

## **Do Minimum Wages Really Reduce Teen Employment?**

### *Accounting for Heterogeneity and Selectivity in State Panel Data*

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**“Do Minimum Wages Really Reduce Teen Employment?”, an important new study by economists Sylvia Allegretto, Arindrajit Dube and Michael Reich, finds that increases in the minimum wage over the past two decades did not lead to declines in teen employment.** Their analysis includes an in depth examination of minimum wage increases during times of high unemployment—including the Great Recession of 2007-2009—and finds that even in these difficult economic periods, increases in the minimum wage did not cause job loss or slow rehiring. Together with a companion study, **“Minimum Wage Effects Across State Borders,”** published in November 2010, the study adds a comprehensive new round of evidence to a large and growing body of research spanning more than fifteen years that has found that increases in the minimum wage raise workers’ earnings without reducing employment.

**The new study demonstrates how a body of previous research – one frequently relied on by business lobbyists who oppose minimum wage increases – inaccurately attributes declines in employment to increases in the minimum wage.** It finds that these studies failed to sufficiently account for critical economic factors such as regional economic shocks and long-run job growth differences in low-wage employment across states. When Allegretto, Dube and Reich control for these important factors, the claimed negative employment effects disappear.

Allegretto and her colleagues use data from the Current Population Survey, a monthly survey of roughly 60,000 households nationwide that is carried out by the Census Bureau for the Bureau of Labor Statistics and serves as the primary source for employment data in the United States. This comprehensive survey has been used frequently in national studies examining the impact of state and federal minimum wage increases on earnings, employment and hours worked among teens.

In order to accurately isolate the effect of minimum wage increases on employment, researchers must control for other factors that also impact employment. Allegretto and her colleagues note that many previous nationwide minimum wage studies using the CPS data set only control for a limited set of economic factors, known as state and time fixed effects, but fail to control for regional economic shocks or differences among states in long-term low-wage employment growth that also affect employment rates. Allegretto, Dube and Reich set out to improve upon previous research by integrating controls for these critical economic factors.

The authors began their analysis by replicating the research methods used by researchers such as David Neumark, William Washer, David Macpherson and others that control for a partial set of economic factors and have found that increases in the minimum wage caused a small amount of job loss. Following this methodology, Allegretto and her colleagues initially employ a limited number of statistical controls to estimate the impact of increasing the minimum wage on employment. As expected, this approach generates results suggesting that increases in the minimum wage are associated with small declines in employment among teens – the same results that Neumark and the other researchers have produced when using this methodology and data set.

However, Allegretto and her colleagues go on to refine and improve the analysis by adding additional controls in order to account for long-run job growth differences across states and regional economic shocks—such as the bursting of the housing bubble or the decline in manufacturing, which have affected employment in different regions of the country differently. Once these additional, more sophisticated controls are factored in, evidence of decreased employment due to the minimum wage disappears entirely.

Why don't minimum wage increases lead to declines in employment? Previous research has indicated one of the reasons is that boosting the earnings of low-paid workers reduces turnover and absenteeism while increasing morale and productivity, creating efficiencies for employers that offset a substantial portion of the higher wage costs.

**Allegretto, Dube and Reich also look specifically at the effect of minimum wage increases during times of high unemployment, including the recessions of 1990-1991, 2001 and 2007-2009.** They find that minimum wage increases that took place during periods of high unemployment—including the increases in the federal minimum wage that took place during the severe recession in 2008 and 2009—did not result in employment loss for teens or slow employment growth. Allegretto, Dube and Reich write: “Within the range of variation in the minimum wage and overall unemployment rates in our sample, the effects do not seem to vary across phases of the business cycle or across labor markets with differing labor market tightness.”

**While Allegretto, Dube and Reich’s new study focuses in particular on the impact of minimum wage increases on teen employment, the study’s findings are equally applicable to the entire population of minimum wage earners.** Since teenagers as a group are the least experienced members of the workforce and highly susceptible to lay-offs, they are the segment of the workforce where any employment declines resulting from increasing the minimum wage would be reflected. While teens are just [20 percent](#) of minimum wage earners, they serve as the canary in the coal mine for detecting whether increases in the minimum wage cause job loss. Allegretto, Dube and Reich’s finding that minimum wage increases do not cause a decline in employment among teens thus indicates that minimum wage increases do not lead to job loss among the low-wage workforce as a whole.

The full study is available at <http://www.irl.berkeley.edu/workingpapers/166-08.pdf>

The companion study is available at <http://www.irl.berkeley.edu/workingpapers/157-07.pdf>

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