

# **Labor Standards in the US: New Directions and New Evidence**

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# Outline

- Developments in wage standards in the three decades prior to the Obama Era
- An emerging new social compact in San Francisco
- New directions in state MW policies
- Economic effects of MWs: Current state of the literature
- Why Card and Krueger study was not definitive
- Two new studies with better local controls
- Conclusions and policy implications

# Developments in Wage Standards in the 3 decades prior to the Obama Era

- In 1980-2007, national minimum wage (MW) rate fell about 30 percent (corrected for inflation). National MW increased from \$5.15 in 2007 to \$7.25 on July 24, 2009.
- Since 1994, 140 local governments have passed **living wage** laws. See Reich et al. Special Issue of *Industrial Relations*, January 2005.
- Since late 1980s, 32 states (and 4 cities) enacted minimum wage standards; some states now above \$8; San Francisco now at \$9.79.
- Obama's campaign platform: MW of \$9.50 indexed to inflation.

# An Emerging New Social Compact in San Francisco

- 1997 Equal benefits for domestic partners. Extended health benefits. Model for rest of U.S.
- 1998 When city has an economic interest: majority sign-up for union recognition, binding arbitration, penalties. Similar to EFCA.
- 1999-2000 Living wage policies, including at SF Int'l Airport— at \$10/hr and indexed, now about \$11.50. Largest LW program in U.S.

# Emerging New Social Compact in San Francisco

- 2002 Mandated paid family leave – statewide. CA 1<sup>st</sup> in U.S.
- 2004 City-wide minimum wage \$8.50 vs. \$6.75 CA. 1<sup>st</sup> in U.S.
- 2006 Expansion of health care to cover the uninsured: health spending requirements. 1<sup>st</sup> in U.S.
- 2007 Mandated paid sick days. SF 1<sup>st</sup> in U.S.
- Heightened enforcement staff and budget, including contracts with organizations in Chinese and Latino communities to educate workers about their rights.
- My colleagues and I at IRLE have been and are continuing to conduct rigorous studies of the economic impacts of these policies. [www.irle.berkeley.edu/cwed](http://www.irle.berkeley.edu/cwed)

