



Institute for Research on Labor and Employment

For immediate release

Study shows that minimum wage increases are a real boost for restaurant workers and don't hurt business.

CONTACT: Jacqueline Sullivan | IRLE Media Relations
jsullivan@berkeley.edu, (510) 642-0052

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Berkeley - When San Jose increased its minimum wage from \$8 to \$10 an hour in 2013, the city's low-wage workers received an overnight wage boost that led to small price hikes at restaurants of about 1.5 percent on average and there was no decline in employment, according to a [brief released today](#) by University of California, Berkeley's [Institute for Research on Labor and Employment](#).

Earlier this month, voters headed to the ballot box in the states of Arizona, Colorado, Maine and Washington and passed large minimum wage increases – to \$12 an hour and higher. These states join California, New York, Oregon and eight large U.S. cities that will be increasing their minimum wages to \$15, or close to it.

Sharp pay increases for the least-compensated workers are clearly welcome, but what are the costs? Will minimum wage increases reduce jobs, lead to price increases, or reduce profits? The 2013 minimum wage increase in San Jose provides hints as to how things will play out across the country.

"We studied restaurants because they employ more low-wage workers than any other industry," said Sylvia Allegretto, co-author of the brief. "Our analysis of menu prices shows that restaurants modestly increased prices to adjust to the wage increase," she said.

Berkeley researchers found that increasing the minimum wage did lead to modest price increases in San Jose restaurants. Consumers absorbed the increase, equivalent to about 15 cents for a \$10 meal.

The Berkeley team looked at internet-based restaurant menu websites to see how menu prices changed in San Jose compared to surrounding areas. Among their key findings:

- Although the local minimum wage increased overnight by 25 percent to \$10, it boosted wages without reducing employment.
- The amount that restaurants increased their prices was similar to their actual cost increases due to the wage hike, suggesting that profits remained the same.
- These price increases in San Jose did not undermine the local economy's competitiveness relative to its neighbors.
- The higher local minimum wage effectively transferred income from consumers –

who pay slightly higher prices – to a smaller group of low-wage workers, who benefit from large income gains.

Putting all these effects together, the brief authors conclude that minimum wage increases are absorbed by small price increases and are not causing the layoffs and profit losses that workers and business owners feared.

“Looking at the entire picture, the gains for low-wage workers are significant and a higher minimum wage means a more widely-shared prosperity in San Jose,” said Michael Reich, economics professor and co-author of the brief.

“The price increases – spread across all consumers – absorbed nearly all the cost increases that restaurants faced as a result of the higher wage floor,” he concluded.

Links

Policy Brief: “Are minimum wage increases absorbed by small price increases?” – November 2016

Working Paper: “Are Local Minimum Wages Absorbed by Price Increases? Estimates from Internet-based Restaurant Menus”

CONTACTS

Sylvia Allegretto, Co-chair, Center on Wage and Employment Dynamics at the Institute for Research on Labor and Employment, University of California, Berkeley, allegretto@berkeley.edu, (510) 643-7080 or (510) 289-9146 (cell)

Michael Reich, Co-chair, Center on Wage and Employment Dynamics at the Institute for Research on Labor and Employment, University of California, Berkeley, mreich@econ.berkeley.edu, (510) 643-7079

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