Research

The Cost of January's Minimum Wage Hikes

BEN GITIS | JULY 8, 2014

As the widespread discussion of the minimum wage continues to dominate headlines, a number of states have taken initiative to raise their own minimum wages. At the beginning of 2014, 13 states enacted minimum wage hikes, detailed below.

Table 1: Minimum Wage Increases in January ($)

State	2013	2014	Change	Source of Increase
Arizona	7.80	7.90	0.10	Inflation Adjustment
Colorado	7.78	8.00	0.22	Inflation Adjustment
Connecticut	8.25	8.70	0.45	Law Change
Florida	7.79	7.93	0.14	Inflation Adjustment
Missouri	7.35	7.50	0.15	Inflation Adjustment
Montana	7.80	7.90	0.10	Inflation Adjustment
New Jersey	7.25	8.25	1.00	Law Change
New York	7.25	8.00	0.75	Law Change
Ohio	7.85	7.95	0.10	Inflation Adjustment
Oregon	8.95	9.10	0.15	Inflation Adjustment
Rhode Island	7.75	8.00	0.25	Law Change

State	2013	2014	Change	Source of Increase
Vermont	8.60	8.73	0.13	Inflation Adjustment
Washington	9.19	9.32	0.13	Inflation Adjustment

Nine of the hikes were a result of automatic adjustments for inflation and four were caused by new laws the states had approved in 2013. Now that we are halfway through 2014, these states provide a new source of evidence to evaluate the labor market implications of raising the minimum wage. So what happened? It turns out that raising the minimum wage has been detrimental to job creation in industries that actually hire minimum wage workers: retailers and restaurants. Specifically, in states that raised their minimum wages in January the net job growth rate among retail and restaurant workers fell an average 1.7 percentage points, costing those states 129,200 new jobs total.

WHY NOT EVALUATE TRENDS IN TOTAL EMPLOYMENT?

When evaluating the impact of the minimum wage it is necessary to ask the right question. For instance, evaluating the effect of the minimum wage on total employment trends would generally yield irrelevant results because only about 2 percent of all wage and salary workers earn at or below the federal minimum wage. It is very unlikely that a minimum wage increase would affect the majority of workers who earn significantly above the minimum wage. As a result, any analysis that examines the entire workforce is likely to understate the labor market consequences of raising the minimum wage because the vast majority of workers do not earn low wages.

Thus, in order to fairly examine the labor market consequences of increasing the minimum wage, it is essential to examine low wage workers who actually earn at or slightly above the current minimum wage. This includes young, low-skilled workers, the exact population policymakers are trying to help by increasing the minimum wage. One way to zero in on the low wage population is to examine recent job growth trends in industries that actually employ low and minimum wage workers. Specifically, this paper examines the most recent annual net job growth rate (May 2014) in retail and restaurants. Together, retail and restaurants employed 58 percent of all federal minimum wage workers in 2012 and evaluating job growth within those industries provides a valid estimate of how the minimum wage impacts job creation.

OUTSIDE FACTORS AND THE SEVERE WINTER LIKELY IMPACTED JOB GROWTH

It is also important to take into account factors that may influence employment other than the minimum wage. For instance, it is possible that states that increased their minimum wages already had strong job growth rates and could afford a wage hike. In addition, states vary in education, productivity, and household demographics, all of which affect job creation.

For the first half of 2014, the severe winter weather during the first quarter in particular likely influenced job growth as real GDP contracted at a 2.9 percent annual rate. Moreover, it appears that states where minimum wages did not increase suffered harsher winter conditions than states that did raise their minimum wages. This is evident in the graph below, which measures the difference between average temperature of all 48 continental United States and both the average temperature in states that raised their minimum wages in January and the

average in those that did not.[1]

Image not found or type unknown

The red line represents states that increased their minimum wages in January and the blue represents the rest. Interestingly, while states that did not raise their minimum wages in January generally experience above average temperatures and states that did not raise their minimum wages tend to experience below average temperatures, the two literally flipped during the severe winter in January. As a result, states that increased their minimum wages experienced relatively warm weather compared to the states that did not change their minimum wages.

RESULTS

Clearly, it is necessary to control for other factors that influence job creation, like the severe winter weather conditions. So, instead of simply observing net job growth rates in retail and restaurants within each state, this paper uses the most recent state level employment data and takes a differences-in-differences approach to demonstrate how the January minimum wage hikes impacted hiring.

Table 2 contains the average May net job growth rates among retail and restaurant industries and all other industries in states that increased their minimum wages in January and in those that did not.[2], [3]

Table 2: Net Job Growth Rate Averages in May

	Minimum Wage Change	No Minimum Wage Change
Retail & Restaurants	0.6%	2.0%
Rest of Industries	1.7%	1.5%

Before making the differences-in-differences calculation, this table already shows the detrimental impact raising the minimum wage has had on hiring. At 0.6 percent, the average net job growth rate among retailors and restaurants in states that increased their minimum wages was considerably low relative to the net growth rate among all other industries in those states (1.7 percent) and retailors and restaurants and all other industries in states that did not change their minimum wages (2.0 percent and 1.5 percent, respectively).

In turn, a simple differences-in-differences calculation, which helps control for outside factors that affect hiring, reveals that in May the average net job growth rate in retail and restaurant services was 1.7 percentage points lower in states that raised their minimum wages in January than in states that did not. Applying this result to employment levels reveals that all the state minimum wage increases in January together cost 129,200 new jobs.

Table 3 reveals the reduction in hiring associated with each state's minimum wage increase.

Table 3: Reduced Hiring due to Minimum Wage Increases

State	Loss in Job Growth
Total	129,200
Arizona	8,300
Colorado	7,400
Florida	28,000
Missouri	8,600
Montana	1,600
Ohio	16,400
Oregon	5,400
Vermont	900
Washington	9,000
Connecticut	4,900
New Jersey	11,500
New York	25,500
Rhode Island	1,500

CONCLUSION

The money needed to afford an increase in the minimum wage has to come from somewhere. While many assume that it would come out of profits of large companies, in reality it only affects restaurants and retail businesses that have narrow profit margins. They have no choice but to either reduce their current employment levels or put off plans to expand and make new hires. As a result, the cost of the minimum wage comes out of the pockets of unemployed workers who are denied an opportunity to work. With the recent minimum wage increases keeping 129,200 retail and restaurant workers unemployed, it is time policymakers consider policies that actually improve job creation and get people back to work.

[1] I thank Robert Abramov for his assistance in analyzing weather trends. Data on average temperatures are from the National Climatic Data Center, available at http://www.ncdc.noaa.gov/cag/