# New Directions in State MW Policies

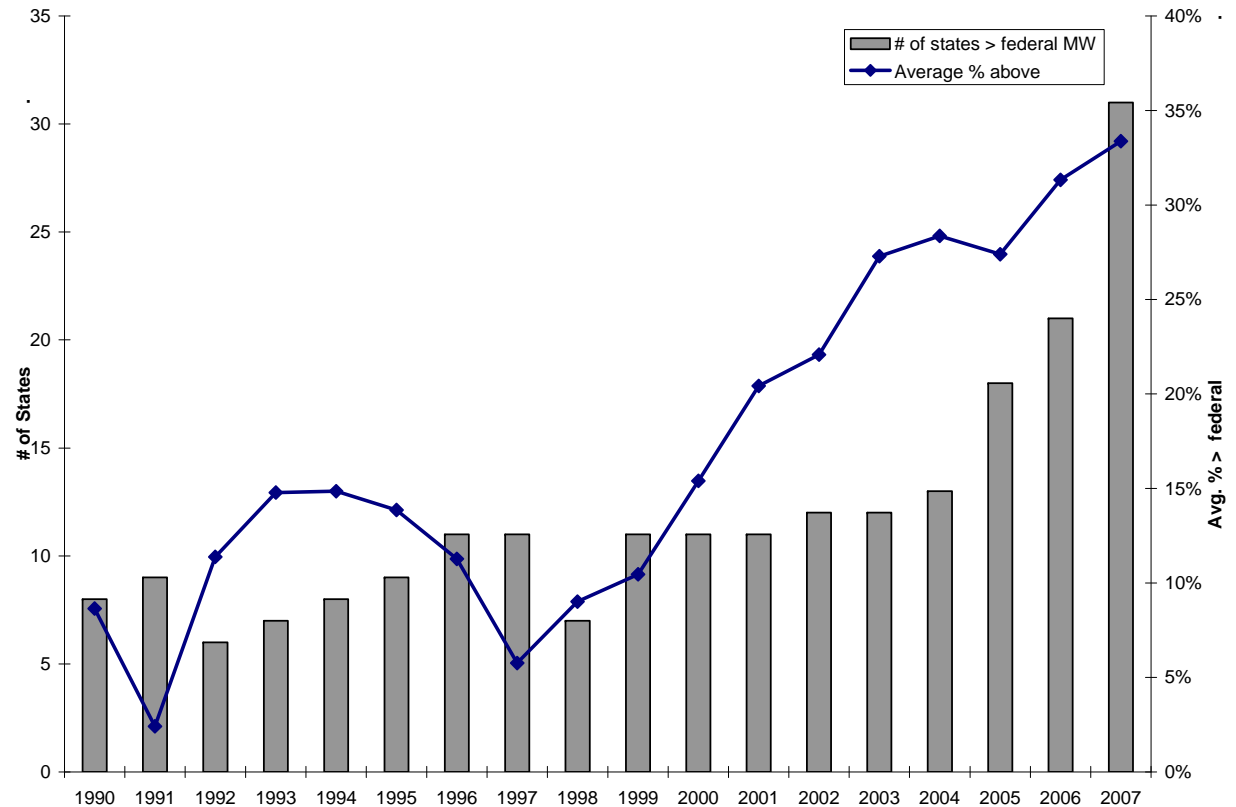
- Explosion of political campaigns to increase state wage standards.
- Not just in states with high housing costs or more liberal political traditions, or those that have had declining (or expanding) economic fortunes.
- Six out of six state initiatives passed by large margins in November 2006.

# Minimum wage policies

- State minimum wage differentials have become a durable part of the labor market.
- Many states will have higher minimum wages even after the Federal increase to \$7.25 scheduled for July 2009.
- Ten states and one city— San Francisco— index their minimum wages to prices.

# Proliferation of State/Local Minimum Wages

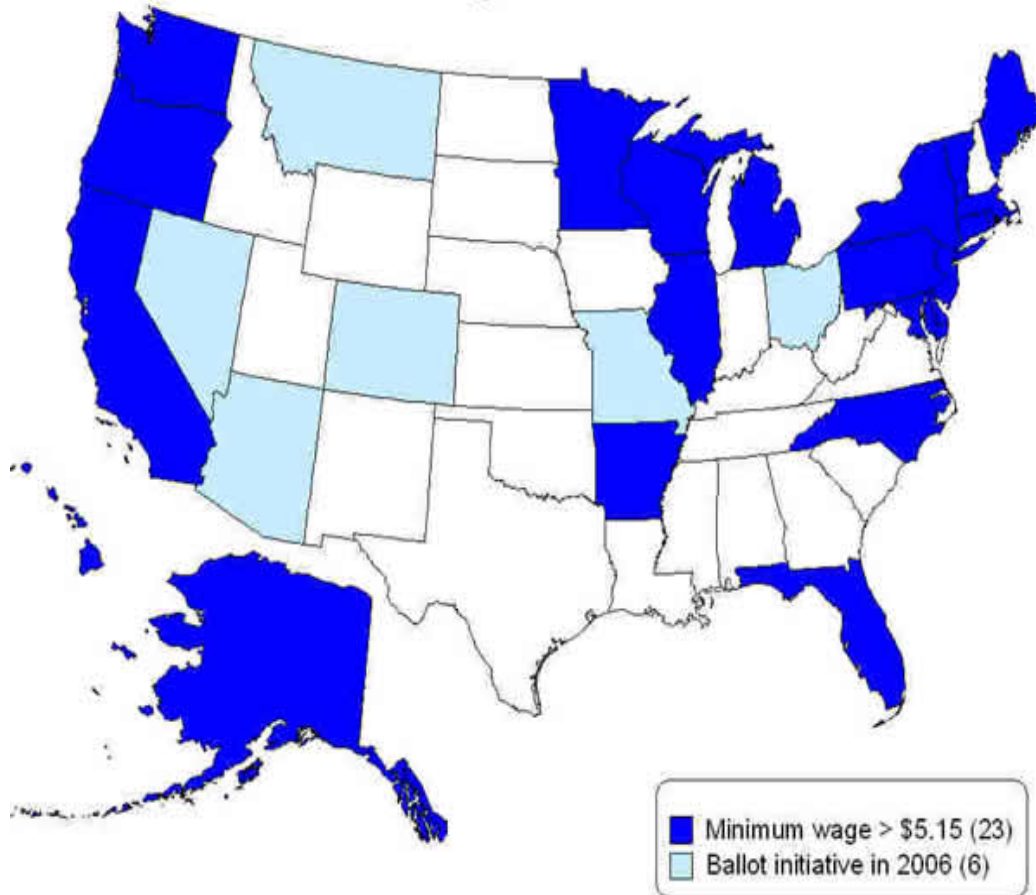
□ 32 states and 4 cities have minimum wages above the federal level, exceeding the national minimum by an average of 33%. (Prior to July 24, 2007)





