



Minimum Wages

What Does the Research Tell Us about the Effectiveness of Local Action?

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As real wages stagnate, racial disparities grow, and housing prices soar in cities across the US, local governments are increasingly adopting laws and regulations that aim to reduce inequalities and improve access to economic opportunity for their residents (Berube et al. 2018; Greene et al. 2016). These new local laws span a broad range of areas, from protections against discrimination to proactive steps to reduce housing costs or raise incomes. At the same time, states are increasingly enacting laws that limit or preempt local action in these areas, often relying on a thin or nonexistent evidence base to suggest that local regulation is inefficient or overly burdensome (Briffault et al. 2018; Einstein and Glick 2017). In these four briefs, we explore and summarize the research on the effectiveness of local action in four areas: minimum wages, paid sick days, rent control, and inclusionary zoning. We also discuss general trends in state and local laws as well as opportunities to fill research gaps and improve evidence-based policymaking in each area.

Local minimum-wage ordinances provide a way to raise wages when political gridlock prevents Congress or state legislatures from acting. The goal of a minimum wage, in general, is to keep workers out of poverty and to increase consumer purchasing power to stimulate economic growth. Local minimum-wage laws can also help ensure that workers can afford housing, food, and other basic necessities in locations where the cost of living is higher than in other parts of the country or state. The first local jurisdiction to establish a minimum wage higher than the state level was Santa Fe, New Mexico, in 2003.

Currently, 29 states and the District of Columbia have a minimum wage higher than the federal minimum wage, and 42 localities have adopted a minimum wage above their state minimum wage.¹

The literature reveals general consensus that higher minimum wages are associated with higher wages and earnings for less-educated workers as well as for teens and young adults. Studies also

consistently find that higher minimum wages are associated with reduced wage inequality, though the magnitude of the effect is disputed. Some debate remains about whether raising the minimum wage leads to job losses and the magnitude of these effects, although the weight of the evidence points to insubstantial or no job losses related to modest increases (8 to 10 percent) in the effective minimum wage. Virtually all of the minimum-wage literature to date has studied modest increases rather than those that have been or will be experienced by some localities and states in recent years, raising the minimum wage to \$13 or \$15 an hour. Future research should focus on whether larger increases in local minimum wages will produce significantly different effects from the more modest increases we've seen in the past, as well as how increases in the minimum wage affects income and wealth inequalities, poverty rates, economic mobility, and racial disparities for each. In this brief, we synthesize the evidence on the effectiveness of minimum-wage laws and suggest areas in which further research could help policymakers, advocates, and the public improve local minimum-wage laws.

State and Local Trends

Local minimum-wage laws are designed to increase the minimum wage above the level that the state and federal government are willing to establish. Local minimum wages tend to be enacted in metropolitan areas where the costs of living are higher; the local laws are intended to mitigate those higher costs. Minimum wages in general aim to keep workers out of poverty and to increase consumer purchasing power to spur economic growth. Local minimum-wage laws are designed with the same purpose but are deemed necessary when local leaders recognize a higher cost of living relative to the rest of the state or region. Local ordinances also allow localities to serve as policy laboratories for assessing the feasibility of larger increases in the minimum wage.

The first minimum-wage law in the United States was established in 1912 by the state of Massachusetts. In 1938, the first federal minimum wage was enacted; it has been raised 22 times since then (Bradley 2017). Importantly, the federal minimum wage has not increased since 2009, which has eroded its real value and effect on purchasing power. Santa Fe, New Mexico, was the first city to establish its own minimum wage, which went into effect in January 2004. Since 2004, more than 40 localities have adopted minimum wages above their state minimum wage. More than half of these jurisdictions are cities and counties in California, including Los Angeles, Oakland, San Diego, and San Francisco. These localities also include two cities in Maine (Bangor and Portland); two counties in Maryland (Prince George's and Montgomery); several additional jurisdictions in New Mexico (Albuquerque, Bernalillo County, and Las Cruces); Flagstaff, Arizona; two Washington cities (Seattle and Tacoma); and several populous Midwestern jurisdictions (Chicago, Cook County, and Minneapolis).

