THE WALL STREET JOURNAL.

# DO HIGHER MINIMUM WAGES CREATE MORE JOBS?

By Liya Palagashvili and Rachel Mace
August 20, 2014

Since the release of the May jobs report, President Obama and many in the media have been crowing about new evidence allegedly showing that minimum-wage hikes stimulate job growth. At a speech in Denver on July 9, Mr. Obama noted that "since I first asked Congress to raise the minimum wage, 13 states have gone ahead and raised theirs—and those states have seen higher job growth than the states that haven't raised their minimum wage."

Here's where this story got started. In June, the Center for Economic and Policy Research released a report claiming that compared with the 37 states that did not raise their minimum wage in January, the 13 states that did had on average higher employment growth from January to May 2014. The data came from the U.S. Bureau of Labor Statistics. No one committed to evidence-based public policy would accept these skimpy facts as grounds for raising the minimum wage.

Why would firms hire more workers when government raises the cost of hiring workers? The progressive answer is that hiking the minimum wage raises the incomes of poor workers, causing them to spend more. This additional spending, in turn, is so great that firms hire even more workers. When you raise the minimum wage, as Mr. Obama said in Denver, "that money gets churned back into the economy. And the whole economy does better, including the businesses."

This theory is dubious for many reasons, not least because minimum-wage workers make up about 2% of the workforce, a percentage much too small to have such an effect. Yet if this theory were valid—and if these data reveal useful information—then job growth should be greater the higher the minimum-wage boost.

Not so. Of the 13 states that raised the minimum wage, Connecticut, New Jersey and New York were the three that raised it most, with increases ranging from 5% to 14%. These three states also experienced the worst job growth between January and May, an average of 0.03% compared with an average 1.28% for the other 10 states. Indeed, job growth was worse in each of these three states than it was, on average, in the 37 states that did not raise their minimum wage at all. Moreover, in New Jersey, the state that hiked minimum wage the most—to $8.25 an hour from $7.25—employment actually fell by about 0.56%. Washington experienced the largest job growth at 2.1%, but the state only raised its hourly minimum wage by 13 cents. A full-time minimum-wage employee in Seattle now earns, before taxes, a whopping $23.80 more a month. That's barely enough to cover dinner for two at a chain restaurant. Consider also that between December and May the price of gasoline rose by more than 20 cents a gallon, according to Gasbuddy.com. Minimum-wage workers would need a big chunk of their higher pay to cover the increased cost of driving. There's no way there was enough left over to spark extra job growth.

We conducted a statistical analysis of the Bureau of Labor Statistics' data called a two-sample "t" test for comparing two means. We found, for this time period, no difference in the job-growth trend in the states that raised their minimum wages from states that did not. In other words, the correlation cited as debunking the economic case against the minimum wage is not statistically significant.

Minimum-wage supporters might say the data at least show that a higher minimum wage does not *reduce job growth.* That's also not what we found. When looking—over the time-span December 2013 through June 2014—at only the 13 states that raised their minimum wage in January, those that raised it the most had, on average, lower job growth than did those that raised it the least. This particular finding is not by itself evidence that raising the minimum wage slows job growth; these data remain too meager. But it does run counter to the White House narrative.

In short, there is no sound basis in this Labor Department report for rejecting the fundamental economic understanding that raising firms' cost of employing low-skilled workers makes firms less willing to employ such workers.

The data are simply no reason to reject this fundamental economic precept: When you raise the cost of hiring, companies will do less of it. Until there's a sound theory for why raising the price of low-skill labor doesn't lessen employers demand for it, and until that theory is confirmed by serious, empirical analysis based on adequate data, the only legitimate minimum-wage stance is that it shrinks the employment options for the very workers it ostensibly intends to help: the poorest of the low-skilled.