

ECONOMY

How a Rising Minimum Wage Affects Jobs in Seattle

By NOAM SCHEIBER JUNE 26, 2017

Three years ago, Seattle became one of the first jurisdictions in the nation to embrace a \$15-an-hour minimum wage, to be phased in over several years.

Over the past week, two studies have purported to demonstrate the effects of the first stages of that increase — but with starkly diverging results.

The first study, by a team of researchers at the University of California, Berkeley, supports the conclusion of numerous studies before it, that increasing the minimum wage up to a level that is about half or less of an area's typical wage leads to at most a small reduction in employment.

That roughly describes Seattle, which first increased its minimum wage to \$11 an hour from \$9.47 for large businesses in April 2015, then to \$13 an hour for many of those businesses in January 2016. (Small businesses, and large ones that provide health insurance for workers, had lower increases.)

The Berkeley study focused on the restaurant industry because of the high proportion of restaurant workers who are paid the minimum wage. It found that for every 10 percent that the minimum wage rose, wages in the industry rose nearly 1 percent, and that there was no discernible effect on employment.

By contrast, the second study, which a group of researchers at the University of Washington released on Monday, suggests that the minimum wage has had a far more negative effect on employment than even skeptics of minimum-wage increases typically find. (Neither study has been formally peer-reviewed.)

The University of Washington authors held one significant advantage over other economists studying the issue: detailed data on hours and earnings for workers affected by the increase.

This data allowed the researchers to measure the effects of the minimum wage on workers in all industries rather than relying on restaurants as a stand-in, a common technique. It also allowed them to measure a change in hours worked, a potentially more complete indication of the effect of a minimum-wage increase than the employee head count that many studies use.

The University of Washington researchers found that the minimum-wage increase resulted in higher wages, but also a significant reduction in the working hours of low-wage earners. This was especially true of the more recent minimum-wage increase, from as high as \$11 an hour to up to \$13 an hour in 2016. In that case, wages rose about 3 percent, but the number of hours worked by those in low-wage jobs dropped about 9 percent — a sizable amount that led to a net loss of earnings on average.

But experts on the minimum wage questioned the methods of the University of Washington researchers.

Most seriously, skeptics argue that the researchers confused the effects of a minimum-wage increase with the effects of a hot labor market. During a boom, which Seattle has experienced in recent years, employers bid up wages, effectively replacing low-wage jobs with higher-paying ones.

Under such a scenario, one would expect to see a decline in the overall number of hours worked in low-wage jobs. In their place would be a significant increase in hours worked at somewhat higher-paying jobs.

“The key challenge this study faces is how to separate the normal shift that’s happening in a booming labor market — where low-wage jobs disappear and are replaced by higher-wage jobs — from an actual increase in the minimum wage,” said Ben Zipperer, an economist at the liberal Economic Policy Institute. “This study exhibits signs that it’s not able to do it.”

The most reliable way to distinguish between the two scenarios, both of which are consistent with the data in the University of Washington study, is to compare Seattle with a similar city that did not raise its minimum wage. If the comparison city, known as a control, did not experience a loss in hours worked similar to Seattle’s, this would suggest that the minimum-wage increase was to blame for the reduction of hours in Seattle.

If the comparison city did experience a loss in hours similar to Seattle’s, then the booming labor market could be the culprit in both places.

The University of Washington study essentially constructed such a control by splicing together other areas of Washington State, an analytical tool known as a synthetic control. In doing so, the researchers found that the decline in hours in Seattle was unique. The control did not exhibit a similar pattern of lower hours.

But Mr. Zipperer was skeptical that the control is valid. He argued that there is, in effect, only one Seattle in the state of Washington — only one large city with a booming labor market. As a result, the control may not be much of a control at all: It does not illustrate what would happen absent a minimum-wage increase in a booming city like Seattle. It illustrates what would happen absent a minimum-wage increase in a city that is not booming.

This, in turn, invites the original question: Is Seattle’s boom driving the loss of low-paying work, or is its minimum-wage increase to blame?

Micah Simler, whose window-washing business in Seattle has three employees and 15 contractors, said he had already been paying much more than \$15 an hour because of the local economy, not the wage law.

“Seattle is in a boom time right now, and I’m competing with construction companies” and many other businesses for employees, he said.

The \$15-an-hour minimum wage went into effect for large businesses that do not provide health insurance on Jan. 1 of this year, and it will gradually go into effect for other businesses in future years.

Others in the business community believe the minimum wage increases may be having a negative effect on employment. “We think the U.W. study needs to be taken seriously by the city because the data echoes the anecdotes we’ve been hearing,” said Jillian Henze, a spokeswoman for the Seattle Restaurant Alliance.

Mark C. Long, one of the authors of the University of Washington study, said he felt reasonably confident in his team’s results because the largest loss of hours occurred in 2016, just after the minimum-wage increase to \$13 an hour went into effect.

“You see the biggest difference in the effect when the minimum wage increased from \$11 to \$13,” he said. “The timing suggests it’s the minimum wage” as opposed to a booming economy.

Still, there is some evidence that Seattle’s labor market shifted into overdrive around the time of the larger minimum-wage increase. And even Mr. Long conceded that the alternative explanation was possible.

The study hinges “on the quality of the control group,” he said. “If the areas we’re picking to put weight on don’t match what would have happened to Seattle in the absence of the minimum wage, our results would be potentially biased.”

Angela Stowell, an owner and the chief executive of Ethan Stowell Restaurants, which has about 300 employees in 14 restaurants around the city, said it was too early to judge the effect of the minimum-wage law because it was still being phased in. But she said the chain had not reduced hiring because of the higher employee

costs, though it has increased some menu prices and instituted a 20 percent service fee.

“Of the 20 restaurateurs I am close friends with in Seattle,” she said, “none have told me they are hiring fewer staff due to the increased minimum wage.”

Julie Weed contributed reporting.

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