Some localities incorporate different minimum-wage levels, implementation timelines, or exemptions based on the size or classification of an employer (such as employers with more than 25 employees or nonprofits). Many localities include incremental increases to the minimum wage in their ordinances. In Minneapolis, for instance, the minimum wage for large businesses increased from \$7.75 to \$10 on January 1, 2018. The city's minimum wage is scheduled to increase annually until it reaches \$15 in 2022.

Twenty-five states have passed laws that preempt localities from setting their own local minimum wage (von Wilpert 2017). Consequently, minimum-wage ordinances have been overturned in at least 10 localities. Of the 25 states that have passed a minimum-wage preemption law, 14 adopted their minimum wage preemption law in or after 2013.² The primary justifications for minimum-wage preemption laws are (1) concerns about having a patchwork of wage levels across the state and (2) claims that a higher local minimum wage puts the city or county at a competitive disadvantage relative to surrounding areas.

Research on Impacts

The research literature on the effects of minimum wage increases is extensive, although the research on local laws specifically is more recent and limited than the research on changes at the federal and state levels. This scan reviews 52 research reports from 1992 through 2018, 28 of which are peer-reviewed journal articles and 10 of which are academic working papers. Of the studies examined in this scan, 8 assessed impacts related to local laws, 38 investigated state laws, and 1 looked at both state and local laws. Three-quarters of the studies (39) employ quasi-experimental methods to estimate impacts. The remaining 13 studies consist of expert opinions, literature reviews, and other quantitative approaches, including projected impacts of potential minimum wage increases.

Methodologically, many of the studies that investigate state laws use the “effective minimum wage,” which is the higher of the federal, state, or local minimum wage, to tease out the impacts of differences in minimum wages across jurisdictions. A plurality of the minimum wage literature focuses on employment impacts, especially for teenage workers and those working in the food service or retail sectors. The literature also studies impacts on wages; prices; gross employment flows; hours worked; employer benefits; training; wage inequality; geographic mobility; poverty; public food and cash assistance usage; school enrollment; and changes in spending, income, and debt. Finally, several papers examine the relationship between minimum-wage laws and health outcomes, including adolescent fertility, child maltreatment rates, low birth weight, post-neonatal mortality, and body weight.

Researchers still disagree on the most appropriate way to statistically model the effect of the minimum wage, and these modeling choices can strongly influence a study’s results (Kuehn 2014). Much of the disagreement hinges on whether a two-way fixed-effects model sufficiently removes bias from minimum-wage impact estimates or whether stronger quasi-experimental designs are necessary. A more recent paper highlights the continuing importance of model specification in helping to resolve seemingly conflicting results regarding the employment effects of modest increases in minimum wages (Neumark 2018).

To properly understand the magnitude of impacts, it’s important to recognize the proportion of the population and types of workers most likely affected by changes in the minimum wage. Based on Current Population Survey data from 1979 to 2014, nearly 8 percent of all workers and 40 percent of working teens earned within 10 percent of the effective minimum wage. However, teens constitute a decreasing share of these workers. Among workers earning within 10 percent of the effective minimum

wage, the share of teens has fallen from roughly 32 percent in 1979 to approximately 23 percent in 2014 (Allegretto et al. 2017).

General Effectiveness of Minimum-Wage Laws

Since 2012, 15 cities and counties raised the local minimum wage to \$15 an hour, as have two states.³ Virtually all of the minimum-wage literature to date has studied more modest increases than those raising the minimum wage to \$13 or \$15 an hour. Seattle was one of the first cities to implement a \$13 minimum wage, and a subsequent investigation was the first rigorous study of the impacts of this new generation of larger minimum-wage increases. The ordinance raised the minimum wage from \$9.47 to as much as \$11 in 2015 and to as much as \$13 in 2016. One study that evaluated the wage, employment, and hours effects of the first and second phase of the Seattle minimum-wage ordinance determined that the second wage increase, from \$11 to \$13, reduced hours worked in low-wage jobs 6 to 7 percent, while hourly wages in such jobs increased 3 percent. The authors found that, accounting for both the increased wages and decreased hours, low-wage workers experienced a net short-term earnings loss of \$74 per month as a result of minimum wage increases (Jardim et al. 2017).