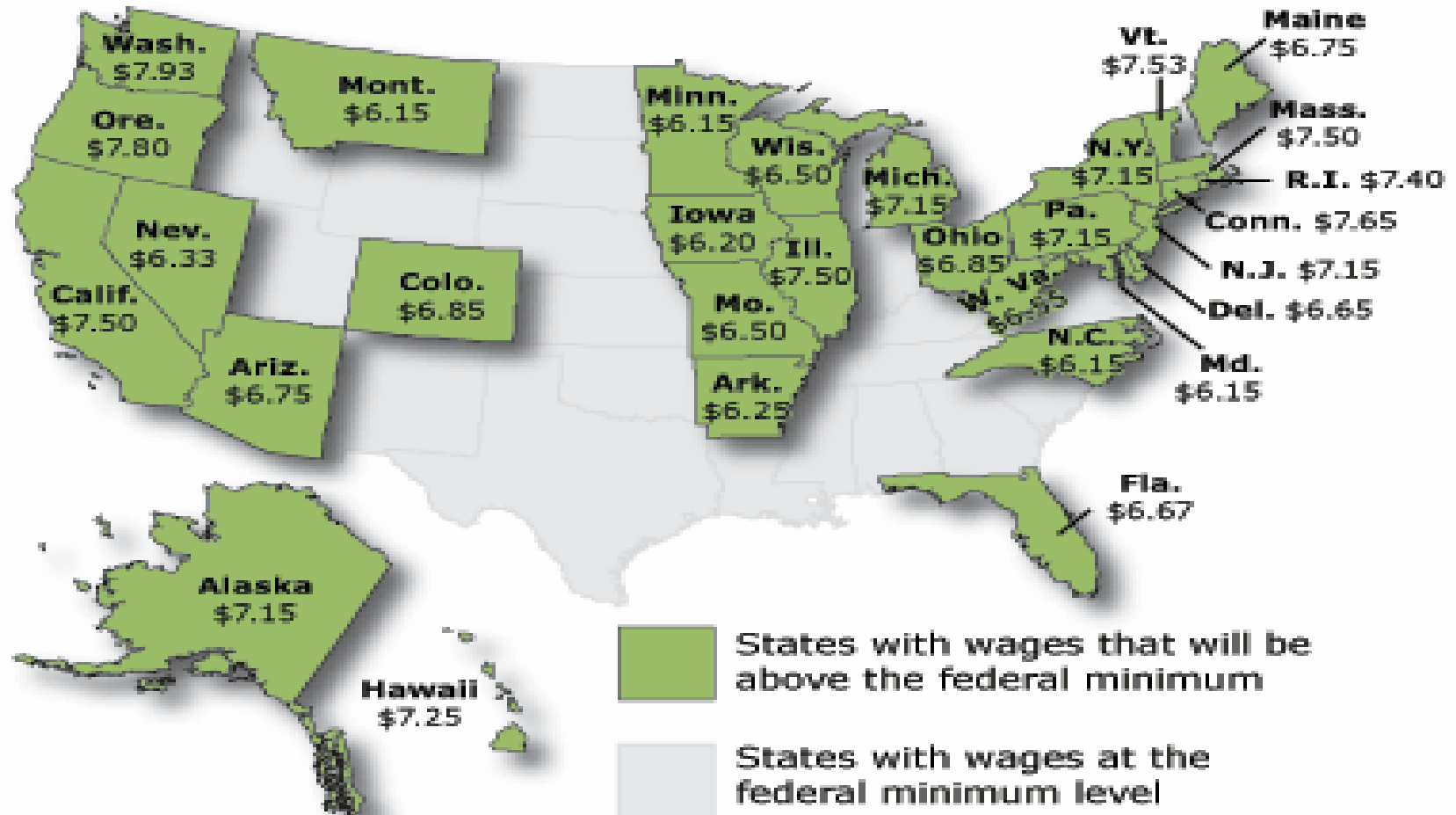
Minimum wage increase, with indexation, was on the ballot in six “swing” states (light blue on the map) in November 2006. All six won easily and the increased voter turnout helped tip U.S. Senate to the Democrats

