

Vermont Legislative Joint Fiscal Office

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ISSUE BRIEF

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Preliminary Summary Review: Two Studies on the Effects of Raising the Minimum Wage to \$13 per Hour in Seattle

Summary

Two new studies of the effects of raising the minimum wage to \$13 per hour in Seattle, both released in June 2017 but using different data and different approaches, find conflicting results. One study, from the University of California at Berkeley, finds no adverse effect on employment but positive effects on wages, in line with numerous studies before it. The other, from the University of Washington, finds reductions in hours worked by low-income workers that are large enough to cause a reduction in earnings of low-income workers.

Background

- On April 1, 2015, Seattle raised its minimum wages from the statewide \$9.47 to \$10 or \$11, depending upon business size, presence of tipped workers and employer provision of health insurance.
- The second phase began on January 1, 2016, further raising the minimum to four different levels, ranging from \$10.50 to \$13, again depending upon employer size, presence of tipped workers and provision of health insurance.
- The final phase raised the minimum wage for large employers to \$15 on January 1, 2017.
- Two recent studies looked at the effect on employment and wages of low-income workers in Seattle after 9 months at the \$13 minimum wage: the UC Berkeley study¹ and the University of Washington (UW) study.²

Different Findings

- The UC Berkeley study, based on workers in the food service industry, finds that minimum wages in Seattle up to \$13 per hour raised wages for low-paid workers **without causing**

¹ “Seattle’s Minimum Wage Experience 2015-16” Michael Reich, Sylvia Allegretto, and Anna Godoey, June 2017; available at <http://irle.berkeley.edu/files/2017/Seattles-Minimum-Wage-Experiences-2015-16.pdf>

² “Minimum Wage Increases, Wages, and Low-Wage Employment: Evidence from Seattle,” National Bureau of Economic Research (NBER) Working Paper #23532, released June 26, 2017; Ekaterina Jardim, Mark C. Long, Robert Plotnick, Emma van Inwegen, Jacob Vigdor, and Hilary Wething; available at <https://evans.uw.edu/sites/default/files/NBER%20Working%20Paper.pdf>

disemployment. Each 10 percent minimum wage increase in Seattle raised pay by nearly 1 percent in food services overall and by 2.3 percent in limited-service restaurants.³

- The UW study, based on all low-skilled workers in Seattle (those earning under \$19 per hour) finds that **hours worked by low-skilled workers fell by 9.4 percent** during the three quarters when the minimum wage was \$13 per hour, resulting in a loss of 3.5 million hours worked per calendar quarter. Alternative estimates show the number of low-wage jobs declined by 6.8 percent, which represents a loss of more than 5,000 jobs.
 - The study finds that “total payroll fell for [low-wage] jobs, implying that the minimum wage ordinance lowered low-wage employees’ earnings by an average of \$125 per month in 2016.”

Why the Different Findings?

- The UC Berkeley study, like many previous studies, used data on total earnings by industry. To identify low-wage workers, the Berkeley researchers focused on the food service industry. But some higher-paid workers are included in the data on earnings for the food service industry, diluting the focus on low-wage workers.
- The UW study uses data on both hours worked and earnings of low-wage workers. The State of Washington is one of only four states that collect data on hours worked for each employee, allowing researchers to identify jobs that pay low wages and workers who earn low wages.
 - Employers in the State of Washington are required to report actual hours worked per quarter by employees who are paid by the hour, and to report either actual hours worked or 40 hours per week for salaried workers.⁴ The unique dataset allows measuring the average wage paid to each worker in each quarter. The hourly wage rate is total quarterly earnings divided by quarterly hours worked.

Methodological Issues Regarding the Two Studies

1. The UC Berkeley Study

- The UC Berkeley study, like many studies before it, uses aggregate data on a slice of the labor force that is thought to represent low-wage workers.
 - Food service workers, retail workers, and teenagers are typically used as a proxy for low-wage workers in those studies. In a high-growth labor market where

³ Limited service restaurants are establishments in which patrons generally order or select items and pay before eating.

⁴ The State of Washington collects hours worked because eligibility for unemployment benefits is determined in part by an hours-worked test.

employment is generally rising over time, it is essential to examine low-wage workers who are most directly affected by the wage hike.⁵

- UC Berkeley researchers did not have access to data on hours worked and thus could not identify low-wage workers who would likely be most affected by the increased minimum wage to see how their employment changed over time. Instead, they examined earnings in the food service industry before and after the wage increase in Seattle relative to a “synthetic control” group made up of counties with similar characteristics in a number of states. That approach was considered a major step forward a few years ago.
- The UC Berkeley study’s comparison to the synthetic control group represents one estimate of how the change in the minimum wage affected employment. Whether the synthetic control group effectively represents a similar high-growth economy relative to that of Seattle is open to debate.

2. The UW Study

- Several think tanks have critiqued the UW study and find the results to be “out of step” with previous studies.⁶ The study has not yet received peer review. Specific concerns are described below.
- The UW study excluded multi-site employers that employ a large segment of employees because the data do not allow differentiating workers inside city limits from those outside. Single-site businesses may react differently than larger multi-site employers; survey evidence, however, indicates that multi-site employers were if anything more likely to report staffing reductions following the minimum wage increase.
- The UW study found a decline in hours worked for low-wage workers, but the booming labor market in Seattle might have caused employers to increase wages for those workers, leading to a decline in low-paid jobs but an increase in higher-paid jobs. As noted in the UW study, substantial growth did occur in jobs paying more than \$19 per hour.⁷
- A minimum-wage law for a city means that employers can more easily focus their hiring outside the city to avoid the law. The UW study tried to look for signs of such shifting in the areas of King County outside the city, but it's hard to analyze such shifts. A state-level or federal-level rise in the minimum wage law, except in border areas, may not be as susceptible to such shifts.

