Research

Assessing the Impact of Recent Minimum Wage Hikes

DOUGLAS HOLTZ-EAKIN, ISABEL SOTO | FEBRUARY 10, 2020

Executive Summary

- The labor market is in a period of wage growth, and proponents of raising the minimum wage are claiming that minimum-wage hikes in several states are driving this growth.
- This analysis suggests that raising the minimum wage does contribute to rising wages at the lower end of the income distribution, but wages are also rising for everyone, indicating that the state of the economy and a tight labor market might have more to do with wage growth than state-level minimum wage changes do.
- The data also suggest a fundamental tradeoff: Higher growth in wages comes at the expense of slower employment growth in the sectors dominated by low-skilled workers.

Introduction

Wages across the distribution are rising, but low-wage workers are seeing their income rise the fastest of all. Coinciding with rising wages have been hikes in many states' minimum wages, and proponents of raising the minimum wage see these hikes as driving overall wage growth. They also argue that increasing the minimum wage has few or negligible consequences. It only makes sense, therefore, for the federal government to raise the minimum wage for the entire country.

This argument, however, flies in the face of a large body of research. Studies have repeatedly indicated that rapid, large changes to the minimum wage have serious and negative consequences, particularly for the very workers that the increases are supposed to help. Specifically, raising the minimum wage can jeopardize growth in the number of jobs as well as long-term job stability, particularly in lower-skill industries.

A period of strong economic growth could disguise these downsides. The United States is in its 127th month of economic expansion, and unemployment is at historic lows. In a tight labor market, it should be no surprise that wages are rising. As a result, minimum wage increases are far from the only explanation for low-skilled wage growth, especially since all wages are growing, even in states that did not raise the minimum wage.

This analysis seeks to clarify the role that minimum-wage increases might be playing in both low-skill and overall wage growth in a tight labor market, while also addressing the consequences of minimum-wage increases. To analyze this question, this study explores wage growth at varying points in the wage distribution and compares how wage growth and employment growth differ between those states that implemented minimum wage changes in the 2014 to 2018 period and those that did not.

Data and Sources

The core of the wage-growth analysis is based on Department of Labor minimum-wage data and Bureau of Labor Statistics (BLS)

occupational employment and wage data. The analysis focuses on the period between 2014 to 2018. These years are well past the largest cyclical recovery from the Great Recession and cover years during which several states made changes to their minimum wage laws. The states that increased minimum wages over this period include Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Hawaii, Illinois, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Nebraska, Nevada, New Jersey, New Mexico, New York, Oregon, Rhode Island, South Dakota, Vermont, Washington, and West Virginia, as well as Washington, D.C.

In analyzing the effect of minimum wage increases on lower-skilled workers, the analysis uses employment in retail and leisure and hospitality industries as a proxy for lower-skilled employment and uses BLS state and area employment data. The analysis presented looks at employment growth in these two specific industries over the 2014 to 2018 period in states that increased the minimum wage and in those that did not.

Data Analysis

The core of the data analysis is summarized in Tables 1 and 2. Consider Table 1, which looks at the growth in wages between 2014 and 2018 at six distinct points in the distribution of wages: 1) the minimum wage, 2) the wage at the 10th percentile, 3) the wage at the 25th percentile, 4) the median wage (50th percentile), 5) the 75th percentile, and 6) the 90th percentile.

Tables 1 and 2 focus on changes over the entire period 2014 to 2018. Appendix Tables 1 and 2, in contrast, are based on year-to-year changes, and produce similar results.

Table 1

Earnings Impacts of Minimum Wage Hikes 2014-2018

Earnings Measure	Raise in Minimum Wage	No Raise in Minimum Wage	Difference	Low-Wage Impact
Minimum Wage	22.7%	0.0%	22.7%	-na-
10th Percentile	15.8%	6.8%	9.0%	8.0%
25th Percentile	12.3%	10.6%	1.7%	0.7%
Median	9.9%	9.2%	0.7%	-na-
75th Percentile	9.5%	9.1%	0.3%	-na-
90th Percentile	10.0%	8.9%	1.0%	-na-

As Table 1 shows, among those states that increased their minimum wage between 2014 and 2018, the average rise was 22.7 percent. Obviously, the average increase in the minimum wage among the remainder of the states was 0.0 percent. What often gets left out of the discussion, however, is that minimum wages weren't the only thing on the rise – wages grew by more than 6.8 percent (on average) at every point in the distribution, regardless of whether the minimum wage was increased or not. This fact contradicts those claims that wage growth derives only from increases in the minimum wage.

Proponents of minimum wage increases often argue that wages will rise for everyone *because* the minimum wage rises. To check this assertion, notice that wages at the 10th percentile rose 15.8 percent in states that increased the minimum wage, versus 6.8 percent in states that did not. Is this difference attributable to the higher minimum wage?