Minimum Wage Action in the States



## States with higher minimum wages than the new federal rate in the first year

On July 24, wages in 20 states will move up to the new federal minimum of \$5.85 per hour. In 30 states, wages already will be higher than the new federal rate.



# Economic Effects of MW: Current State of the Literature

- **Current state of the literature a stalemate.**
- **One type of study uses national data and adds fixed-effects variables for state and time variation in minimum wages. These studies find significant negative employment effects-- about 1-3 percent for teens, but do not have adequate local controls. (Neumark and Wascher 2008)**
- **A second approach uses local case studies of contiguous counties and finds negligible effects. But the data cannot rule out negative effects (Card and Krueger AER 2000 on NJ-PA; Dube, Naidu and Reich ILRR 2007 on SF-East Bay).**

**Dube, Naldu and Reich (2007) “The Economic Effects of a Citywide Minimum Wage,” *Industrial and Labor Relations Review*, January 2007.**

**--First study of a citywide MW.**

**--Adds full-service restaurants, more control groups (size of restaurant, phased implementation by size), controls for Chinese and Latino neighborhood locations (indicators for immigrant workers), prices, worker tenure.**

**--Results on employment similar to Card-Krueger but with tighter confidence intervals, small price effect, very large worker tenure effect.**

**--Still, not definitive for reasons listed on next slide.**

## **Why local case studies (like Card and Krueger) are not definitive**

**-- Studies of fast-food restaurants may not generalize to other low-wage businesses or to individual-based data on teens or adults.**

**-- Local case studies have only one observation point before the MW increase and one after. They can be affected by common shocks across the border, making it hard to find a negative MW effect even if one occurred. *Need data with longer leads and lags.***

**-- Case studies have smaller number of observations ( $n = 450$ ), so 90 percent confidence intervals are wider. As a result, they often cannot rule out negative effects in the Neumark-Wascher range.**

