THE FUTURE OF MINIMUM WAGES, AND COMPLEMENTARY POLICIES

Arindrajit Dube Umass Amherst, and NBER

WELFARE AND THE LOW WAGE LABOUR MARKET - IFS/CEP CONFERENCE

AN OUTLINE FOR THE TALK

International Context

• What's happening with minimum wages?

• How high?

Planned increases – US States, cities

New frontiers

- Cities in US review of evidence
- Standards higher up in the distribution: wage boards

INTERNATIONAL CONTEXT





REVIEW OF EVIDENCE ON WAGES AND EMPLOYMENT





HETEROGENEITY IN IMPACT BY KAITZ INDEX



Source: Cengiz, Dube, Lindner, Zipperer (2019)





- 30 states had minimums > federal minimum wage in 2019
- 2019 populationweighted minimum wage was \$9.09

PLANNED MINIMUM WAGES SET TO RISE TO \$15/ 2024 IN 8 STATES

Statewide Minimum Wage Laws

- No minimum wage (follows federal law)
 Matches federal minimum wage
- Higher than federal minimum wage (but no \$15/hr law)
 For start 615 (hosticizen wage (above dia))
- 😑 Enacted \$15/hr minimum wage (phased in)



SEARCH FOR TURNING POINT

- Will need to assess minimum wage effects as they exceed 60% of median FT wage
- Dube (2019) used similar method as CDLZ (2019, QJE) to provide initial evaluation of 7 states with highest min wages in US through 2018.
 - OWE 0.08 (s.e. 0.36) for overall low-wage emp
- Looking at specific lower skilled groups, Clemens and Strain (2018), Clemens, Kahn and Meer (2020) find evidence of reduced demand
- Looking at low-wage counties (bigger bite), Godoy and Reich (2020) did not find any reduced demand for HSL workers through 2017.
- Will need more evidence going further
 - Going to be hard to evaluate 2020!





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MINIMUM WAGES ACROSS US CITIES

- Over 40 cities had minimums > federal minimum wage in 2019
- Heavily concentrated in West Coast; and Minneapolis, Chicago, NY, DC

HOW HIGH ARE CITY MINIMUMS IN BIG CITIES?

Cities	Population	MW in 2020	Kaitz index	Planned nominal MW in 2022		
Panel A: Largest cities with minimum wages above the state-level one						
I. New York City	8,398,748	15.00	0.66	15.00		
2. Los Angeles	3,990,469	14.25	0.75	15.72		
3. Chicago	2,705,988	13.00	0.65	13.60		
4. San Jose	1,030,119	15.25	0.56	16.20		
5. San Francisco	883,305	15.59	0.45	17.05		
6. Seattle	744,949	16.39	0.57	17.19		
7. Denver	716,492	12.85	0.58	15.87		
8. Washington, D.C.	702,455	14.00	0.48	14.50		
9. Portland	652,573	12.50	0.56	14.75		
I 0. Albuquerque	560,234	9.35	0.55	9.60		
Mean of top 10						
Unweighted	2,038,533	13.82	0.58	14.95		
Pop weighted		14.33	0.64	15.04		

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- In general, city minimums are more binding than state minimums
- Especially true excluding high wage SF Bay Area

EXISTING EVIDENCE FROM CITY MINIMUMS				
PAPER	CITY	WAGE	EMPLOYMENT	OWN-WAGE ELAST.
Allegretto et al. (2018b) - restaurants	Oakland	0.10 [0.06,0.14]	0.07 [0.03,0.11]	0.71 [0.20,1.22]
	San Francisco	0.06 [0.04,0.09]	0.01 [-0.05,0.07]	0.14 [-0.83,1.11]
	San Jose	0.11 [0.06,0.15]	0.00 [-0.06,0.06]	-0.02 [-0.5,0.53]
	Seattle	0.04 [0.02,0.07]	0.01 [-0.05,0.07]	0.20 [-1.16,1.57]
Dube, Naidu, Reich (2007) - restaurants	San Francisco	0.14 [0.06,0.22]	0.04 [-0.12,0.2]	0.29 [-0.34,0.91]
Jardim et al. (2017, 2018, 2020) - jobs below \$19	Seattle, worker level	0.15 [0.14,0.17]	0.01 [-0.01,0.02]	0.03 [-0.04,0.11]
	Seattle, aggregate level	0.03 [0.03,0.03]	-0.07 [-0.14,-0.01]	-2.18 [-4.14,-0.22]
Moe, Parrott, Lathrop (2019) - full service restaurants	New York City	0.10 [0.03,0.16]	0.02 [-0.16,0.21]	0.25 [-2.89,3.38.]
Schmitt and Rosnick (2011) -fast food	San Francisco	0.10 [0.05,0.14]	0.00 [-0.33,0.34]	0.03 [-3.45,3.5]
	Santa Fe	0.07	-0.08 [-0.29,0.13]	-1.20 [-4.36,1.96]

