

A \$15 Minimum Wage for New York: Benefits and Risks

Recently, a friend and colleague from the time when I worked at Empire State Development suggested that I take a look at Governor Cuomo's proposal to raise New York's minimum wage to \$15 from \$9.00. Like others, I'm sure that he wanted to cut through the competing claims about the impact of the proposed increase.

A columnist for the Albany Times-Union, Fred LeBrun, expressed the confusion felt by many, [writing](#), *"The truth is I don't really know what the impact will be. I'm not sure anybody does. Predictions vary wildly. Nor are the Cuomo administration and the Democratic Assembly making any serious effort to find out."* The reason for LeBrun's confusion and frustration is that there is no certain answer to his question, nor can there be at this point in time, given the complexity of the factors involved in estimating the benefits of a minimum wage increase, and the lack of solid data available at the state level.

As with many political issues, there are sharply divergent perspectives to the costs and benefits of raising the minimum wage. A well known Albany think tank, the Empire Center for Public Policy, released a report late last fall, ["Higher Pay, Fewer Jobs,"](#) written by Douglas Holtz-Eakin and Ben Gitlis of the American Action Forum, the policy arm of the American Action Network, a group that has provided substantial support for Republican candidates for Congress. The report presents three models of the impact of the proposed increase in the minimum wage to \$15, and finds that the proposal would reduce employment in the state by *"at least 200,000 jobs, with proportionately larger employment decreases in upstate regions."* The report also estimates that the proposal would increase wage earnings by \$4.6 billion.

On the other side, the Center for Wage and Employment Dynamics (CWED), at the Institute on Labor and Employment at the University of California, Berkeley issued a report, ["The Effects of a \\$15 Minimum Wage in New York State,"](#) by Michael Reich, Sylvia Allegretto, Ken Jacobs and Claire Montialoux. CWED has received funding from the Fiscal Policy Institute, a union funded think tank. That report concluded that "a \$15 statewide minimum wage would generate a 23.4% average wage increase for 3.16 million workers in the state, with a net value of \$14.4 billion and would create an increase in jobs of 3,178.

Finally, Governor Cuomo, through the State Department of Labor issued a report in support of his proposal entitled ["Built to Lead – Analysis: Raising New York’s Minimum Wage to \\$15."](#) The report claims a benefit from increased wages of \$15.7 billion and argues that, "A review of 70 studies on minimum wage increases found no discernible negative effect on employment."

Problems Estimating Number of Employees Affected

Perhaps a good place to begin understanding how difficult it is to understand what impact an increase in the minimum wage might have is by looking at the question of how many people might be affected by the proposed change. This is important, because the number of people affected impacts both the amount of wage benefits received in aggregate, and the number of people who might be affected by layoffs that could result from the proposed increase. Here, there are differing estimates.

- Governor Cuomo’s report argues that 2.4 million people would benefit from a minimum wage increase.
- The Empire Center report estimates 3.1 million workers would be directly affected by the increase.
- The CWED report estimates that 2.4 million workers would be directly affected, with an additional 1.2 million indirectly affected.

How can there be such a large disparity in the estimates of

the number of people affected? The answer is that researchers seeking information about the number of people who would be receiving less than \$15 per hour at the time of the proposed increase could not find data that directly answers the question, and had to develop estimates using other data that does not directly measure wage distributions at the state level. In both cases, the authors used data from the Census Bureau's American Community Survey, and because they used different techniques to estimate the percentage of the employed population from the available data, they arrived at significantly different answers.

Problems Estimating Possible Job Losses

The bigger problem associated with evaluating the effects of an increase in the minimum wage involves estimating the impact of the change on employment. Until about 20 years ago, there was near unanimity among economists that there was a trade-off between employment and minimum wage increases, particularly for young and low skilled workers. For example, a number of studies found that for a 10% increase in the minimum wage, teenage employment decreased by 1%-3%. For adult workers, the impact was estimated to be smaller – perhaps 1% for a 10% increase. Since almost 90% of minimum wage workers are 20 years old or older, the largest impact of a minimum wage increase is on adult workers, even considering the fact that a larger portion of teenage workers are paid at the minimum wage rate.

From the perspective of these studies, a minimum wage increase of \$9 to \$ 15, or 60%, as has been proposed by the Governor, would have a relatively large negative impact on jobs. In New York's case, with roughly 9,000,000 workers, about 550,000 could be expected to lose their jobs, if the estimate is correct.

The report from the Empire Center presents three study models, one which is consistent with an [analysis](#) by the Congressional

Budget Office, that estimates a loss of 200,000 jobs, [a second by two economists, Jonathan Meer and Jeremy West](#), that estimates a loss of 432,500, and a [third by economists Jeffrey Clemens and Michael Wither](#), that projects a loss of 588,800 jobs.

How is it possible that the Center for Wage and Employment Dynamics could conclude that increasing the minimum wage could result in a small increase in jobs? The answer is that some more recent research has found no significant employment effect from increases in the minimum wage. For example, [Alison Wellington in "Effects of the Minimum Wage on the Employment Status of Youths: An Update."](#) found that a 10% increase in the minimum wage reduced teenage employment by only 0.6%. In 1992, [David Card and Alan Krueger studied](#) the impact of a minimum wage increase in New Jersey on fast food restaurants by comparing their employment with those in nearby Eastern Pennsylvania and found that the wage increase was associated with slightly increased employment. They also examined a set of more recent studies of a 1988 increase in the California minimum wage and the 1990 increase in the federal minimum wage and found no impact. Subsequent studies have shown mixed results. Some have shown employment decreases with increases in the minimum wage, others have not.

A better approach than providing a single estimate of job losses associated with increasing the minimum wage would recognize a variety of possible outcomes. The Empire Center study does this to an extent, by presenting the outputs of several models. But the study only presents one set of possible outcomes, reflecting the views of economists who believe that minimum wage increases are associated with job losses. And, while the Empire Center presented a single estimate for job losses for the approach used by the Congressional Budget Office, the CBO itself said that a range of outcomes is possible. In its study of a possible federal minimum wage increase from \$7.25 to \$10.10, it predicted a

very slight job loss to one million jobs, with a central point of 500,000. From my perspective, the best approach would recognize the uncertainty of any job loss estimate, and present a broader range of possibilities.

So, unfortunately for my friend, and for Fred LeBrun, who wanted to know what the impact of an increase to the minimum wage would be, there is no definite answer. We do know that the proposal does have a positive economic impact on workers affected – estimates range from about \$5 to \$15 billion. And, we know that it is not true that most beneficiaries would be teenagers flipping hamburgers at fast food outlets – in fact, they represent a small minority of workers who would be affected. What we don't know is whether there would be a significant trade off in lost jobs.

But, there are some significant reasons to be cautious about the impact of a proposal as large as the one that has been proposed by Governor Cuomo. Many economists are concerned about the size of the proposed increase – an increase from \$9 to \$15 is much larger than previous increases, and is more likely to impose worker dislocations than a smaller increase – to \$12 for example. Alan Krueger, former Chair of President Obama's Council of Economic Advisors, and the author of the New Jersey study that found no negative impact of a minimum wage increase, [wrote](#),

But \$15 an hour is beyond international experience, and could well be counterproductive. Although some high-wage cities and states could probably absorb a \$15-an-hour minimum wage with little or no job loss, it is far from clear that the same could be said for every state, city and town in the United States...Although the plight of low-wage workers is a national tragedy, the push for a nationwide \$15 minimum wage strikes me as a risk not worth taking"