Pay Is Rising Fastest for Low Earners.

One Reason? Minimum Wages.

Increases in minimum wages across the country may make the labor market look a bit rosier than it really is.

Ernie Tedeschi*, *New York Times*, January 3, 2020

These days, wages in the United States are doing something extraordinary: They're growing faster at the bottom than at the top. In fact, recent growth for workers with low wages has outpaced that for high-wage workers by the widest margin in at least 20 years.

The main story here is the long economic recovery, now entering its 11th year. For much of the early phase of this recovery, wage growth for the bottom group was weaker than for others, but it began gradually accelerating in 2014 as unemployment continued to fall. This was around the same time the labor market started tapping into people some economists had all but given up on as work force participants, such as those who had been citing health reasons or disability for not having a job.

But there has been another factor at play: the rise in state and local minimum wages.

For the last decade, the federal minimum wage has been unchanged at $7.25 an hour. But over that period, dozens of states and localities have enacted their own minimum wages or raised existing ones. As a result, the effective U.S. minimum wage is closer to $12 an hour, most likely the highest in U.S. history even after adjusting for inflation.

And with two dozen states and four dozen localities set to raise their minimums further in 2020, the effective minimum wage will keep rising this year.

These state and local actions are affecting wage data, especially for workers at the bottom. To get a sense of this impact, I have used data in the Current Population

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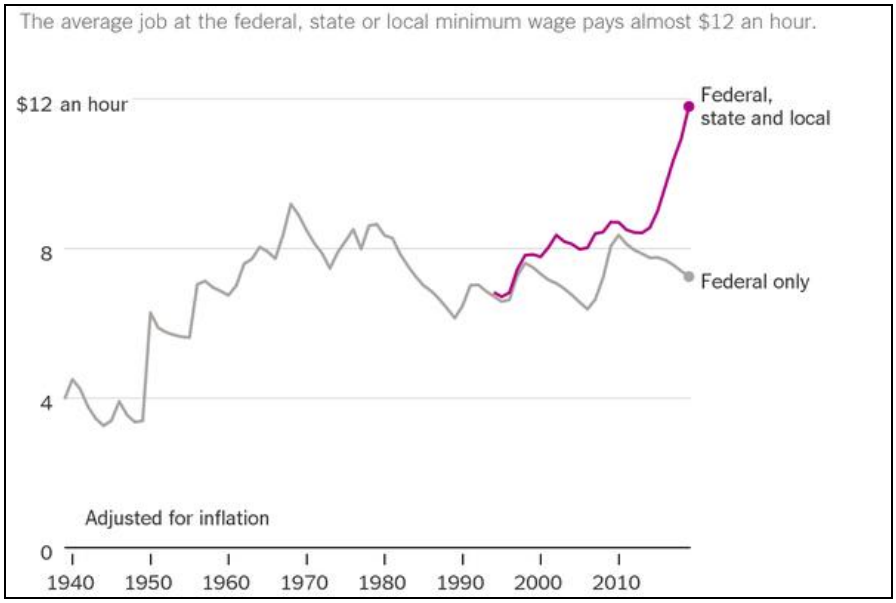
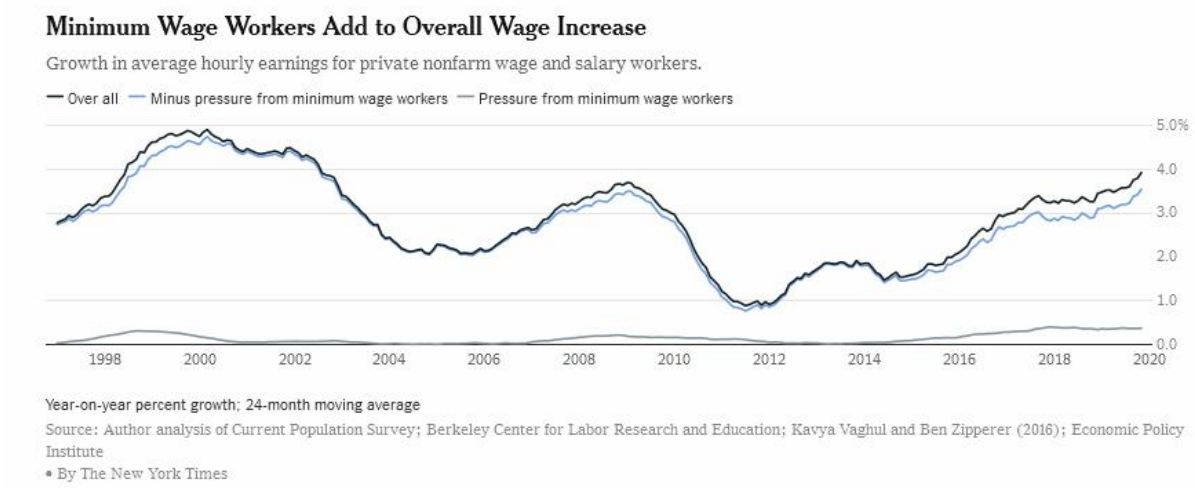
Survey to look at minimum wage workers as a group and calculate the pressure their wage gains have put on aggregate wage growth over time, controlling for compositional changes in the share of minimum wage work.



