**Minimum Wage: New Evidence**

Recently, minimum-wage increases to $15 an hour have been approved for workers in Seattle, hotel workers in Los Angeles, and fast-food workers in New York; and there are demands to increase the national minimum wage from its current $7.25 to at least $10 per hour. It is important for government to set a wage floor, and empirical studies generally indicate that previous minimum-wage increases have had only very small adverse impacts on employment. Given the wages gained by the vast majority of affected workers, we strongly supported past minimum-wage increases.

We have three concerns, however, that moderate our support for future increases. First, the latest proposals are for much larger wage increases than in the past and would be adjusted annually to reflect cost-of-living increases. Second, they would have little impact on poverty rates. Finally, the modest adverse employment effects may be concentrated on young workers — a worry buttressed by a new analysis we conducted ourselves.

In the past, when minimum-wage increases were small and would be eroded over time by inflation, it did not make sense for many firms to change their employment decisions. However, larger, more permanent increases may change this calculation so that more firms reduce their labor force. Some recent studies posit significant employment losses in the long run; in particular, Aronson, French, and Sorkin [find](http://marginalrevolution.com/marginalrevolution/2015/07/the-minimum-wage-the-great-reset-and-the-research-of-isaac-sorkin.html) that in response to a minimum-wage increase, the restaurant industry over time becomes more dominated by chains that are capital-intensive, so that the total industry workforce is reduced.

Second, there are two reasons why minimum-wage increases do not significantly affect poverty rates. In 2010, only 12 percent of minimum wage workers [lived](https://ideas.repec.org/a/sej/ancoec/v763y2010p592-623.html) in households with incomes below the poverty threshold ($23,000), and only one-third in households with incomes less than double the poverty threshold. Indeed, almost half of minimum-wage workers lived in households with incomes above the national median. Thus, the minimum wage is not well targeted to the poor.

In addition, among poor or near-poor households that do gain wage increases, most will lose significant government safety-net benefits. With higher incomes they qualify for less in food stamps, earned income tax credits, and housing and child-care subsidies. With increased payroll taxes, these households could easily give back at least half of their wage gains. For a significant share, it could be more than three-quarters.

Also troublesome is the minimum wage’s adverse effect on younger workers. Our new study assesses how variations in the minimum wage across states affect teen employment rates. Using data from the 2000-12 period, after taking into account the robustness of each state’s economy and the share of its population that is black or Hispanic — as well as "fixed effects" that account for unobserved differences between years and states — we find a statistically significant if modest negative effect on teen employment as the state minimum wage increases. Our estimate is half of that found in the [literature](http://wol.iza.org/articles/employment-effects-of-minimum-wages-1.pdf) for similar studies, which predict a 10 percent increase in the minimum wage will reduce teen employment by 1.6 percent.

By contrast, Allegretto, Dube, and Reich [argue](http://www.irle.berkeley.edu/workingpapers/166-08.pdf) that this negative correlation between minimum wage and teen employment doesn’t fully take into account other reasons for the almost 40 percent decline in national teen employment rates since 2000. Minimum wages may have also disproportionately increased in states that have historically lower teen employment rates. After certain adjustments, they find that the minimum wage is no longer statistically significantly related to teen employment.

Dube, Lester, and Reich [assessed](http://www.irle.berkeley.edu/workingpapers/157-07.pdf) teen employment trends in one state where the minimum wage was increased compared to trends in neighboring states where the minimum wage did not. Their study finds little difference in the employment trends so conclude that minimum wage increases do not have adverse teen employment effects. These two studies are universally cited by minimum-wage proponents to dismiss critics.

But the results of these two studies are dependent upon assumptions that underpin the specifications of the models used. Using a wide range of other reasonable specifications, Neumark, Salas and Wacher [estimated](http://www.nber.org/papers/w18681) that the employment losses from a 10 percent minimum wage increase may be even more than the consensus estimated 1.6 percent. More recently, Meer and West [found](http://www.nber.org/papers/w19262) the adverse effects of minimum-wage increases are most pronounced for younger workers. Most worrisome, Neumark and Wascher [claim](http://ilr.sagepub.com/content/64/4/712.short?rss=1&ssource=mfr) that the negative employment effects are concentrated among nonwhite males.

Many studies also find that adverse employment effects are experienced by workers in their early twenties, especially those with limited education. Hoffman and Trace [estimated](http://sites.udel.edu/saul-hoffman/files/2011/11/Hoffman_Trace_EEJ.pdf) that among non-teens with less than a high school degree, a 10 percent minimum wage increase would lower employment by 3.7 percent. In our study, we find a smaller but statistically significant adverse employment effect on males but not females, 20 to 24 years old.

While these adverse employment effects may be quite modest, they can only add to the already low employment young workers are experiencing, especially less-educated black men. The lack of early sustained employment has adverse long-term effects on this vulnerable group. For young black men with low educational attainment, without a sustained work experience, it is likely they will face serious employment difficulties as they age. Among 25-to-29-year-olds, when those incarcerated are included, Neal and Rich [estimated](http://www.nber.org/papers/w20283) that the employment rate for black and white men, respectively, is 57 and 78 percent. It is, however, less than 30 percent for the almost one quarter of black men in this age group who have no more than a GED.

We continue to support modest increases in the minimum wage, but their shortcomings further indicate the need for targeted programs to help young men move forward. As has been argued [elsewhere](http://www.gothamgazette.com/index.php/opinion/5786-certificate-programs-offer-opportunity-for-at-risk-youth-cuny-cherry), pathways to direct employment, including certificate programs, are critical. We believe that expansions of President Obama’s Brother’s Keeper and similar programs, like NYC Mayor De Blasio’s Young Men Initiative, should be linked to future minimum-wage increases.

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