The Effect of Minimum Wages on Low-Wage Jobs

The research question posed by Cengiz et al. is what is the overall effects of minimum wages on low-wage jobs?. To answer the question, the authors use a difference-in-difference design to estimate the impact of minimum wage increases on the entire frequency distribution of wages and subsequently focus on changes at the bottom of the distribution to estimate the impact on employment and wages of affected workers. Their approach relies on the idea that the effects of the policy can be inferred from the localized employment changes around the minimum wage. An increase in the minimum wage will directly affect jobs that were previously paying below the new minimum wage. To identify the effect of the minimum wage on the frequency distribution of wages, they implement an event study analysis that exploits 138 prominent state-level minimum wage increases between 1979 and 2016. We find that an average minimum wage hike led to a large and significant decrease in the number of jobs below the new minimum wage in the five years after implementation. At the same time, there was clear evidence for the emergence of excess jobs at or slightly above the minimum wage. We examine whether there is a shift from low-skill to high skill workers at the bottom of the wage distribution by partitioning workers into groups based on education and age. No evidence that low-skilled workers are replaced with high-skilled workers following a minimum wage increase. We show that the minimum wage is likely to have a negative effect on employment in the tradeable sector, and in manufacturing in particular—with an employment elasticity with respect to own wage of around −1.4—although the estimates are imprecise. At the same time, the effect of the minimum wage is close to 0 in nontradeable sectors (such as restaurants or retail), which employ most minimum wage workers in the United States today. This evidence suggests that the industry composition of the local economy is likely to play an important role in determining the disemployment effect of the minimum wage. By disaggregating the standard difference-in-differences estimates by wage bins, we can identify the effects of the minimum wage on overall employment and obtain meaningful first-stage wage effects at the same time. It is worth noting that the disagreement on the choice of specification for estimating the impact of minimum wages on teen employment is also driven by these early period confounding shocks. We find that in the post-1992 period, there is little evidence of disemployment for teens across any of the standard specfications.

We infer the effect of the minimum wage from the employment changes at the bottom of the wage distribution. We exploit state-level variation in the minimum wage and identify the counterfactual distribution using a difference-in-differences event study design. By focusing on employment changes around the event window, we incompletely capture long-run effects of the minimum wage. Nevertheless, as we show below, we find no evidence of a change in employment up to five years after the minimum wage hike, and so it strikes us as unlikely that our empirical design misses important long-term employment changes. There are numerous advantages of decomposing the aggregate employment changes by wage bins. First, such a decomposition allows us to focus on employment changes locally around the new minimum wage—the part of the wage distribution where we expect the policy to play a role.

Difference-in-Differences with Multiple Time Periods and an Application on the Minimum Wage and Employment

From what I understand, this is still a regular diff-in-diff except it is deigned to have more than two periods and variation in treatment timing. There are three important factors to consider: 1) there are multiple time periods, 2) there is variation in the timing of treatment, and 3) when there is “parallel trends assumption” holds.

Do minimum wage increases reduce crime?

The current study assesses the credibility of the CEA claim by comprehensively examining the relationship between minimum wages and crime. Using data from the 1998-2016 Uniform Crime Reports (UCR) and the 1998-2016 waves of the National Longitudinal Study of Youth 1997 (NLSY97), difference-in-differences estimates provide little evidence of crime-reducing effects of the minimum wage. Instead, we find robust evidence that minimum wage hikes increase property crime arrests among teenagers and young adults ages 16-to-24, a population for whom minimum wages are likely to bind (Bureau of Labor Statistics 2017). We estimate a property arrest elasticity with respect to the minimum wage of 0.2. This result is consistent with adverse labor demand effects of the minimum wage, a result that we confirm using data from Current Population Survey Outgoing Rotation Groups (CPS-ORG). Our confidence in the common trends assumption underlying our identification strategy is bolstered by event-study analyses. Furthermore, we find little evidence that minimum wage increases affect arrests for violent offenses, or net crime among older individuals, but do increase delinquency-related crimes related to teenage idleness (Jacob and Lefgren 2003; Luallen 2006; Anderson 2014). In contrast to Agan and Makowsky (2020), we find no evidence that increases in the minimum wage reduce net crime among working-age individuals, suggesting that different margins of criminal behavior may be differentially affected by minimum wages.

The Minimum Wage, EITC, and Criminal Recidivism

In this paper, we exploit changes in minimum wage laws and state EITCs to estimate the impact of these policies on the probability recently released prisoners return to prison. Using records on nearly six million offenders released between 2000 to 2013, and admissions through the end of 2014, we find that, on net, higher minimum wages decrease recidivism. These results suggest that while increases in the minimum wage may potentially reduce labor demand among the population of individuals with criminal records, negative employment effects are dominated by the labor-crime substitution effects of increased wages relative to potential criminal earnings. This observed reduction, within our theoretical framework, implies that, on net, there are more individuals for whom their wages of crime are higher than their uncontrolled market wage—the higher minimum wage draws them into the legal labor market, a phenomenon determined on the supply side of the labor market. Exploratory analysis of CPS data, replicating from the literature prior estimates of employment effects of the minimum wage on respondents more likely to have a felony record, suggests the possibility of net positive employment effects of minimum wages on employment for those carrying a criminal record.