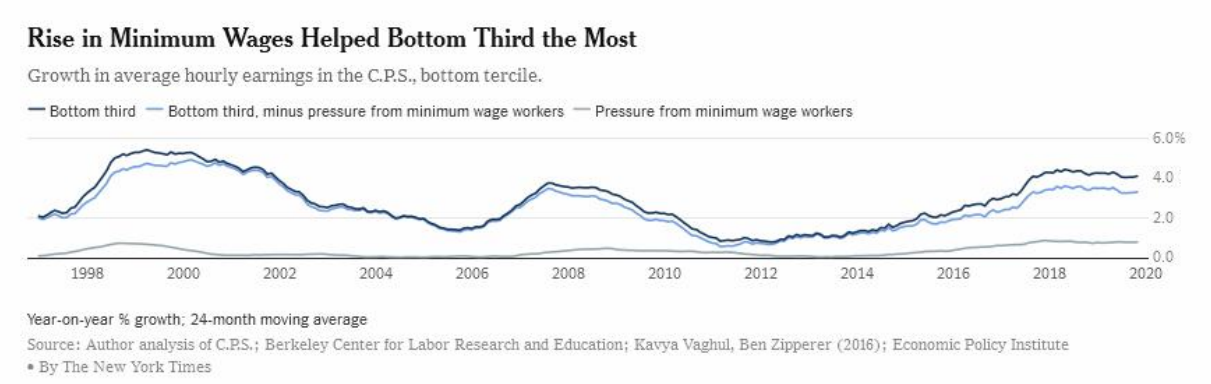
Note that this approach doesn't settle whether minimum-wage increases are a net benefit to Americans, since among other things wage data will by definition capture only those who stayed employed after an increase. If people were laid off because of a minimum-wage increase, their loss of wages wouldn't factor into the average.

This analysis shows that growth in average wages has been running about 3.9 percent per year in the Current Population Survey over the past two years, a bit firmer than the pace right before the Great Recession but below the near 5 percent reached in 2000.

But increases to minimum wages at the state and local level have put 0.4 percentage points of upward pressure on this recent growth. Absent that pressure, wage growth in the Current Population Survey over the last two years would have been 3.5 percent. That's still a fine result, but it's a bit cooler than the unadjusted data suggest.



Wage pressure from minimum wage workers is magnified when you look at only the lowest wages. That's because while minimum wage work makes up about 6 percent of all usual hours worked, it's around 13 percent of hours worked by Americans in the bottom third of wages.



As the analysis has shown us, wage growth at the bottom is doing well. It has been around 4.1 percent over the last two years — above the 3.6 percent at the top end, and above the overall average of 3.9 percent.

But absent the pressure from minimum wage workers, growth at the bottom would have been closer to 3.3 percent.

It's important to keep the effect of these minimum wage increases in perspective. The increases aren't responsible for most of the wage growth, or for most of the acceleration in wage growth, during this recovery. Even among the bottom third, minimum wage workers have contributed around a fifth to a quarter of wage growth over the last two years.

