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Discussion Paper Series

**Revisiting the Minimum Wage-Employment Debate:
Throwing Out the Baby with the Bathwater?***

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December 2012

Center for Economics & Public Policy | University of California, Irvine

Downloadable copy available online

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Executive Summary

Revisiting the Minimum Wage-Employment Debate: Throwing Out the Baby with the Bathwater?

Debates about the economic effects and the merits of the minimum wage date back at least as far as the establishment of the Department of Labor as a cabinet-level agency in 1913. In the decades that followed, neoclassical and progressive economists reached different conclusions, but eventually began to coalesce around the idea that minimum wages tended to reduce employment among low-skilled workers. This consensus lasted through the 1980s and ended with the publication of a special issue of the *Industrial and Labor Relations Review* (ILRR) in the early 1990s. This issue featured four studies that took advantage of the increasing divergence of minimum wages at the state level to estimate the employment effects of the minimum wage. The four studies, using different analytical approaches, were diverse in their findings ranging from disemployment effects similar to the earlier consensus, to a positive effect of the minimum wage on employment. The ILRR symposium launched a new body of contemporary research on the minimum wage, much of which was summarized in Neumark's and Wascher's 2008 book, *Minimum Wages*. In that book, their evaluation and summary of the evidence concluded that "...[M]inimum wages reduce employment opportunities for less-skilled workers, especially those who are most directly affected by the minimum wage." This paper, in part, extends this evaluation and summary to the present by evaluating two recent studies that have questioned the empirical methods and conclusions in much of the recent literature.

The criticism of these recent studies can be summarized as follows: past research uses invalid "control groups." In minimum wage studies, a control group is often another state that did not experience an increase in the minimum wage. A well chosen control group must reflect the same policy and economic changes other than the change in minimum wage. Without a good control group a researcher may attribute a reduction in employment to the increase in the minimum wage, when in reality the reduction in employment is caused by something else. These recent studies claim that past research makes use of control groups that are too geographically separated from the states where minimum wage changes occurred. They argue that dozens of state minimum-wage increases that occurred in the United States in recent years happen to have occurred in regions where the employment of low-skilled workers was declining for other reasons. These employment declines were tied to local economic conditions that did not affect the geographically distant control states. This in turn led researchers to attribute the decline in unemployment to the minimum wage increase, when in reality it was the result of a local economic decline. To measure the true effect of minimum wage increases, they argue that one must compare what happened in states where minimum wages increased only to states in the same Census division or to counties on the other side of the state border. When they perform the analysis using these alternative control groups, the negative employment effects associated with a rising minimum wage disappear.

Analysis & Results

The control groups chosen in these new studies have an intuitive appeal: nearby states or counties could provide better controls for states where minimum wages increased because they might be exposed to similar economic shocks. However, rather than relying on intuition, David Neumark, Ian Salas, and

William Wascher carefully test whether the methods used in these recent studies represent a valid threat to findings from previous research. They reach three main conclusions.

- First, it is typically not nearby states or counties that provide the best control groups – undermining the key assumption imposed by the revisionist studies. Neumark et al. use a statistical method to determine which states are the best controls. This method provides numerical “weights” which can be assigned to each potential control state. Weights range from 0 to 1 and the closer a weight is to 1, the better that state is as a control. They find, on average, that nearby states only receive about 25% of the weight and other states receive nearly 75% of the weight.
- Second, in the isolated cases of states where nearby states and counties are a good control group, the estimated minimum wage effects on employment are again negative. Using the weighting procedure described above, it was determined that in the West North Central region, more than 50% of the control-state weight should go on states in the same region. When the employment effects of the minimum wage are computed for this region alone, the authors find that for each 10% increase in minimum wage, employment for teens declines by 1.9% - an effect that is very much in line with past studies.
- Third, when the analysis is not restricted to nearby states or cross-border counties, the evidence on minimum wages is consistent with earlier studies. Using the same data as is used in these revisionist studies, but now allowing all potential control states to serve as controls, Neumark et al. find that for a 10% increase in the minimum wage, employment for teens is reduced by 1.65% - once again, a result that is similar to those found in previous research.

Policy Implications

The results of this study suggest that policymakers should not be too quick to set aside the tested economic consensus regarding the impact of minimum wages. Empirical evidence continues to suggest that minimum wages pose a tradeoff of higher wages for some against job losses for others.

Acknowledgements

We are grateful to Marianne Bitler, Charles Brown, Jeffrey Thompson, and Rob Valletta for helpful comments, and Arin Dube and his co-authors for sharing their data and computer code. Neumark and Salas' work on this project received support from the Employment Policies Institute (EPI). The views expressed in this paper do not necessarily reflect the views of EPI or of the Board of Governors of the Federal Reserve System, and the authors have retained full editorial control of the paper's content and conclusions. All data and programs used in this research will be available from the authors upon request when the research is completed. This paper was prepared for presentation at the conference "Celebrating the Centennial of the U.S. Department of Labor," November 9, 2012, Washington, DC.