



## Criticisms of Minimum Wage Increases Lag Behind Latest Research

The arguments against a gradual minimum wage increase are outdated and in need of reconsideration.<sup>1</sup> The continued focus on potential job losses ignores the latest research and much of the evidence from states that have recently increased their minimum wage. Instead of focusing on the employment effect on teens and workers at or below the minimum wage, the recent research looks at the impact of changes on a large share of affected low-wage workers.<sup>2</sup> The emerging consensus is that the low-wage workforce, as a whole, is better off after an increase in the minimum wage.

The latest domestic and international evidence shows that higher wage floors discourage low-pay employment and encourage the creation of good jobs with higher wages, more security, and higher productivity.<sup>3</sup> This delivers benefits to workers, businesses, and the broader economy.

### *Critics of minimum wage increases mischaracterize the employment effects in the research*

Critics tend to focus on the possibility that a gradual increase in the minimum wage to \$15 by 2025 could potentially cost about 1% of U.S. workers their jobs.<sup>4</sup> This representation ignores key considerations. First, over 95% of low-wage workers, representing about 20% of the U.S. workforce, would get a pay raise.<sup>5</sup> Critics also carefully ignore the high degree of uncertainty surrounding projections; in fact, the Congressional Budget Office (CBO) estimates that the employment effect can be zero.<sup>6</sup>

While the CBO projections place more weight on studies with negative effects, it acknowledges that the latest research points to zero and even positive employment effects.<sup>7</sup> This is because the more likely scenario is that jobs are not lost and hours are slightly reduced.<sup>8</sup> These lost hours are spread among the affected workers, who may work a little less but earn more per year.

### *Minimum wage increases lead to job upgrades – not losses*

In one of the largest studies of minimum wage increases in the United States, Cengiz et al. (2019) assess the impact of 138 state-level changes between 1979 and 2016.<sup>9</sup> They find that the reduction in jobs paying below the minimum was balanced by a sharp increase in the number of jobs paying at the new minimum or higher – up to \$5 above the new minimum wage. The authors also show that low-wage workers saw wage gains of approximately 7% after a minimum wage increase, yet little change in employment years later.

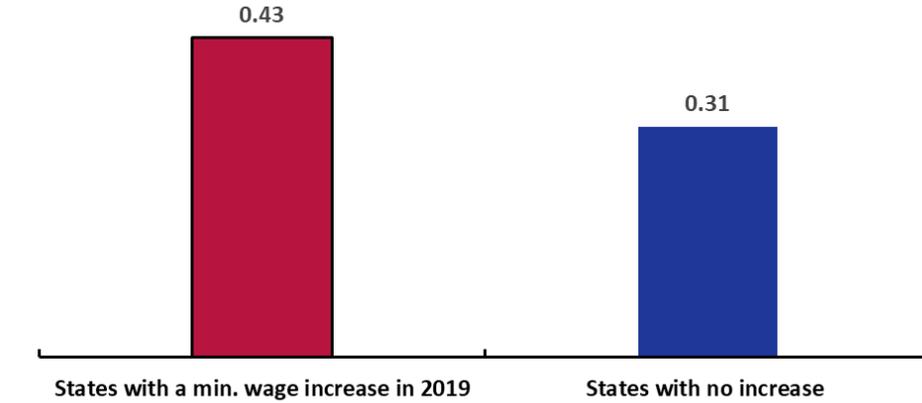
In a new and extended version of this work, analyzing 172 minimum wage changes in the U.S. until 2019, Cengiz et al. (2021) find no adverse effects on employment, unemployment, or labor force participation even five years after a minimum wage increase.<sup>10</sup>

***States with a recent minimum wage increase have better employment conditions***

Compared to states with no change in their minimum wage, states that lifted their wage floor in 2019 experienced a larger rise in the share of adults working between 2018 and 2019.<sup>11</sup> While the employment-to-population ratio increased in both sets of states during this time, the rise in the share of the population with a job was larger (0.43 vs 0.31 percentage points) for states with a recent increase.

**Change in share of adults working in states with and without a wage floor increase in 2019**

*Employment-to-population ratio change (percentage points) 2018-2019*



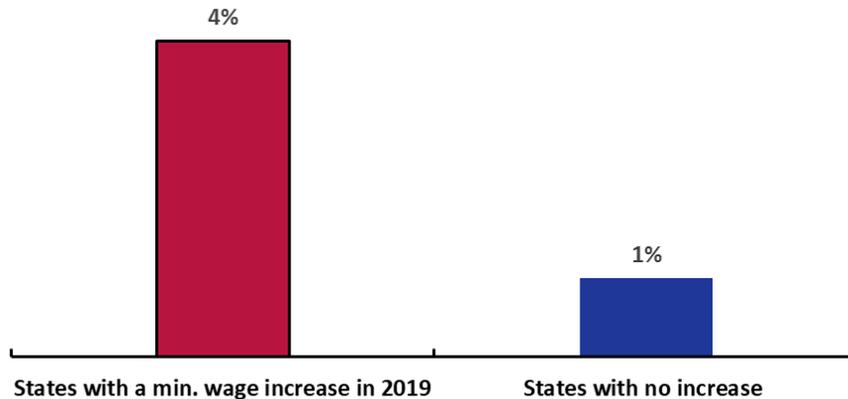
Source: Gould (2020)

