Seattle's Minimum-Wage Rise May Have Pushed Down Workers' Hours, Study Finds

The research suggests the metro area's wage law actually reduced pay for some workers

Students and others protest on the University of Washington campus in Seattle April 1, 2015, in support of raising the minimum wage to $15 an hour. Seattle's minimum wage law has cost the city jobs, according to a study released Monday. *PHOTO: ASSOCIATED PRESS*

By Josh Zumbrun
Jun 27, 2017 8:05 am ET

A study commissioned by the city of Seattle finds recent increases in the metro area's minimum wage may have backfired, reducing the pay of workers because their hours were cut by employers in response to the requirement their hourly pay rise.

The Seattle Minimum Wage Study, funded in part by the city and conducted by six economists at the University of Washington, looked at Seattle's two-step increase in the minimum wage—the first step from $9.47 to $11 took place in 2015 and the second increase to $13 in 2016—and found the second step caused employers to cut worker hours.

Using a unique set of data, the economists found the first increase had little effect, but the step to a $13-an-hour minimum wage resulted in a 9% reduction in hours for lower-wage jobs, while only raising hourly wages by about 3%. Combining these two effects, they found that workers in lower-wage jobs saw an average drop of $125 in monthly income.

“Employment losses associated with Seattle’s mandated wage increases are in fact large enough to have resulted in net reductions in payroll expenses—and total employee earnings—in the low-wage job market,” the study’s authors wrote in a study released Monday.

Seattle is at the vanguard of local governments moving to raise the minimum wage, with many targeting an eventual goal of $15 an hour. Labor unions have organized around a “Fight for $15” campaign, making the research in Seattle an important case study on the economic effects of such moves. Nineteen states had minimum wage increases at the start of this year, affecting as many as 4.3 million workers.

The increases are providing new data for the debate between business groups who say such increases force businesses to cut jobs, and advocates for the increase who say the evidence is thin that businesses actually cut back much when the minimum wage rises.

Seattle’s finding suggests that while small increases in the minimum wage do no harm, at some point a minimum wage gets so high that it becomes counterproductive for the very workers the policy is meant to help.

But the Seattle study is stirring up a storm. It is the second major academic study this month to look at how Seattle’s move has played out. The first study, from a team at the University of California, Berkeley, found the opposite. Looking just at the food service industry and without access to the same set of data, the Berkeley study found an increase in wages with no reduction in the number of jobs.

The new study takes advantage of a quirk in the way the state of Washington administers its unemployment insurance program. Washington is one of just four states that gather data not only on earnings of workers, but also on the number of hours employees work. That allowed the researchers to account for the hours and earnings of jobs across industries and demographic groups before and after the minimum wage changes were put in place. They compared the employment changes in Seattle with changes in the rest of Washington outside the Seattle metro area.

“These results suggest a fundamental rethinking of the nature of low-wage work,” the studies’ authors write. Previous research that had found “firms faced with labor cost increases have little option but to raise their wage bill,” they said, but the new data “suggests that low-wage labor is a more substitutable, expendable factor of production.”

Economists Ben Zipperer and John Schmitt at the Economic Policy Institute, a think tank in Washington, D.C., which supports a higher minimum wage and is funded in part by unions, criticized the new study.

The Seattle Minimum Wage Study “suffers from a number of data and methodological problems that bias the study in the direction of finding job loss, even where there may have been no job loss at all,” they said.

The response from EPI said the effects reported in the new research are too large to be consistent with previous research and that the study has failed to properly account for Seattle's booming economy.

Jacob Vigdor, the director of the Seattle Minimum Wage Study, acknowledged the results are large and attributed the difference to the fact that "prior studies typically analyze the restaurant industry, which accounts for a minority of all low-wage jobs, and where many jobs actually pay well above the minimum."

The results in his study "are along the lines of a business with 11 low-wage workers per shift cutting back to 10," Mr. Vigdor said. "This is not really a dramatic reduction in any absolute sense."

The researchers in Seattle offer a note of caution themselves. They say the results do not necessarily apply to other cities and states, because local labor markets can vary widely, and that they do not apply to minimum-wage increases from the lower levels that are prevalent in most of the U.S.

It was only when Seattle pushed wages to new highs—they note that even adjusting for inflation, the federal minimum wage has never been as high as $13—that the ill effects became apparent, a finding that many cities contemplating higher minimum wages may consider cautionary.