A decade before the Seattle study, researchers conducted the first study of the economic effects of a citywide minimum wage. Authors examined San Francisco's adoption of an indexed minimum wage, which was set at \$8.50 in 2004 and \$9.14 in 2007. The authors found that the policy increased worker pay and compressed wage inequality, but it did not create any detectable employment loss among affected restaurants (Dube, Naidu, and Reich 2007). Fast-food and table-service restaurants reacted differently to the policy: the former saw a small price increase and substantial increases in job tenure and in the share of full-time workers, but the latter did not. Further, researchers did not detect an increased rate of business closure or employment loss among affected restaurants.

A simulation model examining the potential impacts of an increase in Washington, DC's, minimum wage to \$11.50 projected modest increases in income for most low-wage workers who live and work in the city and slight declines in participation and associated costs for most public-assistance programs available to the city's residents (Acs et al. 2014). In a similar fashion, researchers applied a novel structural labor market model created specifically to estimate the impact of a \$15 minimum wage for San Jose and Santa Clara County, California. They found that increasing the minimum wage to \$15 would increase earnings for 115,000 workers, or 31.1 percent of the city's workforce (Reich et al. 2016). Among affected workers in San Jose, annual pay would increase 17.8 percent, or about \$3,000 (in 2014 dollars), on average. They determined that 96 percent of workers who would receive increases are over 20 years old, and 56 percent are over 30. Workers who would receive pay increases are less educated than the overall workforce (but almost half have some college experience or higher), and they disproportionately live in low-income families: on average, they earn close to half of their family's income. Three industries account for over half of the private-sector workers expected to see pay increases in San Jose: restaurants (21.0 percent), retail trade (19.1 percent), and administrative and waste management services (14.7 percent). Roughly 75 percent of private-sector restaurant workers would receive a wage increase, compared with 11.5 percent in manufacturing.

A related exercise was carried out for the city of Los Angeles, where researchers estimated that a citywide minimum wage increase to \$13.25 by 2017 and \$15.25 by 2019 would lead to a wage increase for 542,000 workers in Los Angeles, or 38 percent of the covered workforce (Reich et al. 2015). The large majority of affected workers would be adults, with a median age of 33; 3 percent would be teens. Four industries account for half of the affected workforce by 2019: food services, health care and social assistance, retail trade, and administrative and waste-management services. The authors estimate that about 40 percent of affected workers are employed at firms with fewer than 50 employees, while nearly 40 percent of affected workers are employed at firms with 500 or more employees. Overall, the authors estimate that as a result of the proposed law, firms' operating costs will increase 0.5 percent by 2017 and 0.9 percent by 2019. Combining costs and benefits and taking into account multiplier effects, the authors estimate a cumulative net increase in employment of 3,666 jobs by 2017 and 5,262 jobs by 2019 at the county level.

These simulation models are distinct from the impact studies discussed in subsequent sections of this brief, but they serve as a bridge between national impact analyses and the consideration of local laws by informing local policymakers about how outcomes observed elsewhere can relate to their local circumstances.

The literature reveals general consensus that higher minimum wages, including increases at the federal, state, or local levels, are associated with higher wages and earnings for less-educated workers as well as for teens and young adults. One study found that a \$1 increase in the minimum wage boosts household income by roughly \$250 and spending by approximately \$700 per quarter (in 2005 dollars) in the year following the increase (Aronson, Agarwal, and French 2012). Studies of wage inequality consistently find that higher minimum wages are associated with reduced wage inequality, though the magnitude of the effect is disputed (Belman, Wolfson, and Nawakitphaitoon 2015). Some debate also remains about the employment impacts, although the weight of the evidence points to insubstantial or no disemployment effects related to modest increases in the minimum wage (Schmitt 2013).

