Monthly Labor Review
July 2017

Raising the minimum wage in three different ways: what are the effects?

Richard Hernandez

Since January 2013, 27 states began increasing their minimum wage. The states have used various approaches. Some states increased their minimum wage once, while others are taking a multiyear approach. Then there are states that increased their minimum wage and then indexed it to inflation.

What impact have these minimum wage increases had? In “Estimating the employment effects of recent minimum wage changes: early evidence, an interpretive framework, and pre-commitment to future analysis” (National Bureau of Economic Research working paper no. 23084, January 2017), authors Jeffrey Clemens and Michael R. Strain present the current short-run effects of minimum wage increases that took place January 2013 to January 2015. This working paper focuses on the first wave of implementations. Their research concentrates on the wage rates at the low end of the worker-skill distribution.

A key finding was that, during the January 2013 through January 2015 period, employment of young high school dropouts and young adults expanded 1 percentage point less in states that had one-time or multiphase minimum wage increases compared with states that did not increase their minimum wage. The authors caution, however, against drawing strong conclusions from these early estimates.

Using a model developed by Clemens and Michael Withers, the authors distinguished employment loss due to the minimum wage’s old and new levels. However, many other factors also were considered—general inflation levels, substitution of workers for machines, and whether wage increases were passed to consumers via higher prices.

The findings are broken down by two different data samples used to measure changes—Current Population Survey (CPS) and CPS Merged Outgoing Rotation Groups (CPS-MORG). These data show that employment decreased 0.7 to 1.4 percentage points among people under age 25 who did not complete high school but were not statistically distinguishable from 0 at the 10-percent level. Using CPS-MORG resulted in employment among this demographic group falling 1.6 to 2.1 percentage points more in states that enacted minimum wage hikes than in states that did not. However, states that indexed their minimum wage increases had an increase in employment of 0.4 to 1.1 percentage points for this demographic group compared with states that did not raise their minimum wage.

According to the authors, future analysis of minimum wage increases that considers a longer time period “will be essential for arriving at strong conclusions regarding their effects.” Because many states will continue to raise their minimum wages until 2019, the authors plan to provide new analysis on the impact—intended and unintended consequences—the minimum wage increases have on employment and wage distributions.