The Response of Hours of Work to Increases in the Minimum Wage
Kenneth Couch, David Wittenburg

Abstract
This paper examines the effect of minimum wage increases on the hours of work of teenagers (ages 16 to 19) using monthly data from the Current Population Survey. Our findings are consistent with the prediction from neoclassical theory that minimum wage increases have a negative effect on labor demand. However, the estimates we provide here for the elasticity of hours of teen labor demanded with respect to the minimum wage suggest that alternative estimates based on aggregate employment consistently understate the total impact of minimum wage increases on teenage labor utilization.

This paper examines the effect of minimum wage increases on the hours of work of teenagers (ages 16 to 19) using monthly data from the Current Population Survey. The primary reason for examining hours is that changes in aggregate employment might obscure an increase or decrease in labor demand as measured by hours of work. Consequently, the elasticities of labor demand estimated from employment data might provide a biased depiction of the overall responsiveness of labor utilization to changes in the minimum wage. Whether such a bias exists, along with its direction and magnitude, is the topic of this paper.

In all of our estimates, we find that raising the minimum wage reduces hours worked by teens. Our results also indicate that estimates of the elasticity of teen labor demand with respect to the minimum wage based on employment data consistently understate the effect of minimum wage increases on labor utilization by 10 to 30 percent relative to those based on hours of work. The understatement of the impact of minimum wages on labor demand which occurs when aggregate employment rather than hours is examined is the result of employers choosing to decrease hours of teen workers who retain their jobs.


Other Publications by the Authors
- Kenneth Couch
- David Wittenburg

Usage and reprints: Most publications may be downloaded free of charge from the web site and may be used and copies made for research, academic, policy or other non-commercial purposes. Proper attribution is required. Posting UI research papers on other websites is permitted subject to prior approval from the Urban Institute—contact publicaffairs@urban.org.

Disclaimer: The nonpartisan Urban Institute publishes studies, reports, and books on timely topics worthy of public consideration. The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Copyright of the written materials contained within the Urban Institute website is owned or controlled by the Urban Institute.

Source: The Urban Institute, © 2012 | http://www.urban.org