The Employment Effects of a $15 Minimum Wage in the U.S. and in Mississippi: A Simulation Approach

Summary of Methods and Key Findings

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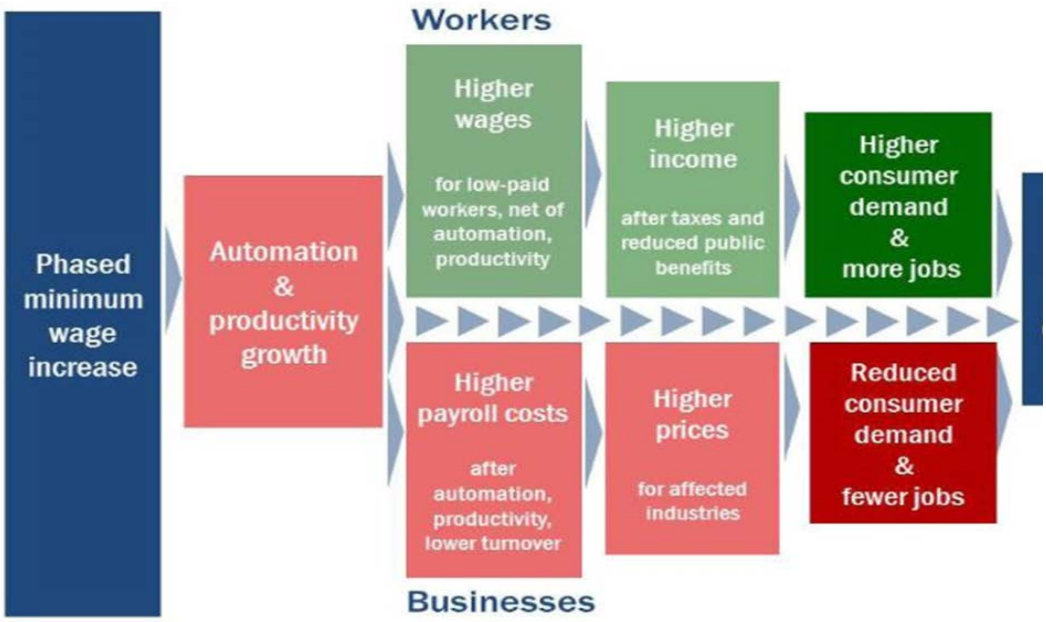
Methods and Key Findings

Methods

We estimate a calibrated labor market model that we created specifically to analyze the effects of a $15 minimum wage. We take into account how workers, businesses, and consumers are affected and respond to such a policy and we integrate their responses in a unified manner. In doing so, we draw upon modern economic analyses of labor and product markets. As we explain in the report, the main effects of minimum wages are made up of substitution, scale, and income effects. The figure below provides a guide to the structure of our model.

Figure 1. Berkeley CWED minimum wage model



Our estimates compare employment numbers if policy were adopted to employment numbers if the policy had not been adopted. Other factors that may affect employment by 2024 are therefore outside the scope of our analysis.
Our analysis incorporates recent laws that raised state minimum wages, such as in New York State and California. However, we ignore laws that raise minimum wages at the city level. We do so to simplify the presentation. We pay special attention to Mississippi because it is one of the lowest-wage states in the U.S.

Key Findings

The policy's effects on workers by 2024

- Increasing the minimum wage to $15 would increase earnings for 41.5 million workers, or 29.2 percent of the U.S. workforce.

- Among those getting raises, annual pay would increase 17.3 percent, or about $3,470 (in 2016 dollars) on average.

Effects on businesses and consumers by 2024

- Three industries account for more than 40 percent of the U.S. private sector workers who would get increases: retail trade (18.2 percent), restaurants (15.6 percent), and health services (10.5 percent). The remaining low-wage workers are scattered among a broad variety of industries. Total wage costs would increase 1.9 percent across all employers.

- Restaurants comprise the most affected sector: 67.8 percent of workers in the restaurant industry would receive a wage increase. Total wage costs in restaurants would increase 11.3 percent.

- Automation, increases in worker productivity and reduced employee recruitment and retention costs would offset some of these payroll cost increases.

- Businesses could absorb the remaining payroll cost increases by increasing prices by 0.6 percent through 2024. This price increase is well below the annual inflation rate of 1.7 percent over the past five years. Prices in restaurants would increase 4.3 percent by 2024.

- The consumers who would pay these increased prices range across the entire income distribution.

Net effect on employment in the U.S. and in Mississippi by 2024

- We estimate a very small increase in employment growth, relative to what would occur without the minimum wage increase: 90,000 more jobs by 2024, which corresponds to 0.1 percent of projected 2024 employment. By comparison, census benchmark revisions of annual employment have averaged 0.3 percent

over the past decade and the Congressional Budget Office projects that employment in the U.S. will grow 3.15 percent in the same time period.

- Our estimates for Mississippi project a similar positive (0.1 percent) effect on employment.

Summary of key findings

- A $15 nationwide minimum wage by 2024 would generate a significant increase in living standards for about 41.5 million workers and their families in the U.S. while creating a minimal effect on employment and a small price increase borne by all consumers. The effects in Mississippi would be roughly similar.

- How can such a major improvement in living standards occur without adverse employment effects? While a higher minimum wage induces some automation, as well as increased worker productivity and slightly higher prices, it simultaneously reduces worker turnover and increases worker purchasing power.

- Our results leave open the possibility that minimum wages much higher than $15 might generate negative employment effects. At $15, however, the negative and positive effects on employment largely offset each other. A phased-in $15 minimum wage will be absorbed partly by employee turnover reductions and productivity increases, and mainly by modest price increases in restaurants and by increases in consumer spending.