

POLICY NOTE

Minimum wage increases in the states are unrelated to job growth

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Key Findings

1. *The three states with the highest job-growth rates during the first six months of 2014 did not increase their minimum wage this year.*
2. *Out of the 20 states with the highest job growth in 2014, only five increased their minimum wage.*
3. *The top four performing states for job growth that did increase their minimum wage in 2014 do so every year, according to inflation. These increases are predictable and small; less than 3 percent this year.*
4. *Some of the states with high job growth that increased their minimum wage this year experienced some of the greatest job losses during the Great Recession, and are finally beginning to rebound and regain these jobs.*
5. *As of July 2014, 18 states have recovered all the jobs they lost during the recession; just four of them increased the minimum wage in 2014.*
6. *Before these states increased their minimum wage this year, experts were forecasting exceptionally strong job growth in five of them, thanks to well-performing industries in those states.*
7. *Were it not for the strong job-growth performance enjoyed by the top five job-creating states, the overall average performance of the other seven states that increased their minimum wage would be significantly lower.*

Introduction

Advocates of government imposing a higher minimum wage point to new data from the U.S. Department of Labor (DOL) showing higher than average aggregate job growth in states that increased their minimum wage this year. According to the Department of Labor, 12 of the 13 states that increased their minimum wages at the beginning of this year together averaged slightly higher job growth (0.85 percent) from January through June than the 37 states whose minimum wage did not increase (0.61 percent).¹ Minimum wage supporters say this trend in total job creation proves that not only does increasing the minimum wage not kill jobs, it actually spurs job growth.

However, total job growth in states that increased their minimum wages just six months ago outpacing average total job growth in other states by 0.24 percentage points does not establish a cause-effect relationship between a higher minimum wage mandate and overall job creation. Such a simplistic assessment does not take into consideration the myriad of other factors that influence a state's economy and employment, nor does it take into account the longer-term trend of job loss and growth in those states.

This Policy Note explores those factors and trends, and examines minimum wage policy within the context of state economic trends and the total job market

Background

Almost every state is experiencing job growth as the nation gradually returns to pre-Recession employment levels. Job growth has been a national phenomenon during the first six months of 2014, averaging 272,000 new jobs per month over the past three months, and exceeding 200,000 per month over the past five months.²

1 "Job growth picks up in states that raised minimum wage," Fox News, July 19, 2014, at www.foxnews.com/politics/2014/07/19/job-growth-picks-up-in-states-that-raised-minimum-wage/.

2 "Employment Situation Summary," U.S. Department of Labor, Bureau of Labor Statistics, August 1, 2014, at www.bls.gov/news.release/empstat.nr0.htm; "Hiring is Strong and Jobless Rates Declines to 6.1%," *The New York Times*, July 3, 2014, at www.nytimes.com/2014/07/04/business/jobs-data-for-june-released-by-labor-department.html?_r=0.

Thirteen states increased their minimum wage on January 1, 2014. Of those 13 states, economic data shows that, taken as a group, 12 have a slightly higher job creation average than the 37 states whose minimum wage did not increase.

Of the 13 states whose minimum wage increased six months ago, nine did so automatically based on a state law that raises the mandate every year according to inflation. Those nine states are Arizona, Colorado, Florida, Missouri, Montana, Ohio, Oregon, Vermont and Washington. In the other four states, lawmakers increased the legal minimum through legislation. Those states are Connecticut, New Jersey, New York and Rhode Island.

All of these states, except Vermont, have added jobs in the first six months of 2014.

The experience of states that did not increase minimum wages

Total job growth in a state appears to be unrelated to that state's minimum wage policy. Most of the states that gained the greatest job growth during this period did not increase their minimum wage this year.

