

Fact Checking the Empire Center/American Action Forum Analysis of New York's Proposed \$15 Minimum Wage: Flawed Methods Produce Erroneous Results

Executive Summary

The Empire Center and American Action Forum (EC/AAF) have released a report, "[Higher Pay, Fewer Jobs](#)," predicting that Governor Cuomo's proposal to phase New York's minimum wage up to \$15 by 2021 statewide (and by 2018 in New York City) would result in the loss of hundreds of thousands of jobs across the state. But while the impact of a proposed minimum wage increase on New York's workers, businesses and economy is an important question, the EC/AAF report sheds little light on the answer.

In this policy brief we fact check the assumptions and conclusions found in the EC/AAF report. We find that:

1. The EC/AAF report is based on an outdated body of research, and two individual studies that have been critiqued by expert labor economists and found not to be credible. It therefore erroneously overstates the job loss effects of increasing New York's minimum wage to \$15.
2. Instead, "meta-studies" of the minimum wage research field show that the majority of credible studies in the U.S. find that minimum wage increases lead to higher take-home pay for affected workers with little or no adverse effect on employment levels. In part this is because when wages increase, businesses enjoy offsetting savings as a result of reduced employee turnover, improved morale and productivity, and improved customer service.
3. Economists who have looked carefully at the likely effects of a phased-in \$15 minimum wage conclude that it would have positive overall effects and could be manageably absorbed.
4. The EC/AAF report also ignores other important economic factors in New York, such as the reality of New York State's compensation-profit trends and the substantial costs to the taxpayers of low-wage employment practices.

Findings

EC/AAF Report Claim: The report claims that “credible research models” show that recent minimum wage increases in the U.S. —such as Congress’s increase in the federal minimum wage to \$7.25 during 2007-2009—resulted in significant job losses, and that those models can be used to project the impact of Governor Cuomo’s proposed \$15 minimum wage for New York.

Fact Check: What the report calls “credible research models” are, in fact, an outdated body of research that does not reflect the state-of-the-art in methods for analyzing the impact of minimum wages. Instead [the bulk of rigorous research on minimum wages in the U.S. over the past 20 years has reached exactly the opposite conclusion](#): that increases have had little to no adverse impact on employment.

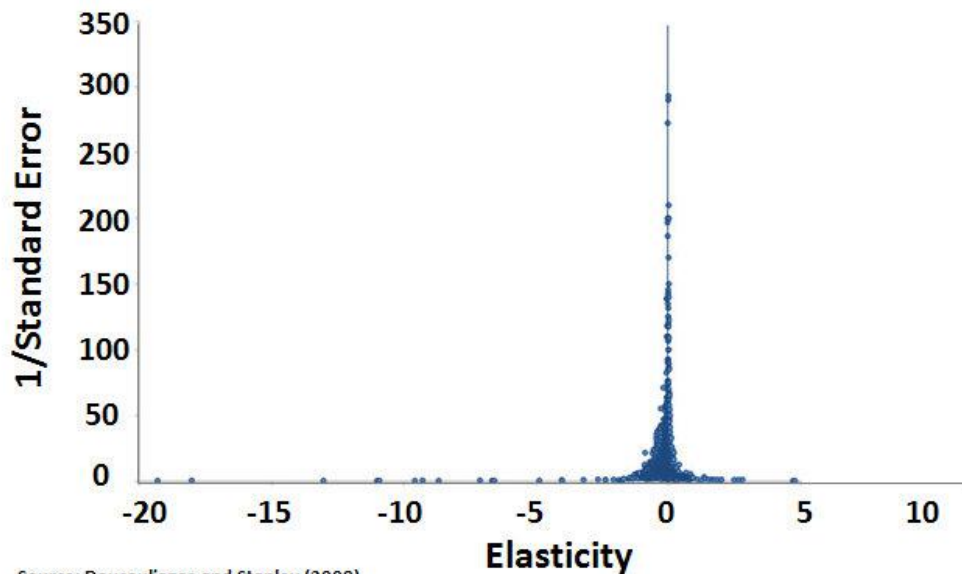
As Nobel prize-winning economist Paul Krugman explained in a recent address at the City University of New York, the new body of minimum wage research is “one of the most compelling sets of empirical results I’ve ever seen in economics.” [Krugman concludes that “there’s absolutely no reason to think that a fifteen dollar minimum wage will be a problem for New York.”](#) (Paul Krugman talk at CUNY Equality Forum, October 1, 2015).

EC/AAF Report Claim: The research model that the EC/AAF report uses to estimate what it calls its “low impact” estimate of the impact of a \$15 minimum wage in New York is the Congressional Budget Office’s (CBO) 2014 estimate of the impact of President Obama’s proposed \$10.10 federal minimum wage. Based on the 2014 CBO estimate, it projects that a \$15 minimum wage could cost New York 200,000 jobs.