It could be. When the minimum wage goes up, employers might have to provide raises to some lower-wage employees in order to keep them above the new minimum. Alternatively, it could be that those states that chose to raise the minimum wage are just different (e.g., already have faster wage growth) than those that did not, and those differences explain the gap.

This analysis attempts to disentangle these possibilities by looking at the wage growth higher in the distribution. Notice, in particular, that wage growth at the 90th percentile was faster (10.0 percent) in states that raised the minimum wage than those that did not (8.9 percent). It is extremely unlikely that this difference is because of the minimum wage, so we use this 1.0 percentage point gap as our estimate of the wage rise due to differences in the states.

Subtracting this 1.0 percent gap from the gap at the 10th percentile, 9.0 percentage points, suggests that minimum wage increases "spilled over" to the 10th percentile and pushed wages up by 8.0 percent. Extending this analysis to the 25th percentile, we find – as one would expect – a more modest impact of 0.7 percent.

In short, raising the minimum wage does appear to be the source of some increases in lower-paid workers' wages. But in general, wages are rising across the income distribution. These increases are simply happening during a period, especially toward the latter years, when the labor market is strong and performing well.

Wage impacts are not the whole story of increases in the minimum wage. Opponents of sharp increases in the minimum wage are concerned that such changes will harm employment prospects, especially for lower-skilled, less-experienced workers. Table 2 looks at this issue. The analysis uses employment in the retail and the leisure and hospitality sectors as our indicator of the prospects of those workers.

Table 2

Employment Impacts of Minimum Wage Hikes 2014-2018

Employment Category	Raise in Minimum Wage	No Raise in Minimum Wage	Difference	Employment Impact

Total	6.2%	6.1%	0.1%	-na-
Non-Retail, Non-Leisure & Hospitality	6.3%	6.2%	0.1%	-na-
Retail	4.1%	4.5%	-0.4%	-0.5%
Leisure & Hospitality	9.3%	9.7%	-0.4%	-0.5%

Over the period, total growth in employment across sectors (6.2 percent) was a modest 0.1 percent faster in states that raised the minimum wage compared with those that did not (6.1 percent). The same ranking holds true for employment growth in all sectors except retail and leisure and hospitality (6.3 percent versus 6.2 percent).

Employment growth in the retail sector was slower (4.1 percent) where the minimum wage rose than where it did not (4.5 percent), and the same pattern holds in the leisure and hospitality sectors (9.3 versus 9.7 percent). Following the same procedure as above, the analysis uses the 0.1 percent gap in the growth of overall employment as a proxy for the differences between states, which implies that the impact of raising the minimum wage was to depress growth in the low-skill sectors by 0.5 percent.

Put differently, the increases in the minimum wage lowered employment in these low-skilled sectors by a cumulative 44,000 in retail and 45,000 in leisure and hospitality.

The Consequences of Raising the Minimum Wage

When the minimum wage increases, the immediate effects of that change will unsurprisingly be felt by the workers already receiving the minimum wage. Therefore, the claim that minimum-wage increases contribute to wage growth on the lower end of the wage distribution is a reasonable one. Asserting, however, that minimum-wage increases are the sole reason that workers, at all or even any single wage level, are seeing wage growth is unsubstantiated. Furthermore, it is important to keep in mind the consequences of rapid minimum-wage changes such as depressed employment growth, especially among low-skill industries.

The current wage growth is not unprecedented. Continued tightness in the labor market has forced employers take action to entice workers to fill job openings, and increasing wages is an effective way to keep and attract workers. It’s also crucial to keep in mind the other policy changes in addition to minimum-wage changes. There are multiple factors that may affect wage growth, such as the 2017 Tax Cuts and Jobs Act, the Right to Work

status, and the persisting skills gap and labor shortage, but the data likely do not fully reflect these changes. Until more recent data become available, it remains to be seen how these policy and market changes interact and what their cumulative effect on wage growth might be.

Appendix

Appendix Table 1

Earnings Impacts of Minimum Wage Hikes 2014-2018

Earnings Measure	Raise in Minimum Wage	No Raise in Minimum Wage	Difference	Low-Wage Impact
Minimum Wage	6.9%	0.0%	6.9%	-na-
10th Percentile	3.9%	2.0%	2.0%	1.7%
25th Percentile	3.0%	2.6%	0.3%	0.0%
Median	2.4%	2.2%	0.2%	-na-
75th Percentile	2.3%	2.2%	0.1%	-na-
90th Percentile	2.5%	2.2%	0.3%	-na-

Appendix Table 2

Employment Impacts of Minimum Wage Hikes 2014-2018

Employment Category	Raise in Minimum Wage	No Raise in Minimum Wage	Difference	Employment Impact
Total	1.5%	1.5%	0.0%	-na-

Non-Retail, Non-Leisure & Hospitality	1.6%	1.6%	0.0%	-na-
Retail	1.4%	1.4%	-0.1%	-0.1%
Leisure & Hospitality	2.2%	2.4%	-0.2%	-0.2%