As notable as the recent rise in state and local minimum wages has been to this effect, it has probably not been as important as the tightening labor market. In a tight labor market, firms have to compete more to hire and retain the workers they need, which among other things gives those workers more bargaining power to bid up their wages.

The Federal Reserve chair, Jerome Powell, has argued that reaching workers traditionally "left behind" is one of the most compelling reasons to sustain the expansion for as long as possible.

Still, this analysis suggests these minimum-wage increases are having a meaningful impact on wages, at least for the employed workers who benefit from them. For the bottom third, state and local minimum wage increases have probably been the difference between the wage growth just before the economic crisis and the wage growth that is now above that pace.

But that benefit also brings with it a cautionary note for policymakers.

Economists look to wages as one thermometer of how hot the economy is getting: Accelerating wages may eventually spill over into higher prices and signal an economy at capacity, though this hasn't happened yet in this recovery.

But these continuing increases to state and local minimum wages — and any possible future action at the federal level — could skew wage data, making the American labor market look tighter than it actually is.

The recent rise in minimum wages, although not producing a giant effect, still might suggest overall wage growth is progressing about a year further along than the reality. For low-wage workers, whom policymakers are citing more often, the minimum wage effect can be worth closer to two years' worth of wage acceleration.

The risk of misdiagnosing an overheating economy is one reason it's important to be clear and precise about what role minimum wage increases have played in recent wage growth: They have been important, but they're most likely not the biggest factor.

Methodology: This analysis defines "minimum wage pressure" as the growth in the effective minimum wage — the average binding federal, state or local minimum wage received per hour of minimum wage work — over 12 months, weighted by the share of minimum wage work at the beginning of the 12-month period. In a shift-share framework, this is the equivalent of the compositionally adjusted contribution to aggregate wage growth from minimum wage workers.

The analysis uses average hourly wages for private nonfarm wage and salary workers calculated from the Current Population Survey Outgoing Rotation Group. It takes hourly wages as given when available for hourly workers; for others, it divides usual weekly earnings by usual weekly hours. The analysis imputes usual hours when unavailable or varying, and adjusts weekly earnings for top-coding using a log-linear distributional assumption. It also trims outlier hourly wages. Despite these adjustments, wages in the C.P.S. invariably differ from average hourly earnings reported in the Current Employment Statistics, another Bureau of Labor Statistics data source for wages, because of differences in scope, design and concept.

The analysis uses the same methodology for calculating state and local minimum wages, and for identifying minimum wage workers, as in a previous analysis from April 2019 (see below).

Americans Are Seeing Highest Minimum Wage in History (Without Federal Help)

nytimes.com/2019/04/24/upshot/why-america-may-already-have-its-highest-minimum-wage.html

By Ernie Tedeschi

24 avril 2019

Protestors called for higher wages near a Las Vegas McDonald's in 2016. Nevada's minimum wage is currently $7.25 per hour for employees with health benefits and $8.25 for those without.Credit...John Locher/Associated Press

The federal minimum wage rose to $7.25 an hour 10 years ago. It hasn't budged since.

For Americans living in the 21 states where the federal minimum wage is binding , inflation means that the minimum wage has lost 16 percent of its purchasing power.

But elsewhere, many workers and employers are experiencing a minimum wage well above 2009 levels. That's because state capitols and, to an unprecedented degree, city halls have become far more active in setting their own minimum wages.

Twenty-nine states and the District of Columbia have state-level minimum hourly wages higher than the federal one. In Washington State and Massachusetts, for example, it's $12.

But the true sea change is in the surge of city and county governments setting minimums. New York City has a $15 minimum wage, while in SeaTac, Wash., it's $16.09.

Averaging across all of these federal, state and local minimum wage laws, the effectiveminimum wage in the United States — the average minimum wage binding each hour of minimum wage work — will be $11.80 an hour in 2019. Adjusted for inflation, this is probably the highest minimum wage in American history.

Growth in the Effective Minimum Has Taken Off in Recent Years

The effective minimum wage has not only outpaced inflation in recent years, but it has also grown faster than typical wages. We can see this from the Kaitz index, which compares the minimum wage with median overall wages.

To put the growth in perspective: It took the 19 years ending in 2013 for the Kaitz index to rise four percentage points. In the six years since 2013, it has risen 13 percentage points.