A prominent study that examined policy discontinuities at state borders identified the effects of minimum wages on earnings and employment in restaurants and in other low-wage sectors (Dube, Lester, and Reich 2010). Analyzing cross-state contiguous counties, the authors found strong earnings effects and no employment effects from minimum-wage increases. Observing a six-year time window around a given minimum-wage change, the authors found that employment is stable both before and after the minimum-wage increase. They found similar results when extending the analysis to the hospitality and retail industries.

A growing number of studies assess the impacts of minimum wages on various facets of physical health. Low incomes are linked to poor health, which would suggest that an increase in the minimum wage may improve health among workers by providing higher incomes. A 2016 working paper found little evidence to suggest that minimum wage increases leave workers in substantially better health (Horn, Maclean, and Strain 2016), but many studies do find positive health impacts associated with increases in minimum wages. Across a range of studies, researchers have found that increases in minimum wages lead to decreases in adult body weight (Meltzer and Chen 2011); increases in infant

birth weight (Komro et al. 2016; Wehby, Dave, and Kaestner 2018); declines in rates of preterm births (Wehby, Dave, and Kaestner 2018); reductions in adolescent birth rates (Bullinger 2017); declines in overall child maltreatment reports, particularly neglect reports (Raissian and Bullinger 2017); and decreases in post-neonatal mortality (Komro et al. 2016).

Effects of Minimum-Wage Laws on Employers

Although standard economic theory predicts that increases in minimum wages would price at least some low-wage workers out of jobs and therefore decrease employment, ample research provides evidence to the contrary. One reason for this is that employers adjust to increases in the minimum wage in ways other than reducing employment. A 2013 literature review finds that the most significant means by which businesses adjust to increases in the minimum wage are by reducing labor turnover, which decreases overall hiring and training costs; improving organizational efficiency; reducing wages of higher earners; and enacting modest price increases that are passed on to consumers (Schmitt 2013).

A 2006 case study examining the impact of the San Francisco and Santa Fe minimum-wage laws on employment and on large retail businesses determined that these policies did not lead to an exodus of major retail businesses from those two cities (Dube et al. 2006). A related study of these two cities found that small establishments did not respond to minimum-wage changes differently than larger firms. Researchers found that small establishments in San Francisco and Santa Fe did not experience systematic changes in employment (Schmitt and Rosnick 2011). Similarly, a second study that examined five state-level minimum wage increases found evidence of an economically insignificant effect on employment two years after the increase (Aaronson et al. 2018).

How Effective Are Minimum Wage Increases at Improving Economic Opportunity?

Economic opportunity, in this context, is defined as a reduction in income inequality or poverty rates. The policy rationale for raising the minimum wage includes the presumptions that, through increasing the earnings of low-wage workers, it would reduce income inequality, support upward mobility, and reduce poverty. The evidence presented in a comprehensive 2014 book on the impacts of minimum wages found widespread agreement that the minimum wage reduces wage inequality, especially among women (Belman and Wolfson 2014). A researcher team estimated that between 1979 and 1989, the decline in the real value of the minimum wage was responsible for 30 to 55 percent of the growth in the lower tail of the wage distribution for both women and men (Autor, Manning, and Smith 2016). The literature also shows robust evidence that higher minimum wages lead to increases in incomes at the bottom of the family-income distribution (Dube 2017).

Research on the effects of minimum wages on poverty rates offer mixed results. Several reasons might explain why increasing the minimum wage would not reduce poverty, including that some low-income people work relatively few hours; that some families living in poverty are relatively large; and that some wages are low enough that their earners do not escape poverty but high enough to not be affected by minimum wage increases (DeFina 2008). One prominent study shows that an increase in the minimum wage does not affect the poverty status of working-age people (those ages 16 to 64) or

