



Research

# Higher Pay, Fewer Jobs

BEN GITIS, DOUGLAS HOLTZ-EAKIN | NOVEMBER 5, 2015

*Research published by the American Action Forum and the Empire Center*

## FOREWORD

*“Unfortunately, the real minimum wage is always zero, regardless of the laws, and that is the wage that many workers receive in the wake of the creation or escalation of a government-mandated minimum wage, because they lose their jobs or fail to find jobs when they enter the labor force.”*

— Thomas Sowell

Under a proposal championed by Governor Andrew Cuomo, New York would become the first state in the nation to mandate a minimum wage of \$15 an hour. That’s more than double the federal minimum wage, and 67 percent higher than the \$9 statewide minimum already scheduled to take effect in New York at the end of 2015.

Advocates of such a policy believe that low-income workers will be its primary beneficiaries. This paper, however, suggests that the poorest New Yorkers would have the most to lose from a sharp rise in the government-mandated wage floor.

The authors, economists Douglas Holtz-Eakin and Ben Gitis of the American Action Forum, draw on three credible research models to estimate low, medium and high impacts from raising the statewide minimum wage to \$12 or \$15.

The key finding: a \$15 minimum wage ultimately would cost the state at least 200,000 jobs, with proportionately larger employment decreases in upstate regions. That’s the authors’ “low-impact” scenario, based on a model developed by the Congressional Budget Office, of which Holtz-Eakin is a former director.

The other two models point to even bigger losses, indicating that a \$15 an hour minimum wage would lead to 432,200 and 588,000 fewer jobs under the “medium impact” and “high impact” scenarios, respectively.

Job losses would be smaller, but still more than New Yorkers should be willing to tolerate, if the state was to set the minimum at \$12 an hour, according to Holtz-Eakin and Gitis.

Based on national labor force data, the authors of this paper estimate less than 7 percent of the wages generated by a \$15 wage, and less than 6 percent of the wages generated by a \$12 wage, would actually go to households in poverty.

As Holtz-Eakin and Gitis note, these findings are consistent with the preponderance of economic research, which has long indicated that higher minimum wages are associated with a decline in employment. To be sure, economists differ on the strength of the effect, which is why this paper draws from different approaches—with the CBO model at the lower bound—to illustrate a range of possible impacts.

The “Fight for \$15” is rooted in well-founded and understandable concern about the challenges faced by low-income households, especially those struggling to get by in hyper-expensive New York City. But a \$15 minimum wage is only likely to make those challenges worse.

As shown in this paper and as strongly suggested by other research on the general issue, enacting the biggest increase ever in New York’s minimum wage would benefit some low-income workers at the expense of others. The losers would be stuck with the ultimate minimum wage: zero.

In a prolonged period of slow economic growth, the potential loss of at least 200,000 jobs would be an extreme and unacceptable tradeoff.

—E.J. McMahon

President of the Empire Center for Public Policy

## EXECUTIVE SUMMARY

We applied the methodology of three different independent research models to examine the employment and earnings effects of raising New York’s statewide minimum wage to \$12 per hour and to \$15 per hour, respectively, by 2018 in New York City and 2021 in the rest of the state.

We focus on how raising the state minimum wage would affect the very workers whom the policy is intended to help. Overall, we find significant tradeoffs to raising New York’s proposed minimum wage.

While a minimum wage hike would benefit some workers by increasing their earnings, it would also hurt hundreds of thousands of others whose earnings would sink because they could no longer find or keep a job.

Our medium-impact estimates (below) show that raising the state’s minimum wage to \$12 per hour would affect 2.3 million low-wage workers while costing the state 216,200 jobs. On net, total wage earnings among low-wage workers would rise by \$1.1 billion.

Labor Market Effects of \$12 per hour Minimum Wage in New York State

Workers Affected	2,265,000
Jobs Lost	216,200

#### Labor Market Effects of \$12 per hour Minimum Wage in New York State

Net Wage Earnings Change	\$1.1 billion
--------------------------	---------------

Similarly, we find that increasing the state's minimum wage to \$15 per hour would affect 3.1 million workers and cost 432,500 jobs. Total wage earnings among low-wage workers would rise by \$4.6 billion, after accounting for earnings declines from job losses.

#### Labor Market Effects of \$15 per hour Minimum Wage in New York State

Workers Affected	3,074,000
Jobs Lost	432,500
Net Wage Earnings Change	\$4.6 billion

Taken at face value, the net total wage earnings gains for both the \$12 and \$15 per hour minimum wage may seem large. But, it is important to point out that only a very small amount of the total wage earnings gains would benefit workers in poverty.