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TAKE AWAY FROM EXISTING CITY-WIDE RESEARCH

- Most studies tend to find modest OWE's, similar to overall international evidence
- Important exception: Jardim et al (2019) aggregate level -2.18
 - Concern: wage growth in Seattle compared to other areas in WA can bias the estimated impact on total low-wage jobs.
 - Single case studies are hard!
- At the same time, other estimates tend to be focused on restaurants. And many are imprecise!
- To make progress, Dube and Lindner (2020) provide evidence on aggregate lowwage jobs pooling 21 city-wide policies



IMPACT OF CITY MINIMUM WAGES ON INEQUALITY

American Community Survey (ACS)

All cities with a population of at least 100,000 in 2018:21 citylevel minimum wage changes

We estimate the following regression using samples from 2012, 2013, 2017 and 2018:

$$y_{ct} = \beta_0 + \beta_1(Treat_c \times Post_t) + \beta_2(X_{c,2012} \times Post_t) + \mu_c + \tau_t + e_{ct}$$

Controls: 2012 values of cost of living, employment to population ratio, average wage, wage percentiles, shares of employment below wage cutoffs, and 1-digit level sectoral shares

Controls matter! Else fail upper tail falsification (like Autor, Manning Smith 2016)





IMPACT OF CITY MINIMUM WAGES ON JOBS

Without controls, findings strikingly similar to Jardim et al. (2019) aggregate estimates

But this is due to wage drift (as shown above)

Controls matter! Else fail upper tail falsification (see Cengiz et al. 2019)

Once we better match cities raising wages to those that are not based on past characteristics, OWE of -0.12 (s.e. 0.38) very close to overall international evidence

Overall, evidence from strategy similar to Jardim et al., and Cengiz et al., but better matching city characteristics suggests city wage policies have lowered inequality with modest impact on jobs.

FUTURE FRONTIERS: STANDARDS HIGHER UP IN DISTRIBUTION?

WHAT ABOUT HIGHER UP IN THE DISTRIBUTION?

- Increasing concerns about wage stagnation at middle. But minimum wage is a blunt tool except at the bottom.
 - Limits to how far it can go trying to push wages at the median would require enormous wage compression at the bottom
- Another option: wage boards.
 - Example: Australia, where >100 "modern awards" set minimums by ind/occ
 - Number of states (including CA, NY, NJ) have laws on book allowing constitution of wage boards. But rarely used (exception: fast food in NY).
 - Allows for local experimentation, e.g., in health-care and other low/medium wage sectors
 - Allows for using sectoral characteristics (tradability, routine-task intensity, etc.) in deciding on wage standards

IMPACT OF IND/OCC SPECIFIC MINIMUMS: A PROOF OF CONCEPT

• Set minimums by 9 census divisions), 17 twodigit industries, and 6 occupational groups producing a total of 102 wage standards.

• 2 standards: 30% or 35% of median.

Would raise wages broadly throughout bottom 2/3 of distribution



CONCLUSIONS

- Minimum wages are on the rise internationally
 - Even in US, though not at the federal level
 - Will be important to monitor to find "turning point" possibly heterogeneous across countries
- We're also seeing increased granularity in US context
 - High wage/cost cities have raised minimums more. This is sensible from targeting perspective. But are there bigger costs?
 - Overall evidence don't seem to suggest it
- If the goal is to be more "ambitious" in breadth, experimenting with ind/occ specific standards (wage boards) could be a next frontier
 - More targeted