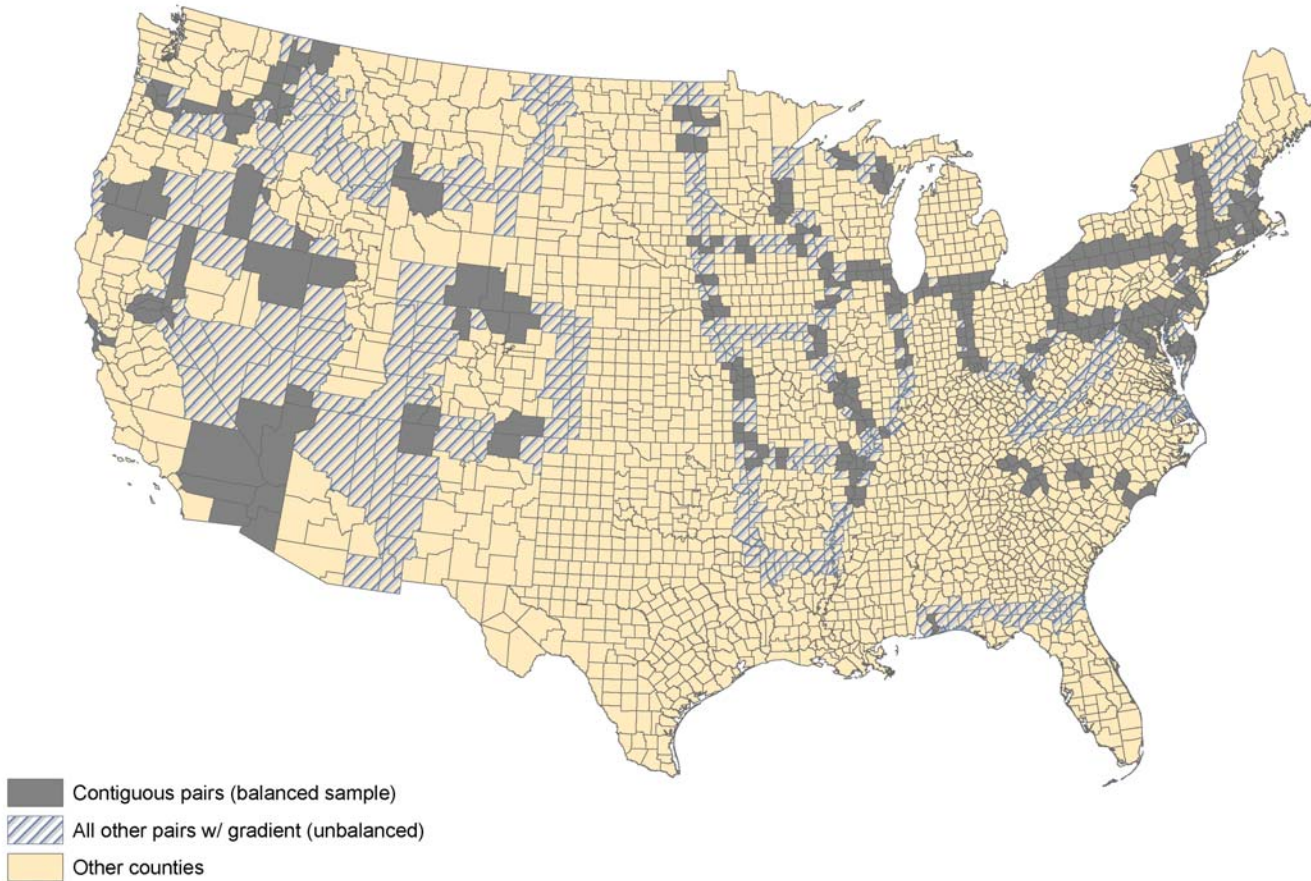
# Two new studies with better local controls

- To address these problems, Dube, Lester and Reich (forthcoming) generalizes the case study method:
  - *to restaurant and other low-wage industry data for sample of all contiguous county border-pairs that straddle state borders over 16 years (1990-2006).*
  - And to sample of all U.S. counties, with variables for state and time fixed effects, for comparability to studies of Neumark and Wascher.
- Allegretto, Dube and Reich (2009) undertake a similar exercise, using data on teens for all commuting zones that cross state borders.
  - CZs a more economically meaningful concept and everyone in U.S. is in one, so many more observations.