***Low-wage workers in states with recent minimum wage increases had stronger wage growth***

States with minimum wage increases in 2019 had stronger wage growth at the bottom of the income distribution than their counterparts with no change to the wage floor.<sup>12</sup> Between 2018 and 2019, the wage growth for the 10<sup>th</sup>-percentile worker in states with at least one minimum wage increase in 2019 was about four times stronger (4%) than that of states without an increase (1%).

**Wage growth at the bottom in states with and without a minimum wage increase in 2019**

*10th-percentile wage growth between 2018 and 2019*



Source: Gould (2020)

***Low-wage cities and counties stand to gain – not to lose – from a minimum wage increase***

Today's federal minimum wage represents about one-third of the median wage for all full-time workers, and a gradual increase to \$15 would lift minimum wage workers to above one-half of the projected median wage in 2025.<sup>13</sup> Differences in earnings and cost of living around the country have led some to call for regional wage floors.<sup>14</sup> Supporters of regional minimum wages argue that they may protect states with low earnings from the impact of a higher wage floor. But the research shows that low-wage areas are not more likely to be negatively affected by a minimum wage increase. In fact, they stand to gain the most from them.

Dube and Lindner (2021) find that 21 citywide increases to the minimum wage, with new wage floors averaging 63% of the median wage, led to stronger wage growth at the bottom and to an increase in jobs paying at the new minimum or right above.<sup>15</sup> Using county-level variations, Godoey and Reich (2021) find that these gains hold even in low-wage counties where the minimum wage increased above 80% of the median wage.<sup>16</sup> In fact, these areas showed substantial reductions in household and child poverty as a result of lifting the wage floor.

***Minimum wage increases improve health outcomes***

The sole focus on employment effects ignores the broad benefits of a higher wage floor. An emerging body of evidence is finding that minimum wage increases are associated with positive public health effects.<sup>17</sup> Among these improvements are lower incidence of smoking, obesity, teen birth, suicide, and higher infant birth weight.<sup>18</sup>

Healthier workers are less likely to call out of work and they lower the cost of health care for employers and employees alike.<sup>19</sup> Healthier employees are also more likely to drive up operational productivity for businesses.<sup>20</sup>

***Businesses, not just workers, would benefit from a higher wage floor***

Critics often present an increase in the minimum wage as detrimental to businesses, but even a \$3.53 increase in just over 9 months in Seattle did not lead to a decline in the rate at which businesses continued to open and the businesses survival rate was above 99%.<sup>21</sup> While Seattle workers experienced no significant decline in their likelihood of being employed, the wage floor increase led to a reduction in job turnover rates.<sup>22</sup>

After the change, Seattle also experienced measured increases in productivity as businesses saw more dollars' worth of sales per hour of labor.<sup>23</sup> This evidence is consistent with other research. Using data on low-wage workers from a large national retailer, Coviello et al. (2019) find that a \$1 increase in the minimum wage increases individual productivity (sales per hour) by 4.5%.<sup>24</sup> Some critics think this is explained by increased automation, but there is no evidence that higher minimum wages lead to more automation in the service industry.<sup>25</sup> Economic theory tells us that employers may even have an easier time filling job vacancies after an increase in the minimum wage.<sup>26</sup>

*The economy as a whole benefits from a higher wage floor*

The CBO estimates that an increase in the minimum wage would boost overall demand in the short run, as an increase in the wage floor would shift income toward low-income workers and their families. These families spend a higher share of any additional income than higher-income families. The CBO projects that the increased demand would help mitigate any potential drop in employment for several years after the implementation of a higher minimum wage.<sup>27</sup>

There are reasons to believe that this stimulative effect extends beyond the short run. Cooper, Luengo-Prado, and Parker (2019) find that minimum wage increases are associated with higher consumer spending in places with higher concentrations of low-wage earners.<sup>28</sup> The CBO also finds that raising the wage floor to \$15 by 2025 would increase the cumulative net earnings of low-wage workers by \$333 billion from 2021 to 2031.<sup>29</sup> These higher earnings would improve Social Security finances over the long term, raising annual Federal Insurance Contributions Act (FICA) revenue by up to \$14 billion.<sup>30</sup>

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- <sup>9</sup> Cengiz, Doruk, Arindrajit Dube, Attila Lindner, Ben Zipperer, The Effect of Minimum Wages on Low-Wage Jobs, *The Quarterly Journal of Economics*, Volume 134, Issue 3, August 2019, Pages 1405–1454, <https://doi.org/10.1093/qje/qjz014>
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