The top three states with the highest job growth, North Dakota, Nevada, and Utah, did not increase their minimum wage in 2014. In fact, the state that leads the nation in job growth, North Dakota, does not have a mandated minimum wage, yet the average entry-level wage there is well above \$14 per hour.³

Of the top 10 states with the highest job growth, three increased their minimum wage, and out of the 20 states with the highest job growth, only five increased their minimum wage (Florida [4th], Oregon [7th], Colorado [8th], Washington [11th] and Montana [20th]). In addition, the three states with the poorest job growth include two (Vermont and New Jersey) that did increase their mandated minimum wage.⁴

Looking at unemployment, in June 2014, of the two states with the highest unemployment rates, one increased its minimum wage this year (Rhode Island). And of the 17 states that had unemployment rates significantly lower than the national rate of 6.1 percent, all but one (Montana) were states that did not increase their minimum wage this year.⁵

The impact of minimum wage increases on employment and job growth

The top performing states for job growth that did increase their minimum wage in 2014—Florida, Oregon, Colorado and Washington—do so every year without legislative action based on an automatic policy that tracks inflation. In these states

3 “North Dakota: No Minimum Wage Needed for High-Paying Jobs,” *The Daily Caller*, July 1, 2014, at <http://dailycaller.com/2014/07/01/north-dakota-no-minimum-wage-needed-for-high-paying-jobs/>.

4 “Job Growth USA: Current State Rankings,” Arizona State University, W.P. Carey School of Business, Source: U.S. Bureau of Labor Statistics, June 2014, at https://legacy.wpcarey.asu.edu/bluechip/jobgrowth/jgu_states.cfm.

5 “Regional and State Employment and Unemployment—June 2014,” U.S. Department of Labor, Bureau of Labor Statistics, July 18, 2014, at www.bls.gov/news.release/pdf/laus.pdf.

that annually peg minimum wage increases to inflation, the wage increases were less than 3 percent this year. Florida increased the minimum wage by just \$0.14, in Oregon the increase was \$0.15, in Colorado \$0.22 and in Washington it was \$0.13.

Studies show that such small increases in the minimum wage have little to no impact on employment and job growth; but the larger the increase, the greater the harmful impact.

Economists generally agree that a 10 percent increase in the minimum wage reduces job growth by 0.5 percentage points and decreases total employment by 2 to 3 percent.⁶ So the annual cost of inflation-based minimum wage increase, which is typically between 1 to 3 percent, does not result in fewer jobs because for employers the increase is predictable and not large enough to have a significant impact that warrants cutting jobs. Employers expect the small annual increase, build it into their business' budget each year and find ways to offset the incrementally increasing wages through higher prices or cost-cutting.

In the four states where the higher minimum wage was enacted by the legislature, the mandated increases were larger, but not huge. Connecticut increased its minimum wage by 5.5 percent, while Rhode Island did so by just over 3 percent. New York's minimum wage increased by over 10 percent, while New Jersey's increased by almost 14 percent. Of the four, the state with the largest wage increase, New Jersey, also suffered the slowest job growth. The other three also experienced weak job growth.⁷

Studies have repeatedly concluded that while small minimum wage hikes may result in relatively few job losses, they ultimately come at a cost to the workers who keep their job and to low-skilled workers who can't find a job.⁸ When employers are faced with increased mandated labor costs, they invariably find ways to cut other labor costs. In response to a moderately higher minimum wage, employers often reduce benefits or reduce hours.⁹ They also increase productivity by hiring older applicants with better job skills and a longer work history over young, unskilled

6 "Effects of the Minimum Wage on Employment Dynamics," Jonathan Meer and Jeremy West, The National Bureau of Economic Research and Texas A&M University, December 2013, at http://econweb.tamu.edu/jmeer/Meer_West_Minimum_Wage.pdf; "The Effect of the Minimum Wage on Employment and Unemployment," Charles Brown, Curtis Gilroy, and Andrew Kohen, *Journal of Economic Literature* Vol. 20, No. 2, June 1982, pp. 487-528, at www.nber.org/papers/w0846.pdf.

7 "Job Growth USA: Current State Rankings," Arizona State University, W.P. Carey School of Business, Source: U.S. Bureau of Labor Statistics, June 2014, at https://legacy.wpcarey.asu.edu/bluechip/jobgrowth/jgu_states.cfm.

