The $15 minimum wage is working just fine

By Ben Spielberg,
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When Seattle City Council member Kshama Sawant and workers in the Fight for $15 were negotiating an increase in Seattle's minimum wage back in 2014, opponents of their effort warned — as minimum wage opponents often do — that paying low-wage workers too much too soon would have harmful economic consequences. Two years after Seattle began increasing its minimum wage — for most businesses with 500 or more employees, it's headed to $15 per hour next year — Seattle's economy is as strong as ever. The Seattle unemployment rate in April, for example, was 2.6 percent, the lowest it has been in nine years. Yet, the release of a new study this week from a group of researchers at the University of Washington has brought opponents of minimum wage increases out of the woodwork again.

One would do well to dismiss these naysayers. The new study's findings are out of step with a large body of research pertinent to Seattle's minimum wage increase, and the study has important limitations. Another recent study without those limitations, from Michael Reich, Sylvia Allegretto and Anna Godoey at the University of California at Berkeley, is more consistent with other research and shows that Seattle's minimum wage is having its intended effects. The Berkeley study also squares with the lived experiences of people across the country who overwhelmingly support making businesses provide fairer pay for a hard day's work.

So what did the University of Washington team find, and why isn't it a big deal?

Using confidential payroll data from the Washington Employment Security Department, the researchers compare employment, hours and wages of workers in Seattle and various other parts of Washington both before and after Seattle began raising its minimum wage. They argue that Seattle's minimum wage increase reduced the total hours worked by Seattle's low-wage workforce by about 9 percent. They also contend the increase raised low-wage workers' wages by only about 3 percent, implying the costs of this wage hike outweighed its benefits for these workers.

But the idea that raising the minimum wage has a much larger effect on hours than on wages strains credulity, especially since, as economists Ben Zipperer and John Schmitt have noted, Seattle's increase "is within the range of increases that other research has found to have had little to no effect on employment." The study also finds that the minimum wage caused large employment and hours gains in higher-wage jobs, which suggests that its "methodology fails to account properly for the booming Seattle labor market during the period studied." It's not entirely clear why the University of Washington team gets such a weird result — since their data isn't public, we can't check it — but it's worth noting at least two important issues with their study.

First, their data exclude workers at businesses that have more than one location; in other words, while workers at a standalone mom-and-pop restaurant show up in their results, workers at Starbucks and McDonald's don't. Nearly 40 percent of workers in Washington state work at multi-location businesses, and since Seattle's minimum wage increase has been larger at large businesses than at small ones — right now, a worker at a company with more than 500 employees is guaranteed $13.50 per hour, while a worker at a company with fewer than 500 employees is guaranteed only $11 per hour — these workers' exclusion from the study's results is an especially germane problem (note that low-wage workers in Seattle have had an incentive to switch from small firms to large firms since the minimum wage started rising). In earlier work, in fact, the University of Washington team's results were different depending on whether these workers were included in their analysis; including them made the effects of the minimum wage look more positive.

Second, the University of Washington team does not present enough data for us to assess the validity of its "synthetic control" in Washington — that is, the set of areas to which they compare the results they observe in Seattle. The Seattle labor market is not necessarily comparable to other labor markets in the state, and given some of the researchers' implausible results, it's hard to believe the comparison group they chose is an appropriate one.

The Berkeley researchers take a better approach. They construct the synthetic control in their study using an algorithm that matches Seattle with counties across the United States that are similar in terms of population size and a variety of economic characteristics. They use a publicly available data set — the Bureau of Labor Statistics' Quarterly Census of Employment and Wages — and include multi-location businesses in their analysis. They find much more plausible estimates of Seattle's minimum wage increase on worker wages — each 10 percent increase in Seattle's minimum wage is associated with a 2.3 percent increase in wages at limited-service restaurants in their study, for instance — and no statistically significant employment effects. (Each 10 percent minimum wage increase is associated with a smaller wage increase in the restaurant industry overall, possibly because Seattle restaurants have been making use of a new subminimum wage for tipped workers that lawmakers should eliminate.)

That doesn't mean that nobody in Seattle will ever lose a job, of course, or that the University of Washington team's research doesn't merit further exploration. But it does mean that the Seattle minimum wage increase, like every minimum wage increase in American history, has lifted the wages of low-wage workers and been perfectly fine for the economy. Until you start seeing low-income people in Seattle and around the country taking to the streets to demand lower minimum wages, don't listen to anyone who tries to tell you otherwise.

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