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The Effects of Increases in the Minimum Wage

The debate over increasing the minimum wage usually includes claims about the impact of this action on employment levels and wage levels. This report examines data and studies that compare minimum wage levels and employment levels by state. Table 1 lists the states with minimum wage rates above the federal level.

Table 1: States with Minimum Wage Rates above the Federal Level				
State	1998	1999	2000	2001
Alaska	\$5.65	\$5.65	\$5.65	\$5.65
California	\$5.75	\$5.75	\$5.75	\$6.75
Connecticut	\$5.65	\$5.65	\$6.15	\$6.70
Delaware	\$5.15	\$5.65	\$5.65	\$6.15
Hawaii	\$5.25	\$5.25	\$5.25	\$5.25
Massachusetts	\$5.25	\$5.25	\$5.25	\$6.75
New Jersey	\$5.95	\$5.95	\$5.95	\$5.95
Oregon	\$5.50	\$6.50	\$6.50	\$6.50
Rhode Island	\$5.15	\$5.65	\$6.15	\$6.15
Vermont	\$5.25	\$5.75	\$5.75	\$6.25
Washington	\$5.15	\$5.70	\$6.50	\$6.72
Source: Bureau of Labor Statistics				

The Princeton Study

In order to determine if higher minimum wage leads to a higher unemployment two economic professors at Princeton University (David Card and Alan Krueger) conducted a study on minimum wage hikes with a focus on the New Jersey minimum wage hike in 1990.

Card and Krueger compared unemployment and wages in New Jersey and Pennsylvania. In that comparison they focused on the fast food industry (the leading employers of low wage earners and an industry that enforces the minimum wage). The Comparison of New Jersey and Pennsylvania indicated, "employment actually expanded in New Jersey relative to Pennsylvania, where the minimum wage was constant" (Card and Krueger 1995, p. 66). In additional studies that they conducted using data from other states Card and Krueger actually found a positive correlation between a higher minimum wage and employment. Table 2 presents the findings of each of the studies they ran.

Analysis	Source of Wage Change	Nature of Comparison	Wages	Employment
1. New Jersey-Pennsylvania Fast Food Restaurants	New Jersey minimum wage rises to \$5.05	Across states and within NJ between high and low wage restaurants	+ .11	+ .04
2. Texas fast-Food Restaurants	Federal minimum wage rises to \$4.25 April	Between high and low wage restaurants	+ .08	+ .20
3. California Teenagers	California minimum wage rises to \$4.25 July 1988	Between teenagers in California and comparison areas	+ .10	+ .12
4. Cross-States Teenagers, 1989-1992	Federal Minimum Wage rises from \$3.35 to \$4.25	Across states with higher and lower fractions earning \$3.35-\$4.24 in 1989	+ .07	.00
5. Cross-States, Workers with Low Predicted Wages, 1989-1992	Federal minimum wage rises from \$3.35 to \$4.25	Across states with higher and lower fractions earning \$3.35-\$4.24 in 1989	+ .07	+ .02
6. Cross-States, Employees in Retail Trade, 1989-1992	Federal Minimum Wage rises from \$3.35 to \$4.25	Across states with higher and lower fractions earning \$3.35-\$4.24 in 1989	+ .05	+ .02
7. Cross-States, Employees in Restaurant Industry, 1989-1992	Federal Minimum Wage rises from \$3.35 to \$4.25	Across states with higher and lower fractions earning \$3.35-\$4.24 in 1989	+ .07	+ .03

Source: David Card and Alan Krueger, *Myth and Measurement*, Page 389, Chart 12.1

In addition to those findings, Card and Krueger found:

- A large "spike" in wage distribution at the minimum wage level. This "spike" indicates a large percentage of the work force is minimum wage earners.
- A "ripple effect" that consists of wage increases of non-minimum wage earners from those employers who fix wages above the minimum wage.
- An absence of evidence that employers reduce benefits to compensate for the higher wage.
- A low utilization of teens in the work force.