## **Dube, Lester and Reich, “Minimum Wages Across State Borders, *Review of Economics and Statistics*, forthcoming 2010**

- Key to identification strategy: economic activities are continuous over space but policies are discontinuous at political boundaries.
- This approach allows much better control groups.
- Data are from Quarterly Census of Employment and Wages 1990-2006 and cover restaurants and other low-wage industries.
- We can reconcile divergent results in previous literature.

# Map of Cross-State Contiguous Border County Pairs

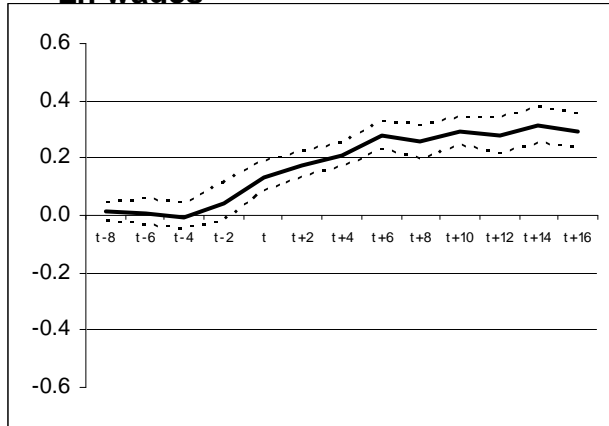




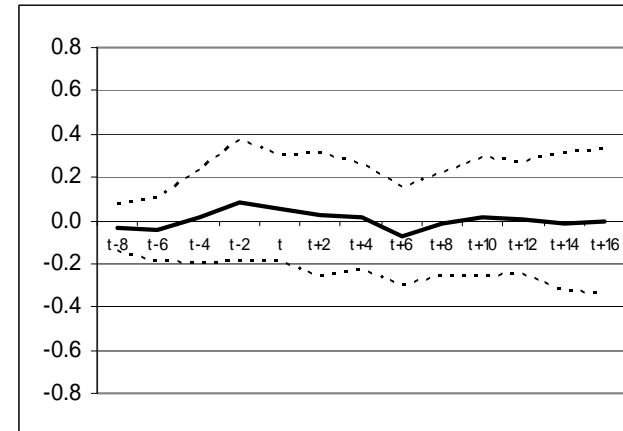
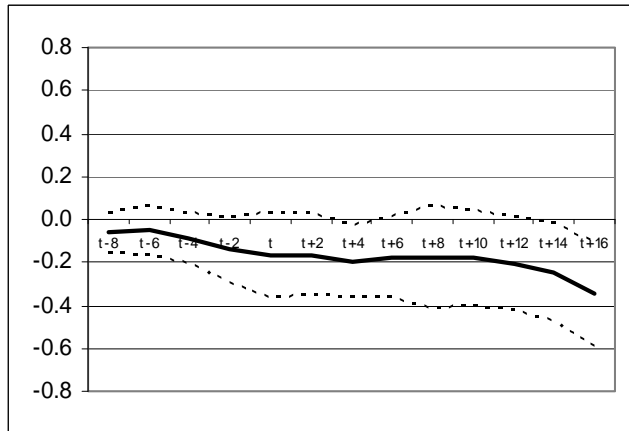
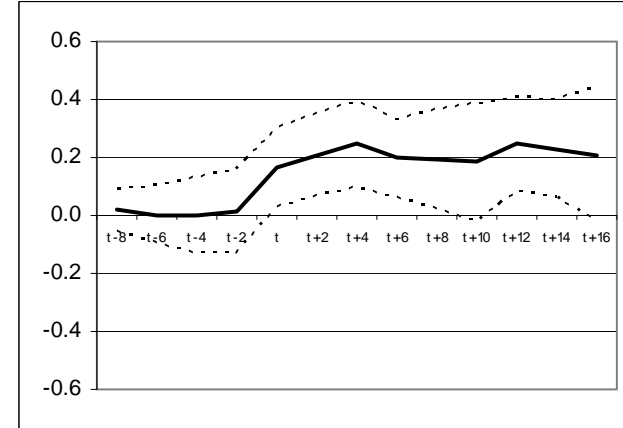
# Time paths: Ln wages (upper panels) and Ln employment (lower panels)

