Research

The Steep Cost of a $10 Minimum Wage

BEN GITIS | OCTOBER 23, 2013

There has been widespread discussion of an increase in the minimum wage, sparked by President Obama's State of the Union address proposal to raise the federal minimum wage to $9.00 and index it for inflation. To date, however, the only tangible policy change occurred on September 25, when California Governor Jerry Brown signed into law a rise in the state's minimum wage from $8 per hour to $10 per hour (effective in 2016).

The new law is intended to increase the welfare of low-wage earners, however it raises the question of whether the hiring of low-wage workers will be impeded. While there is an ongoing controversy regarding the impact of the minimum wage in the *level* of employment, new research by Meer and West (2013) suggests that a negative impact of the minimum wage can be isolated by focusing on employment *dynamics*. Specifically, they find that a 10 percent increase in the real minimum wage is associated with a 0.53 percentage point decrease in the net job growth rate.[1]

This paper uses these recent research results to look at the employment implications of the California minimum wage increase. Our analysis finds that for California, this wage increase means a loss of 191,000 jobs. If every state followed suit, over 2.3 million new jobs would be lost across the country.

METHODOLOGY

This analysis estimates the loss in job growth in every state if each increased its minimum wage to $10 per hour. The data for employees on nonfarm payrolls for each state are from the Bureau of Labor Statistics' Regional and State Employment and Unemployment report[2] and net job growth rate for each state is calculated using the difference between August 2013 and August 2012 job figures. The report calculates the percent change in the

minimum wage resulting from increasing it to $10 using the minimum wage currently law in each state (for a state with no minimum wage or a minimum wage below the $7.25 federal level, the federal minimum is used).

The percentage increases are substantial. While California's increase is 25 percent, the national average would be 33.6 percent; ranging from a low of 8.1 percent in Washington to 37.9 percent in several states. These increases are combined with Meer and West's research to yields the percentage point declines in job growth rates and consequently new net job growth rates in each state. From this, one derives the loss in current annual job growth from a $10 minimum wage by finding the difference between the currently reported net job growth and the net job growth with a $10 per hour minimum wage.

RESULTS

Loss of Job Growth by State

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