As push for higher minimum wages grows, New York offers a test case

Fed research suggested higher minimum wages did not cost jobs in border counties. Industry-level analysis and real-life stories back that up — with caveats.

By Jeanna Smialek
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Meeder's, a cozy diner nestled in New York's southwest corner, has seen its labor bill skyrocket in recent years amid steady increases in the state's minimum wage.

To cover the costs, its owners have lifted menu prices and bought new equipment, including a mixer that allows them to churn out their 26 varieties of pie more efficiently. But with business booming, they have avoided laying off workers or cutting back on hours.

As the federal push for a $15 minimum wage gains momentum, local examples offer insight into how a hefty wage increase might work and whether concerns that higher pay could lead to job or income losses for vulnerable workers are justified.

Unemployment is at a half-century low, yet wage growth remains moderate and inflation is muted, making this a unique — and potentially optimal — environment in which to test higher wage floors.

New York's southern border, where Meeder's sits, is one useful case. The state has been gradually lifting its minimum wage since late 2013, so that it now stands at $11.10 and is set to hit $12.50 by 2020. Fast-food workers earn even more, currently at least $12.75. Pennsylvania, immediately to the south, has stuck by the $7.25 federal minimum.

That discrepancy has created a sort of natural experiment. Researchers at the Federal Reserve Bank of New York recently found that wages had increased sharply for leisure and hospitality workers in New York's border counties while employment growth continued unabated.

Their analysis immediately sparked debate. Right-leaning research groups took issue with which counties were analyzed — one was close to New York City, and two saw big businesses open, spurring job growth. They also questioned which worker categories were examined.

An analysis of the data by The New York Times, paired with on-the-ground reporting, generally supports the Fed's findings. Wages shot up in New York State's southern counties, especially for low-earning workers, compared with 2012 — just before wage floor increases were announced. While the adjustment to higher labor costs has not been painless, the pay increases did not consistently come alongside weaker hiring relative to Pennsylvania's trend.

The Times looked at the data several ways: zooming in on the restaurant industry, leaving out the contentious counties, and comparing counties like Chemung, Broome and Delaware only with their immediate neighbors. Each data slice showed a similar pattern in which neither side clearly won or lost when it came to employment but New Yorkers in affected industries earned more.

New York City and its neighbors, which are subject to different wage requirements, were not included in the analysis.

New York is just a single example, but its experience matches the experience of several other states. Across seven states, recent pay increases have not clearly pushed people out of jobs, Arindrajit Dube, an economist at the University of Massachusetts Amherst, found in an analysis published this month.

“Up to a point, minimum wages can be absorbed without any substantial changes in employment,” said Mr. Dube, who is advising the British government on wage policy.

Mr. Dube looked at California, Oregon, Washington, Colorado, Massachusetts, New York and Maine, all of which had raised pay to at least $10.50 by 2018, directly affecting almost 20 percent of their work forces. He found no discernible employment impact across the group, even for workers with low education levels.

“As these states have raised their minimums, at this point many of them are at $12, that is definitely telling us more information than we had before,” he said. “We don’t necessarily know what $15 at a federal level would do, but the evidence base is expanding.”

The fact that job losses are not rampant does not mean that a higher wage floor is painless. Evidence suggests that businesses cover higher labor costs in one of three ways, Mr. Dube said: taking a hit to profits, improving productivity or raising prices.

Comparing Chautauqua County with a Pennsylvania neighbor, Erie County, explains how employers adjust. The counties are similar. Both sit on Lake Erie’s steel-gray shore and are home to rolling fields of Concord grapes, seasonal hotels and wineries.

Restaurants in Chautauqua have seen annual pay climb by about 30 percent since 2012, the year before the first minimum wage increases were announced. Those in Erie have climbed by just 14 percent. Restaurants in Chautauqua have continued hiring since then, government data show.

“The economy is strong, and that has relieved the pressure, I think, and the impact,” said Bob Bentley, who works at Meeder’s and helps manage the diner, which his wife, Sheila, owns.

