MONTHLY LABOR REVIEW

February 2014

Determining the employment effect of raising the minimum wage

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One of the most controversial economic issues of the day is how the minimum wage affects employment. This issue has been at the forefront of labor economics because employment levels of younger and lower skilled workers fell disproportionately during the recent recession compared with that of older and more educated peers. In the postrecession era, unemployment rates continue to show persistent differences by educational attainment.

In a recent working paper entitled “Effects of the minimum wage on employment dynamics,” (National Bureau of Economic Research working paper no. 19262, August 2013, revised December 2013) economists Jonathan Meer and Jeremy West assert that the current literature on the minimum wage lacks concrete findings on how a wage floor impacts employment dynamics. The existing studies they reviewed discuss how a legal wage floor affects the employment *level* for the entire workforce or for subgroups such as teenagers or food service workers rather than focusing more appropriately on how the minimum wage affects job creation among industries that are expanding and job losses among industries that are declining. This focus, say Meer and West, is crucial in understanding whether increasing the minimum wage can be a viable method of raising the standard of living of low-income households.

Meer and West conduct their analysis using a state-panel approach, which accounts for differences in state-fixed effects, region-by-time-period effects, and state-specific time trends. They use three administrative data sets: Business Dynamics Statistics, the Quarterly Census of Employment and Wages, and the Quarterly Workforce Indicators. The researchers find that increasing the minimum wage does not lead to a reduction in the level of employment; however, increasing the minimum wage results in a substantial drop in the rate of job creation. They determine that the decline in job growth is the result of expanding establishments decreasing the number of jobs they create rather than resulting from additional job losses among declining industries.

The authors find that those most affected by the decline in job creation tend to be younger and less educated jobseekers, because these jobseekers are more likely than other workers to be interested in obtaining jobs that pay minimum wage. Relatively few workers lose a job when the minimum wage is raised, probably because of the costs associated with having hired the worker and because managers tend to be averse to firing workers.