## All Counties

### Ln wages



## Contiguous Border County Pairs

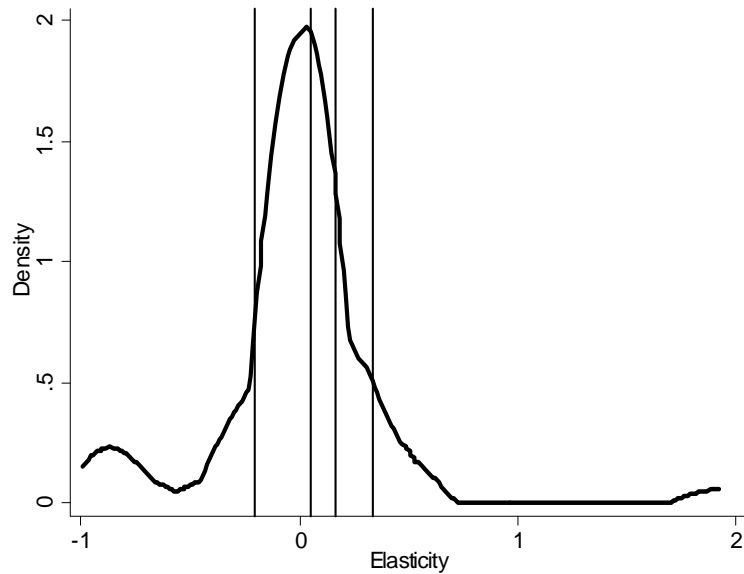


# Estimated effects of Minimum Wages

	AC	CBCP
Ln Earnings	0.217*** (0.028)	0.188*** (0.060)
Ln Employment	-0.176* (0.096)	0.016 (0.098)
<b>Controls</b>		
County fixed effects	Y	Y
County-pair X period dummies		Y
Total private sector employment	Y	Y

Dube, Lester, and Reich (2008). Sample size equals 91,080 for the **all county sample** and 70,620 for the **contiguous border county pair sample**.

# Distribution of elasticities from 64 individual border segments



**Vertical lines indicate previous estimates from individual case studies (NJ-PA, SF-Neighbors)**

**Allegretto, Dube and Reich (2009) “Spatial Heterogeneity and Minimum Wages: Employment Estimates for Teens Using Cross-State Commuting Zones”**

	<b>Traditional approach</b>	<b>Commuting zones</b>
<b>Ln Earnings</b>	<b>0.110** (0.053)</b>	<b>0.151*** (0.051)</b>
<b>Employment Elasticity</b>	<b>-0.159* (0.085)</b>	<b>0.129* (0.072)</b>

# Econometric Findings

- National panel analyses insufficiently control for local trends in low-wage employment.

Areas more likely to raise the minimum wage have lower employment growth in low-end jobs, for reasons unrelated to the minimum wage, causing a spurious negative correlation.

We find strong earnings effects and no effects of minimum wage on employment.

We also find the same effects when we interact MW increases with the business cycle.

# Conclusions: Economics of MW

- Minimum wages are successfully absorbed, including in states that index and during economic downturns.
- How high can minimum wages go without creating adverse effects? Experience of San Francisco-- \$9.73 in 2009.
- Why? Wage increases reduce low-wage employers' recruitment and retention costs. So they have fewer job vacancies.
- Minimum wages kill job vacancies, not jobs.

# Policy Implications

- Increasing the MW to \$9.50 *and* indexing it to prices would:
- Generate the greatest transformation of low-wage labor markets since the 1960s.
- Be a major step in restructuring the economy to have broadly-based increases in living standards
- Provide a very effective source of increased and sustained consumption demand.