In previous American Action Forum (AAF) research, we found that only 5.8 percent of net total wage earnings gained from a \$12 federal minimum wage and only 6.7 percent of the net total wage earnings gained from a \$15 federal minimum wage would actually go to households in poverty. In New York, this means that of the \$1.1 billion gained from the \$12 minimum wage, only \$61.9 million would go to workers in poverty. Likewise, only \$308.0 million of the \$4.6 billion gained from the \$15 minimum wage would help workers in poverty.

Because the exact effect of the minimum wage on employment remains unsettled, we check the robustness of our results by employing a range of estimates from literature that imply low, medium and high employment impacts.

## INTRODUCTION

The federal minimum wage has been set at \$7.25 an hour since July 2009. In recent years, some American policymakers and labor advocates have argued for further increases in the wage at the federal, state, and local levels. On the federal level, the Obama administration and top congressional Democrats have rallied behind a proposal to raise the federal minimum to \$12 per hour by 2020. Under another proposal championed by, among others, Sen. Bernie Sanders, the federal minimum would rise to \$15 per hour, a level now in the process of being implemented in Seattle and a handful of other localities.

AAF, along with the Manhattan Institute, previously analyzed the employment and earnings effects of these two policies on a national level, and found that they would induce substantial job losses with little benefit for those

in poverty.

New York's minimum wage currently stands at \$8.75 and is scheduled to reach \$9 an hour on December 31, 2015. However, based on recommendations of a Wage Board empaneled to study the issue at the request of Governor Andrew Cuomo, the state labor commissioner has issued an order raising the minimum wage to \$15 an hour for employees of fast-food chain restaurants in New York.

Soon after the Wage Board recommendation for fast-food workers, the governor announced he would propose legislation raising New York's statewide minimum wage to \$15 per hour for all workers. The governor's proposal would parallel the fast-food schedule, raising the state's minimum wage to \$15 per hour by 2018 in New York City and by 2021 for the rest of the state.

To test the impact of such policies, this paper estimates the employment and earnings effects of increasing New York's minimum wage to two alternative higher levels— \$12 and to \$15 per hour—in each region of the state, focusing on the low-wage workers whom such raises would be intended to assist. In doing so, we project a range of job losses if lawmakers were to raise the state's minimum wage to \$12 or to \$15 per hour and the net change in total wage earnings for all low-wage workers in the state.

## PREVIOUS RESEARCH

We utilize research by the CBO (2014)<sup>[1]</sup> Meer & West (2015),<sup>[2]</sup> and Clemens & Wither (2014)<sup>[3]</sup> to provide a range of estimates for the impact of a \$12 and a \$15 minimum wage on New York state employment and total wage earnings. These studies examined different labor-market aspects of the minimum wage, resulting in different conclusions regarding the policy's impact on employment and wage earnings. Using these three studies, we consider the effects of the minimum wage under three scenarios — low, medium and high employment impacts.

In our previous paper, we used these same studies to examine the impact of raising the federal minimum wage on national employment and total wage earnings. Our medium-impact scenario was based on the model developed by Meer & West (2015). With that model, we found that raising the federal minimum wage to \$12 per hour by 2020 would cost 3.8 million jobs and, on net, increase total wage earnings by \$14.2 billion. Increasing the federal minimum wage to \$15 per hour by 2020 would cost 6.6 million jobs and, on net, increase total wage earnings by \$105.4 billion.<sup>[4]</sup>

## CBO

In 2014, the Congressional Budget Office (CBO) examined the impact of raising the federal minimum wage to \$9.00 or \$10.10 per hour, two of the most popular proposals at that time. For the \$10.10 proposal, the CBO found that the policy would result in employment falling by 500,000 jobs relative to their projected 2016 baseline. The CBO assumed that, in addition to those earning between \$7.25 and \$10.10 getting a raise, those earning just above \$10.10 would also see their wages increase. Specifically, those who earn up to 50 percent more than the minimum-wage hike would see their hourly earnings rise. As a result, people earning below \$11.50 (who stay employed) would benefit from a wage increase of some sort.

The CBO concluded that net total wage earnings for low-wage workers would increase by \$31 billion: 19 percent of those additional earnings would go to families below the poverty threshold; 52 percent to families with incomes one to three times the poverty threshold; and 29 percent to families with incomes more than three

times the poverty threshold. We employ these findings when developing our projection of a low-impact employment scenario resulting from an increase in New York's statewide minimum wage.