workers, and it does not reduce poverty rates among those who are less educated (i.e., lacking a high school degree) or less experienced (ages 16 to 29) (Sabia and Nielsen 2012). However, another study shows that minimum wages have modestly reduced poverty rates for children living in female-headed households (DeFina 2008). Similarly, another author estimates that a 41 percent increase in the minimum wage (i.e., from \$7.25 to \$12) would lead to a roughly 2.5 percentage-point reduction in the poverty rate among nonelderly people. This author also finds that the poverty rate responsiveness to changes in minimum wages is similar when looking at people under age 30 and lower-credentialed people without a high school degree, but the effects are relatively smaller for single mothers (Dube 2017). One study employing a microsimulation model found that increasing the minimum wage to \$15 in New York City would reduce the poverty rate from 21.4 percent to 17.8 percent, assuming that job loss would be minimal and that employers would also increase the wages of some people earning near the new minimum even if not legally required to do so (Giannarelli, Wheaton, and Morton 2015).

Several papers have examined the impact of minimum wages on public assistance programs. If higher minimum wages raise the earnings of low-skill single mothers, for instance, then they may reduce the number of women relying on benefits from social programs to support their families. The minimum wage also may reduce public assistance caseloads by increasing the return to work and encouraging cash assistance recipients to enter the labor market. However, if an increase in the minimum wage reduces the demand for workers with limited skills, then this may unintentionally lead to increases in the number of women who participate in public assistance programs. One study found that a 35 percent increase in the minimum wage could lead to a 3 to 7 percent increase in the size of the public-assistance caseload (Page, Spetz, and Millar 2005). Similarly, another report found that increases in minimum wages led to slower rates of exits from public assistance (Brandon 1995).

How Effective Are Minimum Wages at Reducing Racial Disparities?

Ten of the studies examined in this review include analyses parsed out by race. Most of these studies focused on teenagers. They found mixed results regarding the impact of higher minimum wages on employment and hours, with one study finding no effects (Allegretto, Dube, and Reich 2011); another found long-term reductions in employment and hours for black and Hispanic⁴ teens (Neumark and Nizalova 2007). A study that assessed the effects of the minimum wage on different measures of poverty and material hardship found no evidence of improved economic well-being among black youths ages 16 to 24 (Sabia and Nielsen 2012). However, a more recent study that examines how US minimum-wage policies shift the distribution of family incomes for nonelderly people found that poverty rates for black and Hispanic people are relatively more responsive to changes in the minimum wage (Dube 2017).

One report investigates whether the effect of minimum wages on the employment and hours of young, low-skilled men differs by race (Even and Macpherson 2011). The authors focus on 16-to-24-year-old men without a high school diploma, and they find that that each 10 percent increase in a federal or state minimum wage decreased employment by 2.5 percent for white men, 1.2 percent for Hispanic men, and 6.5 percent for black men.

Turning to the simulation models, we see that the impact of a \$15 minimum wage for San Jose and Santa Clara County, California, would disproportionately benefit Hispanics, who represent 53 percent of affected workers (Reich et al. 2016). Research undertaken for the city of Los Angeles estimated that a citywide minimum wage increase to \$15.25 by 2019 would disproportionately benefit workers of color, who represent over 80 percent of affected workers. In particular, the authors estimated that more than half of Hispanic workers in Los Angeles will receive a pay increase (Reich et al. 2015).

One of the health-related studies found that higher minimum wages reduce adolescent birth rates, especially among non-Hispanic white and Hispanic adolescents (Bullinger 2017).

Research Gaps

As mentioned, a frequent argument in favor of state preemption of local minimum wages is that a “patchwork” of wage levels across the state creates undue complexity for businesses and therefore renders the state a less attractive economic environment. But research on this theory is scarce, and further research can help us develop a more robust understanding of the potential impacts that varying minimum wage levels across a state have on business location or expansion decisions.

A comprehensive 2015 literature review found that roughly one-third of the minimum-wage literature studied the effects on teens and that the effects on older workers, Hispanics, part-time employees, and low-wage workers have been studied much less (Belman, Wolfson, and Nawakitphaitoon 2015). Similarly, the literature has focused predominantly on employment effects; less attention has been dedicated to the long-term effects on wages, earnings, and income. Another author highlights that researchers know relatively little about the dynamic, long-run effects of the minimum wage (Neumark 2018). Moreover, very little research examines the effect on school enrollment as well as on income, inequality, or poverty by race (Belman, Wolfson, and Nawakitphaitoon 2015).