⁵ For example, see “Dueling Studies of Seattle’s Minimum Wage Hike: A Reader’s Guide,” Ben Gitis, American Action Forum, July 6, 2017; <https://www.americanactionforum.org/research/dueling-studies-seattles-minimum-wage-hike-readers-guide/>

⁶ For example, see “Five Flaws in a New Analysis of Seattle’s Minimum Wage,” Rachel West, Center for American Progress, June 28, 2017; https://www.nytimes.com/?WT.z_jog=1&hF=t&vS=undefined

⁷ See Table 3, p. 45, of the UW Study.

- The new results from UW differ from much of the previous research on the minimum wage; many past studies, based on increases from lower wage levels, found that the benefits of increased minimum wages for low-wage workers exceed the costs in terms of reduced employment.
- On the other hand, some well-respected economists point to the UW study as being carefully done, using the best data available, and employing several different comparison groups rather than relying on just one approach.
 - "This strikes me as a study that is likely to influence people," said David Autor, Ford Professor of Economics at the Massachusetts Institute of Technology who was not involved in the research. He called the work "very credible" and "sufficiently compelling in its design and statistical power that it can change minds."⁸
 - The UW researchers compared effects in Seattle to several comparison groups. They looked at the rest of King County that surrounds Seattle, three other counties that surround King County but do not actually border Seattle, and other counties across the state that are weighted to build a synthetic control comparison group. Methods used to build the synthetic control group were similar to those used by the UC Berkeley researchers. In addition, the UW researchers restricted their analysis to the restaurant industry as was done in the UC Berkeley study and again confirmed their findings. None of the comparison groups is perfect, but the different comparisons offer a reasonable range of outcomes.

Caveats Relevant to Both Studies

- Seattle's unemployment rate was just 3.1 percent during the three quarters of 2016 during which the minimum wage was \$13/hour. The effects of a minimum wage are likely to be different in a place where the unemployment rate is substantially higher.
- Seattle already had in place the nation's highest state minimum wage at \$11/hour, and then raised it substantially higher. A previous study by the UW group, using the same methodology but looking only at the minimum wage increase to \$11/hour in 2015, found much smaller effects in accordance with the UC Berkeley study and others. One possible interpretation of these findings is that moderate raises in the minimum wage have smaller effects on hours worked, but pushing substantially higher will have a noticeably negative effect.
- The state-level data don't cover earnings for independent contractors or in the "informal" off-the-books sector of the economy.

⁸ Wonkblog by Max Ehrenfreund, Washington Post, June 26, 2017; available at https://www.washingtonpost.com/news/wonk/wp/2017/06/26/new-study-casts-doubt-on-whether-a-15-minimum-wage-really-helps-workers/?utm_term=.88b03b1cf911

- Changes in the minimum wage at the state or federal level are likely to have a different effect.
- Future studies will gather more evidence on the effects of Seattle’s ultimate increase to \$15 per hour to help bridge the gap between the findings of the two studies.

Takeaways

- Mixed reactions from think tanks and economists to the two studies, and in particular to the new results from the UW study, suggest that the jury is still out on the effects on low-wage workers in Seattle of raising the minimum wage from a relatively high level of \$11 to the even higher level of \$13.
- However, the possibility of adverse effects for low-wage workers from raising the minimum wage to levels higher than have been seen previously in the United States suggests proceeding cautiously.

Considerations for Vermont

- As Vermont considers increasing its minimum wage, it might also consider setting up a process for evaluating the effects of such a change.
- For example, the availability of data on actual hours worked per job together with quarterly earnings per job made the UW study possible. To enable a similar evaluation of changes in Vermont’s minimum wage going forward, Vermont might want to require employers to report actual hours worked per job.

A Sampling of Additional Articles and Commentaries on the Two Studies

<https://cei.org/blog/seattle-minimum-wage-hike-shrinks-workers%E2%80%99-incomes>

<http://conversableeconomist.blogspot.com/2017/06/higher-local-minimum-wages-updating.html?m=1>

<https://www.economist.com/news/finance-and-economics/21724802-two-studies-their-impact-seattle-reach-opposite-conclusions-economists-argue>

<http://www.epi.org/publication/the-high-road-seattle-labor-market-and-the-effects-of-the-minimum-wage-increase-data-limitations-and-methodological-problems-bias-new-analysis-of-seattles-minimum-wage-incr/>

<https://fivethirtyeight.com/features/seattles-minimum-wage-hike-may-have-gone-too-far/>

<http://www.motherjones.com/kevin-drum/2017/06/new-seattle-study-suggests-ideal-minimum-wage-of-about-12/>

<https://www.nytimes.com/2017/06/26/business/economy/seattle-minimum-wage.html>

<http://www.weeklystandard.com/study-seattle-minimum-wage-increase-reduced-low-wage-income/article/2008628>