Criticisms of the Princeton Study

Card and Krueger have received some criticism for their study from a number of conservative think tanks that published their commentaries in opinion-editorial fashion rather than in peer-reviewed journals. Critics claim that the Princeton Study looked specifically at minimum wage issues in the fast food industry, which leaves out a significant population of the minimum wage work force. They also claim that the Card and Krueger data is inconsistent with the actual payroll records of the Burger King franchises; Card and Krueger chose to rely on the Bureau of Labor Statistics for their data. Richard Berman of the Employment Policies Institute also disagreed with the methodology of the Card and Krueger study. He argues that the analysis should have focused on the number of hours worked instead of the number of employees (Berman 1998). Despite the claims of these critics, there has been no peer-reviewed research to date that contradicts the findings of Card and Krueger or supports the claim that an increase in the minimum wage increases unemployment.

The Case of Oregon

Oregon has had a higher minimum wage than the federal minimum wage since 1989. In November 1996, Oregon voters approved Ballot Measure #36, which increased the state minimum wage from \$4.75 to \$6.50 over a three-year period. In 1998 the state minimum wage was \$6.00 and on Jan 1, 1999 the rate rose to \$6.50.

Did Oregon's higher minimum wage increase unemployment? Table 3 compares the unemployment rate in Oregon and a number of other states. Included in the table are a number of other states with higher minimum wage laws and some of their neighboring states. While Oregon saw a higher unemployment rate than its neighbor, Washington, it saw a decrease in unemployment between 1997-98 as Washington saw a slight increase. To facilitate a comparison of unemployment rates between high minimum wage states with low minimum wage states we calculated the averages for each group of states. States

with higher minimum wages saw, on average, about the same unemployment rate as states with low minimum wage. Furthermore, high minimum wage states saw a greater decrease in the unemployment rate than low minimum wage states.

States with Minimum Wage Above Federal				
	Unemployment		Minimum Wage	
	Rate 1998	Change 97-98	1997	1998
Oregon	5.5	-0.04	\$5.50	\$6.00
New Jersey	4.4	-0.11	\$5.95	\$5.95
California	5.9	-0.02	\$5.15	\$5.75
Connecticut	3.1	-0.45	\$5.18	\$5.65
Alaska	5.5	-0.29	\$5.65	\$5.65
Massachusetts	3.1	-0.23	\$5.25	\$5.25
Vermont	2.9	-0.28	\$5.25	\$5.25
Average	4.3	-0.20	\$5.42	\$5.64

States with Minimum Wage at Federal Level				
	Unemployment		Minimum Wage	
	Rate 1998	Change 97-98	1997	1998
Washington	4.7	0.06	\$5.15	\$5.15
Pennsylvania	4.4	-0.09	\$5.15	\$5.15
New Hampshire	2.9	0.00	\$5.15	\$5.15
New York	5.5	-0.11	\$5.15	\$5.15
Montana	5.5	0.02	\$5.15	\$5.15
Average	4.6	-0.02	\$5.15	\$5.15

Source: Bureau of Labor Statistics, "Local Area Unemployment Statistics,"
<http://www.bls.gov/news.release/laus.t03.htm>

Additional Information

Most studies have found that the entire net effect of an increase in minimum wage results in a slight decrease in employment. A 10 percent increase would most likely lead to only a 1 percent reduction in employment. The more pressing issue is the matter of a livable wage. Even the state with the highest minimum wage does not meet the criteria for a livable wage. Over 24 cities throughout the United States have enacted a livable wage requirement, in order that people are able to meet their basic needs, such as food, shelter, heat, and clothing. This requirement has resulted in a minor cost increase for employers and a 2.2 percent decrease in employment. For a single person to meet his/her essential needs while living in Vermont, the person would need to make at least \$7.98 an hour, and for a family of four it would need to make at least \$19.82 an hour.

Sources

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