Another way to advance the literature would be to measure education and skills with more nuance. For instance, studies could categorize people by educational attainment, using categories of less than high school, high school, some college, or a college degree or more, rather than simply high-skill or low-skill. A critical gap in the literature is a lack of adequate identification of the low-wage or low-income groups that are the target for minimum-wage legislation. Rather than using teenagers or retail and food-service workers as proxies, researchers should use available microdata to more precisely identify skill and demographic groups likely to be affected by minimum wages. Directly identifying the employment effect of minimum wages for affected workers would yield a more accurate sense of how minimum-wage increases influence the earnings of the lowest-skill workers who are the intended targets of a minimum wage increase, and it could help reconcile conflicting findings throughout the literature about the employment effects of minimum wages. Further, empirical research providing a tighter link between workers affected by the minimum wage and the employment effects they experience can sharpen our understanding of the policy implications of higher minimum wages (Neumark 2017).

As a result of the “Fight for \$15” movement and corresponding state and local legislative action, more research needs to examine the impacts of larger increases in minimum wages than have been enacted and studied in the past. Moreover, and especially given the larger increases in minimum wages being implemented, it is important to have a more granular understanding how a higher minimum wage affects both personal income and the economy at different levels of government. At the municipal level, does a \$13 or \$15 municipal minimum wage render a city less competitive than other cities in a given state or region? Does it cause negative or positive macroeconomic externalities in a regional job market?

Studies agree that increasing the minimum wage reduces job turnover (Dube, Lester, and Reich 2016; Meer and West 2015). To further our understanding of this dynamic, future research should try to determine how reductions in job-to-job transitions affect the earnings profiles of low-skilled and young workers as well as workers of color. Do minimum-wage increases lead to reduced overall earnings growth over time as workers stay longer at lower wage positions? Do other factors, such as replacement costs and more intensive screening of hires, also play a role? And finally, is most of the reduction in turnover occurring within existing firms, or does it stem instead from a reallocation of workers across different types of firms?

Conclusion

The literature examining the impacts of minimum wage increases is abundant, stretching back half a century. The research conducted over the past 25 years generally agrees that minimum wages boost the earnings of low-skilled workers and reduce income inequality. Debate continues about the employment impacts of minimum wage increases, although the evidence points to economically insubstantial or no disemployment effects related to modest increases in the minimum wage. A critical gap in the literature exists on the impacts of relatively larger increases in minimum wages in the wake of the Fight for \$15 movement. There are also important gaps in the research related to minimum wages’ impacts on racial disparities in economic opportunity, including on income inequality, economic mobility, and poverty.

Notes

¹ “Inventory of US City and County Minimum Wage Ordinances”, UC Berkeley Center for Labor Research and Education, last updated June 20, 2018, <http://laborcenter.berkeley.edu/minimum-wage-living-wage-resources/inventory-of-us-city-and-county-minimum-wage-ordinances/>

² “Fighting Preemption: The Movement for Higher Wages Must Oppose State Efforts to Block Local Minimum Wage Laws”, National Employment Law Project, July 2017, <https://s27147.pcdn.co/wp-content/uploads/Fighting-Preemption-Local-Minimum-Wage-Laws.pdf>.

³ “Fight for \$15”, National Employment Law Project, accessed September 6, 2018, <https://raisetheminimumwage.com/fight-for-15/>

⁴ After significant thought and deliberation, the authors have decided to use the term “Hispanic” to refer to people of Latin American origin living in the United States. We have decided to employ this term to align with the language used by research sources throughout the brief. However, we recognize that the term “Latinx” is more

inclusive of way this group may self-identify. We strive to avoid language that is exclusive and will always attempt to explain the editorial rationale behind the labeling of certain groups.

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