Ms. Bentley bought Meeder’s four years ago, and the business has raised prices 11 percent since then to help cover its higher costs — including a one-time step-up of 7 percent early this year. Customers barely noticed, Mr. Bentley said.

Such price increases can erode some of the buying power that workers gain as their wages climb, though research suggests that effect is not big enough to offset the benefits of higher pay.

Still, not every business has the ability to absorb or pass along higher labor expenses.

Haff Acres Farm, a produce stand near Chautauqua Lake, cannot charge too much for tomatoes and onions because it competes with grocery chains that can spread expenses out over multiple locations. The owner, Beth Southworth, raised the price on hanging flower baskets by a dollar this summer, but charging more for geraniums was not enough to protect her profit margins.

“I try not to go crazy — you’d rather sell out than throw out,” she said.

While hiring in Chautauqua as a whole has not pulled back, the experience of Haff Acres suggests that trends can mask individual experience. Ms. Southworth has scaled back to seven employees from 10 during the peak summer season, partly to cut costs and because seasonal workers are hard to find at a wage she can afford.

“They can go to McDonald’s and get a job for $12.75,” Ms. Southworth said. As the general minimum wage converges toward that level, she will have to downsize further. “At some point, I will probably have to close.”

As Haff Acres demonstrates, businesses without much pricing power could be forced out of business as labor costs increase, which can lead to industry concentration. The number of fast-food restaurants north of the state line has declined since 2012, even as the number of people employed increased, suggesting that the industry might be consolidating — perhaps because larger restaurants or chains can more easily pay higher wages.

A similar pattern is visible in full-service restaurants just after the tipped minimum wage climbed sharply in 2015, as the right-leaning Employment Policies Institute pointed out. That is consistent with broader evidence about what can happen when wage floors rise, Mr. Dube said.

Full-service restaurants in New York's border counties have seen employment fall off slightly since 2016, the first full year in which the higher tipped minimum was in effect.

It is hard to know whether that is a result of the higher wage floor. New York posted strong hiring in 2013, 2014 and 2015, when minimum-wage increases were announced and then getting underway for non-tipped restaurant workers. The recent drawdown could stem from employers realizing they did not need as many new workers. Or it could be that employers were able to handle slightly higher wages, but a steeper floor for tipped employees pushed some to cut back.

The New York experience shows that the magnitude of wage increases may determine whether an increase dampens employment.

A tool from the Congressional Budget Office suggests that while a $12 federal minimum wage would have hardly any employment impact, a $15 minimum could lead to about one million fewer workers, for instance.

While evidence across a number of states seems to support the idea that low-wage workers have mostly benefited from recent pay increases, Mr. Dube cautioned that minimum wages had not risen to $15 yet in most places, so some workers could be hurt when the threshold climbs to that level.

David Neumark, an economist at the University of California, Irvine, warns that results in New York and other high-wage states would not necessarily map to other regions.

"You start talking about Southern, low-wage states, where low-wage workers aren't evenly distributed across industries" and "you have fewer and fewer avenues of adjustment," he said.

And if New York proves one thing, it may be that a policy will not necessarily be popular just because it does not lead to job losses.

"This stuff gets decided based on New York City economics and gets translated out to the countryside," said Fred Johnson, the third-generation owner of Johnson Estate Winery and a leader at the local Chamber of Commerce.

Across Chautauqua County, several people, business owners and workers alike, said minimum-wage increases — determined for the state and championed by Gov. Andrew M. Cuomo, a Democrat — are a one-size-fits-all policy that were not made with tiny hamlets in mind. Chautauqua has typically voted for Republicans in recent elections for governor.

Mr. Johnson said he and his colleagues were less concerned with an immediate loss of jobs and more worried that the area would gradually become less competitive.

"I'm not going to not staff my bar. I'm not going to not pick my grapes," he said. But over time, businesses that can step over the border will, he thinks. "That's why upstate New York has lost jobs: Forget overseas — it's to North Carolina, Pennsylvania."