Fact Check: The 2014 CBO estimate was widely criticized for not evaluating which body of minimum wage research is more reliable and basing its estimates on that body. As the Center for Economic and Policy Research has explained, [“The CBO chose not to referee a deep divide in the economics profession and, instead, awkwardly split the difference on estimates of the employment effects.”](#) The CBO “averaged” the findings of the more recent, sophisticated body of minimum wage research—which shows little to no adverse effects on employment—with the findings of the older, less sophisticated body of research. By averaging the findings of the two bodies, the CBO partially adopted the findings of the less reliable body of older research and therefore overstated the likely impact of minimum wage increases on jobs. As University of California economist Michael Reich explained in Politico, [“It makes no sense to take an average between a rigorous study and one that has been shown to be flawed.”](#)

Instead, “meta-studies” that survey and aggregate the findings of scores of minimum wage studies show how the CBO’s assumptions erroneously overstate the level of job loss indicated by most minimum wage research. The two leading meta-studies—by economists Hristos Doucouliagos and T.D. Stanley (2009) and Dale Belman and Paul Wolfson (2014)—show that the [vast majority of recent studies find minimum wage increases have little to no effect on employment levels or job growth](#). The following funnel graph from the first of these meta-studies illustrates how the job loss findings from most minimum wage research are clustered very close to zero (“elasticity” in the graph refers to a measure of the change in employment resulting from an increase in the minimum wage). It also shows that the most rigorous studies (those higher up on the vertical axis) found zero effect on jobs:

Funnel Graph of Estimated Minimum Wage Effects (n=1,492)



As the 2014 CBO estimate is therefore out of step with the bulk of credible minimum wage research and significantly overstates the impact of minimum wage increases on jobs, it is not a reliable basis for projecting the impact of a proposed increase.

EC/AAF Report Claim: The EC/AAF report goes on to calculate what it calls a “medium impact” estimate of the impact of a \$15 minimum wage in New York using the findings of minimum wage research by Jonathan Meer and Jeremy West (Meer & West). Based on Meer & West, it projects that a \$15 minimum wage could cost New York an even greater number of jobs—432,500.

Fact Check: Meer & West’s research is also not credible and [has been the subject of detailed criticism by more careful economists](#). Among other things, it implausibly concludes that small minimum wage increases result in large job losses in industries that do not contain many minimum wage workers, such as professional services, management services and construction. These results indicate that their findings are a statistical error, and not evidence of any real relationship, making it an inappropriate basis for estimating impacts of minimum wage increases.

EC/AAF Report Claim: Finally, the EC/AAF report calculates what it calls a “high impact” estimate of the impact of a \$15 minimum wage in New York based on the findings of minimum wage research by Jeffrey Clemens and Michael Wither (Clemens & Wither). Based on Clemens & Wither, it projects that a \$15 minimum wage could cost New York an even greater number of jobs—588,800.

Fact Check: Clemens & Wither purport to find that the very modest increase in the federal minimum wage from \$5.15 to \$7.25, over the period from 2007 to 2009, resulted in the loss of huge numbers of jobs for the U.S. economy. Clemens & Wither’s findings are implausible outliers and are far outside the range of employment effects found by the overwhelming

number of minimum wage studies. As detailed above, meta-studies surveying the field instead find that the employment effects found in most minimum wage studies are very small. As such, Clemens & Wither's purported findings are not a credible basis for modeling the impact of minimum wage increases.

EC/AAF Report Claim: The EC/AAF report argues that a \$15 minimum wage would not benefit New York's workers.

Fact Check: In reality, there is significant and growing economic evidence that the benefits of a \$15 minimum would be far-reaching and that the costs would be manageable. For example, more than [200 economists](#) have endorsed a \$15 federal minimum wage by 2020, finding that raising the minimum to \$15 an hour "will be an effective means of improving living standards for low-wage workers and their families and will help stabilize the economy. The costs to other groups in society will be modest and readily absorbed."

Similarly, using a [state-of-the-art model to estimate the employment and economic impacts of a \\$15 minimum wage in Los Angeles](#), economists from the University of California-Berkeley found that implementing a \$15 wage would raise pay for approximately 41 percent of the city's workforce, deliver an average raise of \$4,800 per worker per year (in 2014 dollars) and boost workers' spending by \$2.38 billion by 2019. On the employer and job-impact side, the analysis shows that, after a gradual phased-in, the \$15 wage would have little impact on total employment, and business operating costs would rise by just 0.9 percent by 2019.

