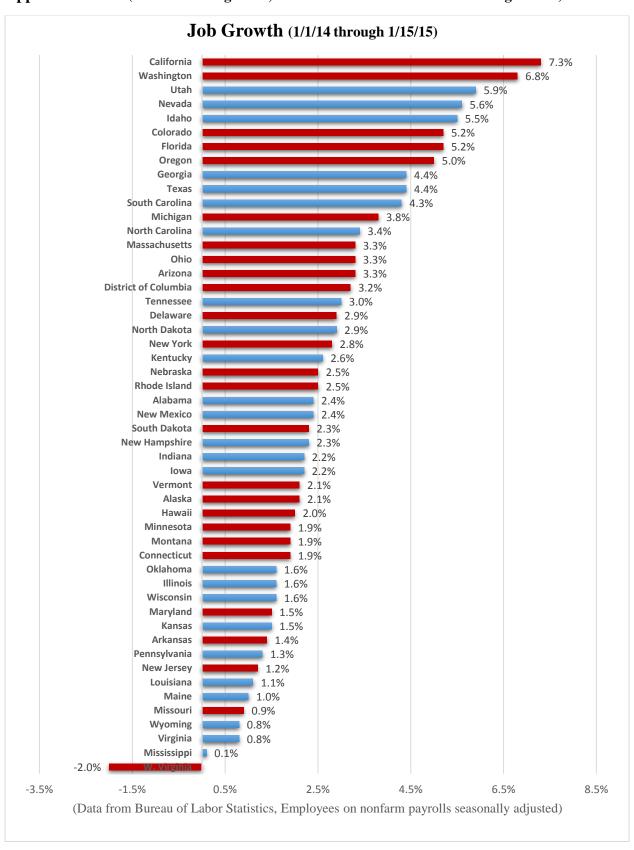
Conclusion

Debate over the pros and cons of raising the minimum wage will continue at the federal, state and local levels of government. This research report does not take a position on whether the minimum wage should be increased or to what level. Instead we sought to provide independent, unbiased research that analyzed existing research and examined employment statistics provided by the Department of Labor's Bureau of Labor Statistics.

In this report, we sought to answer the question "does increasing the minimum wage result in job loss?" Our conclusion is that it does not result in job loss and there is some evidence that suggests employment levels rise quicker after the minimum wage is increased.

Our analysis of existing research found no clear evidence to support the assertion that an increase in the minimum wage causes employers to cut jobs. Our examination of employment statistics in states found no evidence of employment loss in states that have increased the minimum wage and more evidence that suggests employment increases faster when there is an increase in the minimum wage. Employment statistics in cities and counties where the minimum wage has increased show no decline in employment levels, only gains.

Integrity Florida believes there is a need for an objective source for information when policy-makers are engaged in debate over issues like the minimum wage. We hope this report provides needed context for that debate and will result in more fair, informed and compassionate policy-making; a key component necessary to ensure government integrity.



	Percentage
State	Job Growth
California	7.27
Washington	6.76
Utah	5.91
Nevada	5.64
Idaho	5.50
Colorado	5.20
Florida	5.19
Oregon	5.00
Georgia	4.40
Texas	4.36
South Carolina	4.27
Michigan	3.76
North Carolina	3.39
Massachusetts	3.35
Ohio	3.34
Arizona	3.29
District of Columbia	3.19
Tennessee	2.98
Delaware	2.89
North Dakota	2.89
New York	2.82
Kentucky	2.60
Nebraska	2.54
Rhode Island	2.53
Alabama	2.38
New Mexico	2.38
South Dakota	2.28
New Hampshire	2.27
Indiana	2.19
Iowa	2.15
Vermont	2.10
Alaska	2.07
Hawaii	2.02
Minnesota	1.92
Montana	1.91
Connecticut	1.88
Oklahoma	1.64
Illinois	1.55
Wisconsin	1.55
Maryland	1.54
Kansas	1.46
Arkansas	1.38
Pennsylvania	1.28
= J - · · · · · · · · · · · · · ·	2.20

New Jersey	1.21
Louisiana	1.06
Maine	1.03
Missouri	0.94
Wyoming	0.79
Virginia	0.78
Mississippi	0.14
West Virginia	- 2.00

Endnotes

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