The Federal Minimum Affects Only a Small Share of Minimum Wage Workers

Minimum wage laws above the federal level used to be the exception. In 1998, there were about a million minimum-wage workers in states with a minimum higher than the federal level, and virtually none in localities with separate minimums. Two-thirds of minimum wage workers lived in areas where the federal minimum applied.

But today 89 percent of the nation's 6.8 million minimum-wage employees face a minimum that is higher than $7.25 an hour. Even five years ago, relatively few such workers lived in areas with separate local minimum wages.

One consequence is increasing regional variation. American minimum wages now range from New York State's effective $13.73, which is 62 percent of the state's median overall wage, down to New Hampshire's $7.25 federal peg, which is just 30 percent of the state median.

Higher Minimum Wages Have Boosted Wage Growth at the Bottom ...

The most important question, though, is how the extraordinary rise in the effective minimum wage has affected American workers.

First, the good news: The average wage in the bottom third of the wage distribution — minimum-wage workers and others — has risen an average of 2.3 percent annually over the last three years after adjusting for inflation. The growth pressure from the wages of workers at or just around the minimum wage can account for between a quarter to a third of this growth.

Clearly state and local minimum-wage increases make a difference for workers who live and can find jobs in the places affected by them, even if this is not a complete explanation for the recent wage growth at the bottom nationally.

... But Like All Public Policies, Minimum Wage Increases Have Trade-Offs

Traditional textbook economics tells us that employers will cut jobs or hours for low-wage work if they're required to set the price of labor above the level consistent with market supply and demand. Therein lies one of the most contentious debates in economics right now.

In the real world, it's difficult to test this because of so many confounding factors.

For example, teenage employment rose about as much between 2013 and 2018 in states whose effective minimum wage didn't change as it did in states where it rose an average of 4 percent or greater each year.

The places that chose to raise their minimum wages may be different in important respects, both socioeconomic and demographic, from those that did not, like education; industry and occupation; and labor market health.

A sizable body of empirical research that adjusts for these issues concludes that while some workers are winners from minimum wage increases, many others lose out, particularly vulnerable workers like the young and those with less education. This calls into question whether raising the minimum wage is really the best way to help workers.

But beginning with David Card and Alan Krueger's landmark 1994 study of New Jersey's minimum wage increase, a growing economics literature is reaching a different conclusion: that the jobs effects found in these other studies is overstated, and that the rising minimum wages in the United States have had more of a net benefit.

For example, a huge study released this month analyzed 138 different state-level minimum wage increases since 1979. The authors found largely no net negative employment effects, though they did find some in sectors exposed to international trade. And University of Washington economists revised an initial study of Seattle's recent minimum wage increase that had showed significant negative effects on earnings for some workers. The new study found that the downsides were more muted.

Economists have several ideas for why negative jobs effects might be lower than expected. Employers may be less sensitive to minimum-wage increases because of long-term declines in national business competition and labor bargaining power, and the rise in profit rates and monopsony (in which a single buyer dominates a market).

The tightness of today's labor market may also help explain why it's hard to see much effect from recent increases. Perhaps minimum wages really "bite" only when they exceed a certain level. Or maybe employers have been reacting to them in ways not easily captured by wage data, such as by cutting benefits.

The push for higher state and local minimum wages shows no sign of abating, so no doubt we'll learn even more in coming years about their trade-offs, or lack thereof.

Methodology: The effective minimum wage is the binding federal, state or local minimum wage weighted by the usual labor hours of minimum wage workers at nonfarm wage and salary jobs paid hourly. It includes all federal and state laws as well as 32 localities with separate ordinances whose geography we can identify in the Current Population Survey Outgoing Rotation Group. We exclude tipped occupations from this calculation using the definitions used by the Economic Policy Institute. We calculate median overall wages and average hourly earnings in the C.P.S. to be conceptually similar to average hourly earnings in the Current Employment Statistics survey. Inflation-adjusted series use the chained C.P.I.-U deflator, which is extended before 2000 using the deflator for personal consumption expenditures. This analysis uses data on local minimum wage ordinances from the U.C. Berkeley Center for Labor Research and Education as well as from Kavya Vaghul and Ben Zipperer.

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