

It's not just paychecks: the surprising society-wide benefits of raising the minimum wage

SOURCE: *The Washington Post*

By Andrew Van Dam

Published July 8, 2019

The central question in the minimum-wage debate has shifted. Where economists once asked “will raising the wage floor kill jobs?” they now ask “just how transformative could a higher minimum wage be?”

We don't yet know whether this fundamental change will be reflected in a report expected Monday afternoon from the Congressional Budget Office. In a 2014 report, the widely cited nonpartisan research agency had suggested raising the minimum wage to \$10.10 an hour could cost 500,000 jobs, a finding which seems to have been overtaken by the latest research.

It's now evident that, since at least the late 1970s, minimum-wage hikes in the U.S. haven't reduced employment. Partisans will dispute the details, but the most rigorous research points in the same direction.

University of California Berkeley economists Anna Godoey and Michael Reich addressed one of the last areas of dispute—

the results of hikes as large as those proposed by many Democratic candidates—when they measured the local effect of 51 changes in the minimum wage since 2007 in a working paper circulated last week.

“We don't find job losses in places where the local impact of existing minimum wage is similar to what we estimate the impact of a \$15 federal minimum wage would be, even in low-wage states,” Godoey said.

The Berkeley team builds on a tradition of headline-making, mind-changing research dating back to the work of David Card, now of Berkeley, and the late Alan Krueger, in the 1990s. Minimum-wage effects are so fiendish to disentangle given available data, prominent MIT economist David Autor said, that they have pushed scholars to pioneer multiple innovative statistical methods now widely used in economics and related social sciences.

In the most definitive study to date, published this year in the top-rated *Quarterly*

Journal of Economics, economists Doruk Cengiz and Arindrajit Dube of UMass Amherst, Attila Lindner of University College London and Ben Zipperer of the Economic Policy Institute evaluated the local effect of more than 130 minimum-wage increases since 1979 and showed the fall in jobs paying less than the new minimum wage had been fully offset by the jump in new jobs paying just over it.

Unlike previous work cited by the CBO's 2014 report, which typically focused on high-risk groups such as high schoolers and restaurant workers, the new analysis measured effects across the entire labor market, Zipperer said. Autor called it "the most important work on minimum wage effects since Card and Krueger's work," and that it should win over some skeptics and "shift the weight of consensus."

As such scholarship has freed up researchers to look beyond wage and employment effects, we have seen an explosion of new research, all of it published after the CBO last addressed the minimum-wage question in 2014. A few notable findings:

- **Suicides fall.** As we first reported in April, raising the minimum wage by 10% could reduce suicides by 3.6% among adults with a

high school degree or less, according to a team which included both Godoey and Reich.

- **Criminals break the cycle.** A 50-cent rise in the minimum-wage reduces the likelihood someone will return to prison within a year by 2.8%, according to an analysis of records for almost 6 million offenders released between 2000 and 2014. It was circulated in September 2018 by the National Bureau of Economic Research. The finding should help allay fears that a higher minimum wage will make entry-level employers less willing to hire the recently incarcerated.

- **Consumer spending rises.** All else being equal, raising the minimum wage leads consumers to spend a bit more, especially in areas where the minimum wage affects the most workers, according to an analysis from Boston Fed and MIT economists to be published in the *Journal of Money, Credit and Banking*. The researchers also found "reduced total debt among households with low credit scores, higher auto debt, and increased access to credit" in the wake of minimum-wage hikes.

- **Workers are more productive.** In another working paper, researchers tracked 10,000 workers at about 200 department stores and found a \$1 increase in the minimum wage led a typical employee to sell about 4.5% more per

hour. For a worker earning the minimum wage, the increase could be almost 20%. “These productivity gains arise mostly during periods of high-unemployment where workers are afraid of losing their jobs,” author Decio Coviello, an economist at HEC Montreal, said.

- Wage increases ripple upward. The landmark Quarterly Journal of Economics analysis mentioned above also confirmed findings that a rising minimum wage ripples through the org chart, helping workers who earn as much as \$3 an hour more than the new minimum wage. About 40% of its wage benefits go to workers who aren’t directly affected.

- Employers don’t cut benefits. In a previous working paper, UMass Amherst’s Cengiz used artificial intelligence to identify workers most likely to be hit by wage increases, and showed that—contrary to popular belief—employers didn’t reduce benefits such as employer-sponsored health insurance to free up money to cover higher wages.

- Poverty rates fall. After minimum-wage increases, Reich and Godoey also found that poverty rates declined look at two groups which are most likely to earn minimum wage,

teens and people with a high school diploma or less.

- Job-hopping falls. In a 2016 analysis in the Journal of Labor Economics, Dube and Reich, along with William Lester of the University of North Carolina, analyzed federal job-switching data to show low-wage workers switch jobs less often after a minimum-wage increase is passed.

- Older folks work longer. In an analysis to be published in the journal Industrial and Labor Relations Review, researchers found a higher wage floor was associated with a modest rise in employment of older workers.

The CBO report isn’t likely to reflect these secondary benefits, however. Its explicit focus will be on wages and employment.