The experiences of the first jurisdictions phasing their minimum wages up to \$15 are consistent with these analyses. In Seattle, the first major city to adopt a \$15 wage, [the region's unemployment rate hit an eight-year low](#) of 3.6 % in August 2015, significantly lower than the state unemployment rate of 5.3 percent. And in a front-page story titled "Apocalypse Not: \$15 and the Cuts that Never Came," [the Puget Sound Business Journal reported on "The minimum wage meltdown that never happened," explaining that Seattle's restaurant industry has continued to expand and thrive as the \\$15 wage phases in.](#) King County, where Seattle is located, is on track to break last year's record for the number of business permits issued to food service establishments. And business owners who had publicly opposed the \$15 minimum wage are in the process of expanding operations.

EC/AAF Report Claim: The EC/AAF report suggests that New York's workers do not need \$15 an hour.

Fact Check: Analysis of cost-of-living data in all regions of New York, including all major upstate cities and rural regions of the state, shows that by 2021, a single worker will need \$15 to pay the bills, and workers downstate and those supporting children will need much more.¹

EC/AAF Report Claim: The EC/AAF report argues that New York's employers could not afford a phased-in \$15 minimum wage and would be forced to cut significant numbers of jobs.

Fact Check: The Empire Center / American Action Forum report does not look closely at the on-the-ground reality in New York in terms of wages and broader economic trends. U.S.

Commerce Department data show that business profits per worker in New York State grew by 61% between 2001 and 2013 while labor compensation per worker rose by only 34%. Clearly, a wide gap has emerged in New York between the profitability of business and what workers are paid. And within the labor compensation sphere, highly paid executives have received large raises while the inflation-adjusted pay of most workers has stagnated or declined.

There is a [growing recognition on the part of businesses and institutional investors that higher wages are key to reducing turnover, improving customer service, and enhancing profitability](#). Several large employers including Walmart, Target, Aetna, IKEA and the Gap are starting to raise wages as a result. A recent study from Purdue University's School of Hospitality and Tourism Management found that the fast-food industry could accommodate a \$15 an hour minimum wage through savings related to reduced turnover and small price increases not much greater than recent experience.²

EC/AAF Report Claim: The EC/AAF report implies that low wages have no cost to the public.

Fact Check: The EC/AAF report ignores the fact that a high proportion of low-wage workers are paid so little that they qualify for one or more forms of public assistance. In effect, taxpayers end up subsidizing low-wage employment practices at an estimated total cost of \$13 billion each year in New York State.³

An increase in the minimum wage would reduce companies' ability to shift costs to government programs, and would result in considerable savings at all levels of government in spending on various forms of public assistance as well as generate increased payroll and individual income taxes paid by workers. A recent Urban Institute report analyzed several policy options for reducing poverty in New York City and estimated the net fiscal savings (resulting from decreased need for public assistance and increased income and payroll tax payments) to all levels of government from an increase in the minimum wage to \$15. The authors concluded that the dollar amount of the net fiscal savings was equal to 43 percent of the rise in workers' aggregate earnings as a result of the minimum wage increase.⁴

Endnotes

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¹ David Cooper, Economic Policy Institute, *Testimony before the New York State Department of Labor Wage Board Hearing on Increasing the Minimum Wage in the Fast-Food Industry*, June 22, 2015, Table 3. <http://www.epi.org/publication/testimony-before-the-new-york-state-department-of-labor-wage-board-hearing-on-increasing-the-minimum-wage-in-the-fast-food-industry/> The wage rates calculated in Table 3 are based on cost-of-living data as of 2018. Projecting those rates forward to 2021 based on current inflation estimates shows that in all regions of the state, a full-time single worker will need at least \$15 per hour to meet basic living costs.

² Christopher Gunn and Thomas Michl, “Higher Wages Serve Up Better Economics for Workers and NY,” *Oneida Dispatch*, August 18, 2015. <http://www.oneidadispatch.com/opinion/20150818/guest-column-higher-wages-serve-up-better-economics-for-workers-and-ny>

³ Ken Jacobs, Ian Perry, and Jenifer MacGilvary, *The High Public Cost of Low Wages, Poverty-Level Wages Cost U.S. Taxpayers \$152.8 Billion Each Year in Public Support for Working Families*, University of California Berkeley Center for Labor Research and Education, April 2015. Not included in the Berkeley report but incorporated in the \$26 billion cited in the text above is the \$1 billion annual cost of New York State’s Earned Income Tax Credit.

⁴ Linda Giannarelli, Laura Wheaton and Joyce Morton, *How Much Could Policy Changes Reduce Poverty in New York City?* Urban Institute, February 2015. Prepared for the Federation of Protestant Welfare Agencies, Catholic Charities, and UJA Federation, Appendix Tables D-5 and D-6. <http://www.urban.org/research/publication/how-much-could-policy-changes-reduce-poverty-new-york-city>