8 "Why Are There So Few Job Losses from Minimum-Wage Hikes?" Richard B. McKenzie, National Center for Policy Analysis, April 9, 2014, at www.ncpa.org/pub/st354.

9 "Why Does the Minimum Wage Have No Discernible Effect on Employment?" John Schmitt, Center for Economic and Policy Research, February 2013, at www.cepr.net/documents/publications/min-wage-2013-02.pdf.

teens with no work experience.¹⁰ In these cases, young workers often find that state law has priced them out of the workforce.

Rebounding from the Great Recession

Some of the states with high job growth and higher minimum wage this year experienced some of the greatest job losses during the Great Recession, and are finally beginning to rebound. Arizona and Florida are two examples. Both states were among the hardest hit by the Recession, and now are regaining many of their lost jobs at a steady pace.¹¹ Much of the job creation in these states is making up for jobs lost during the recession, not adding new growth.

Neither state has managed to recoup all of its job losses. As of July 2014, 18 states have recovered all the jobs they lost during the Recession. Just four of them, Colorado, Montana, New York and Washington, increased their minimum wage in 2014.¹²

Economic conditions before increasing the minimum wage

Before these states increased their minimum wage this year, experts were forecasting exceptionally strong job growth in five of them, thanks to specific industries in those states. Moody's Analytics predicted robust job growth in 2014 in Arizona, Colorado, Florida, Oregon and Washington, due to steady home construction, booming tourism, and healthy high tech and aerospace industries.¹³ These five states also happened to increase their minimum wage this year by relatively small amounts, as they do every year according to inflation.

The strong job growth in these five states is the result of the growing industries identified by Moody (most of which pay far more than minimum wage), and is not statistically related to the fact that they coincidentally increased their minimum wages. These industries would have created more jobs with or without the moderate increase in the minimum wage in their state. Had the increases been significantly higher than moderate, research shows the outcome would likely have been different, with a strong negative impact on job growth. As it is, a less than 3 percent increase in the minimum wage does not have a significant impact on these flourishing industries.

10 "Minimum Wages," David Neumark, Department of Economics, University of California-Irvine, and William Wascher, Board of Governors of the Federal Reserve System, Cambridge, MA: The MIT Press, 2008.

11 "Places Bouncing Back From the Great Recession," *U.S. News and World Report*, July 10, 2012, at <http://money.usnews.com/money/business-economy/articles/2012/07/10/places-bouncing-back-from-the-great-recession>.

12 "32 states trail US as a whole in job recovery," MSN News, July 2, 2014, at <http://news.msn.com/us/32-states-trail-us-as-a-whole-in-job-recovery>.

13 "Which States Will Generate Jobs in 2014?" The PEW Charitable Trusts, January 7, 2014, at www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2014/01/07/which-states-will-generate-jobs-in-2014.



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Conclusion

Even if one believed six months is sufficient time to gauge the impact of an economic policy, such as changes in the minimum wage and state job growth, the data shows there is no cause-and-effect connection between states that increased the minimum wage this year and job creation in those states.

Out of the 13 states that increased their mandated minimum wage, 12 experienced job growth in 2014. Of those, only four ranked among the top states for job growth. National experts predicted these four states would have the nation's strongest job growth this year as the result of thriving industries, well before these states' minimum wage increase went into effect.

The strong performance of these four states account for the bulk of the aggregate average increase in job growth in states that increased the minimum wage, compared to states that did not. Were it not for the strong job growth performance enjoyed by these four states, the aggregate average performance of the states that increased their minimum wage would be significantly lower.

Many economic factors account for the growth of a state's total job market. Most of these are too large to be affected by modest increases in a state's minimum wage. Any influence of small changes in a state's mandated wage policy is swamped by larger forces, such as interest rates, industry dynamics, international markets, energy prices and trends in the national economy.

More important is the impact of increases in the mandated minimum wage on specific groups of workers, especially the small minority of workers who are seeking to gain entry to the job market in the first place. These vulnerable workers may be strongly impacted by a mandated minimum wage increase, by making them "too expensive" to hire, while overall job growth in a state remains unaffected.

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