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Good Intentions And Bad News: Minimum-Wage Edition

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A few years ago, Seattle decided to increase its minimum wage from $9.47 to $15 per hour. Worker unions and activists applauded the move, and hoped to leverage the momentum on the national level. No doubt some of the law's supporters were well-intentioned; they also predicted the law would help low-wage workers.

But intentions aside, compelling new research suggests Seattle's minimum-wage law harmed poor workers significantly. A University of Washington study released Monday indicates that the move from an $11-per-hour minimum wage to a $13-per-hour minimum wage in Seattle was associated with a more-than-9% cut in low-wage workers' hours.

This is a loss of 3.5 million hours worked per quarter, and translates into a $125 average decline in low-wage employees' earnings per month. Other estimates in the paper suggest that the minimum wage is associated with 5,000 jobs lost in Seattle.

The study's results are important to the policy debate. The impacts are negative and substantially larger than those reported in previous minimum-wage studies. This could be because the researchers have finer data; Washington is one of the only states that collects wage and hour microdata, which hypothetically allow for more careful analysis.

The larger effect may also be because the wage increase was relatively large and phased in quickly (an 18% increase in just one year, 37% in two) or because it was implemented at the city level.

The microdata also allow for a more inclusive analysis of policy impacts. Historically, minimum-wage studies have limited their analysis to individual industry or demographic groups, such as restaurants, retail employeesor teenagers.

Generalizing effects in one industry or demographic group over a diverse group of impacted workers is a dubious strategy. If employees in these groups are not subject to the wage increase then the estimates are biased, looking like the policy had no impact. In fact, many of the aforementioned studies find minimal effect from minimum-wage increases, perhaps for this reason. A recent UC Berkeley study that is likewise limited to the food-service industry agrees.

Indeed, the Washington study's estimates for restaurant workers are insignificant. But rather than concentrating on one industry or demographic, the study uses wages and hours worked to identify low-wage workers to whom the wage hike applies. This more comprehensive analysis reveals significant impacts for workers across industries.

These results fit well with traditional economic theory, which predicts that minimum-wage laws reduce low-wage employment. This makes intuitive sense: If the cost of an employee rises artificially, but employee skills or output don't rise commensurately, competitive companies look for alternatives. Possible alternatives may include automating work, eliminating the position altogether, or transferring responsibilities to more productive employees.

These changes affect some demographic groups more acutely than others. Generally, low-wage workers tend to be young, unskilled, or inexperienced. Economic theory predicts they are most likely to absorb the costs of minimum-wage laws. A minimum wage is really just what's known in economics as a price floor.

In spite of these effects, advocates and legislators find price floors appealing, and they make pledges to guarantee them. For example, Seattle activists and interest groups are proud of the $15 minimum wage policy and hope to expand on it.

One of Seattle's City Council members that led the "Fight for Fifteen," Kshwama Sawant, describes the Seattle law as "historic" — a law with broad national implications. She proposes that "for every victory we are able to win, we should also draw sobering lessons, because it's important the next struggle we launch … have more of a victory."

But what sobering lessons should be drawn if the policy doesn't turn out well? Are good intentions what matter?

While Seattle ponders that question, Seattle's minimum-wage policy will continue phasing in. The local department of labor standards requires all companies to comply with the $15 wage by 2021, and it seems probable that impacts will grow as the mandatory wage increase approaches $15.

So, what to do? Putting a moratorium on the phase-in of the current minimum-wage law, and freezing new minimum-wage bills, would be a good start. For Seattle's City Council to push ahead in the face of persuasive evidence of negative effects is a dereliction of duty. Other ideas to help low-wage workers should also be considered, such as relaxing occupational licensing laws that make it harder for workers to legally begin working in their field.

In the meantime, good intentions don't change bad news.

Calder is a policy analyst at the Cato Institute, where she focuses on social welfare, housing and urban policy. For more Cato scholarship on the minimum wage, see the Policy Analysis paper here, and additional commentary on this study here.