## Meer & West

While there is an ongoing debate regarding the impact of the minimum wage on the level of employment, Texas A&M economists Jonathan Meer and Jeremy West suggested in their recent research that the negative impact of the minimum wage is best isolated by focusing on employment dynamics—that is, the change in job growth once the higher wage is implemented. Specifically, they found that a 10 percent increase in the real minimum wage is associated with a 0.30 to 0.53 percentage-point decrease in the net job-growth rate. They found that, as a result, the 10 percent minimum wage increase reduces future employment by 0.7 percent.

Previously, the AAF applied Meer & West's work to California's recent law that raises the state's minimum wage to \$10 per hour (effective 2016). Using Meer & West's result, the AAF found that this wage increase in California would mean a loss of 191,000 jobs that would never be created.<sup>[5]</sup> In addition, the AAF found that if every state followed suit, more than 2.3 million new jobs would be lost across the United States. We employ the estimates found in Meer & West's study to characterize medium-impact employment consequences of raising the minimum wage in New York.

## Clemens & Wither

In late 2014, Jeffrey Clemens and Michael Wither of the University of California at San Diego released research examining what happened to low-wage workers the last time that the federal government raised its minimum wage—rising in three steps, during 2007–09, from \$5.15 to \$7.25 per hour. Using data from the Survey of Income and Program Participation (SIPP), they focused on how the minimum-wage hike affected employment and earnings among those whom the minimum-wage hike affected most: low-wage workers earning below \$7.50 per hour.

Clemens and Wither found significant, negative consequences for low-wage workers. From 2006 to 2012, employment in this group fell by 8 percent, translating to about 1.7 million jobs.<sup>[6]</sup> The job loss in this low-wage group accounted for 14 percent of the national decline in employment during this period.<sup>[7]</sup> The minimum-wage hike also increased the probability of working without pay (e.g., unpaid internships) by 2 percentage points. Workers with at least some college education were 20 percent more likely to work without pay than before the minimum wage rose.

As a result of the reduction in employment and paid work, net average monthly earnings for low-wage workers fell by \$100 during the first year after the minimum wage increased and fell by an additional \$50 in the following two years. We use the Clemens & Wither estimates to estimate our high-impact employment scenario.

## METHODOLOGY

In identifying the number of workers whom the minimum wage hike would affect in New York, we assume that those most directly affected by the minimum wage increase are the workers who, we project, would earn between \$9 per hour (New York's statewide minimum wage effective December 31, 2015) and the new minimum wage level in 2021 (2018 for the New York City region) under current law.<sup>[8]</sup> For the \$12 minimum wage, this includes all workers who would earn between \$9 and \$12 per hour; for the \$15 minimum wage, it includes everyone who would earn between \$9 and \$15 per hour. This is the group of workers that we assume

would both suffer from all the job losses and benefit from any wage earnings gain.

To estimate the actual number of workers who would be impacted by the minimum wage and thus either lose their jobs or see their wages rise, we first project total regional employment levels by 2021 (2018 for New York City). We accomplish this by using the state Labor Department’s Employment Projections<sup>[9]</sup> to calculate the projected compounded annual growth rate for total employment in each region. Starting with 2014 total employment reported in each region by the New York Quarterly Census of Employment and Wages,<sup>[10]</sup> we project employment levels to 2021 (2018 for New York City).

After projecting total future employment levels in each region, we estimate how many of those workers would earn between \$9 and \$12 per hour and between \$9 and \$15 per hour under current law. With regional American Community Survey (ACS) data, we obtain the percent of workers who would earn at least \$9 per hour but less than \$12 and \$15 per hour by 2018 in New York City and 2021 in all other regions.<sup>[11]</sup><sup>[12]</sup> We multiply that percentage by the projected total employment levels in each region to estimate the number of workers who would earn between \$9 per hour and the new minimum wage levels in 2021 (2018 for New York City) under current law.

## WORKERS IMPACTED<sup>[13]</sup>

Table 1 on page 5 shows the projected number of workers statewide and in each region who would be impacted if lawmakers raised New York’s minimum wage to \$12 or to \$15 per hour.

**TABLE 1: WORKERS IMPACTED BY MINIMUM WAGE HIKE (IN THOUSANDS)**

	\$12-per-hour		\$15 -per-hour	
Region	Workers	Percent	Workers	Percent
Total	2,265	24.4	3,074	33.2
Capital	122	22	173	31.2
Central New York	92	25.7	124	34.8
Finger Lakes	149	26	208	36.3
Hudson Valley	203	21.1	277	28.7
Long Island	244	18.1	338	25.1
Mohawk Valley	54	27.9	75	38.2



	\$12-per-hour		\$15 -per-hour	
New York City	1,104	26.4	1,470	35.1
North Country	48	30.5	65	41.6
Southern Tier	80	29.3	108	39.6
Western New York	169	25.7	237	35.9