

How can Northern California learn from Seattle's minimum wage experience?

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THE MINIMUM WAGE STUDY
UNIVERSITY *of* WASHINGTON

Table 1: Minimum Wage Schedule in Seattle under the Seattle Minimum Wage Ordinance

Effective Date	Large Employers ^a		Small Employers	
	No benefits	With benefits ^b	No benefits or tips	Benefits or tips ^c
	Before Seattle Ordinance			
January 1, 2015	\$9.47	\$9.47	\$9.47	\$9.47
	After Ordinance			
April 1, 2015	\$11.00	\$11.00	\$11.00	\$10.00
January 1, 2016	\$13.00	\$12.50	\$12.00	\$10.50
January 1, 2017	\$15.00 ^d	\$13.50	\$13.00	\$11.00
January 1, 2018	\$15.45	\$15.00 ^e	\$14.00	\$11.50
January 1, 2019			\$15.00 ^f	\$12.00
January 1, 2020				\$13.50
January 1, 2021				\$15.00 ^g

Results

- > **Defining the low-wage labor market as jobs paying under \$19/hour**
 - 200% of the baseline minimum wage (\$9.47)
 - Inflation adjusted to mid-2015 dollars
 - Check whether results change if we move the threshold
- > **Using synthetic control method**
 - Compare Seattle to sections of Washington outside King County.



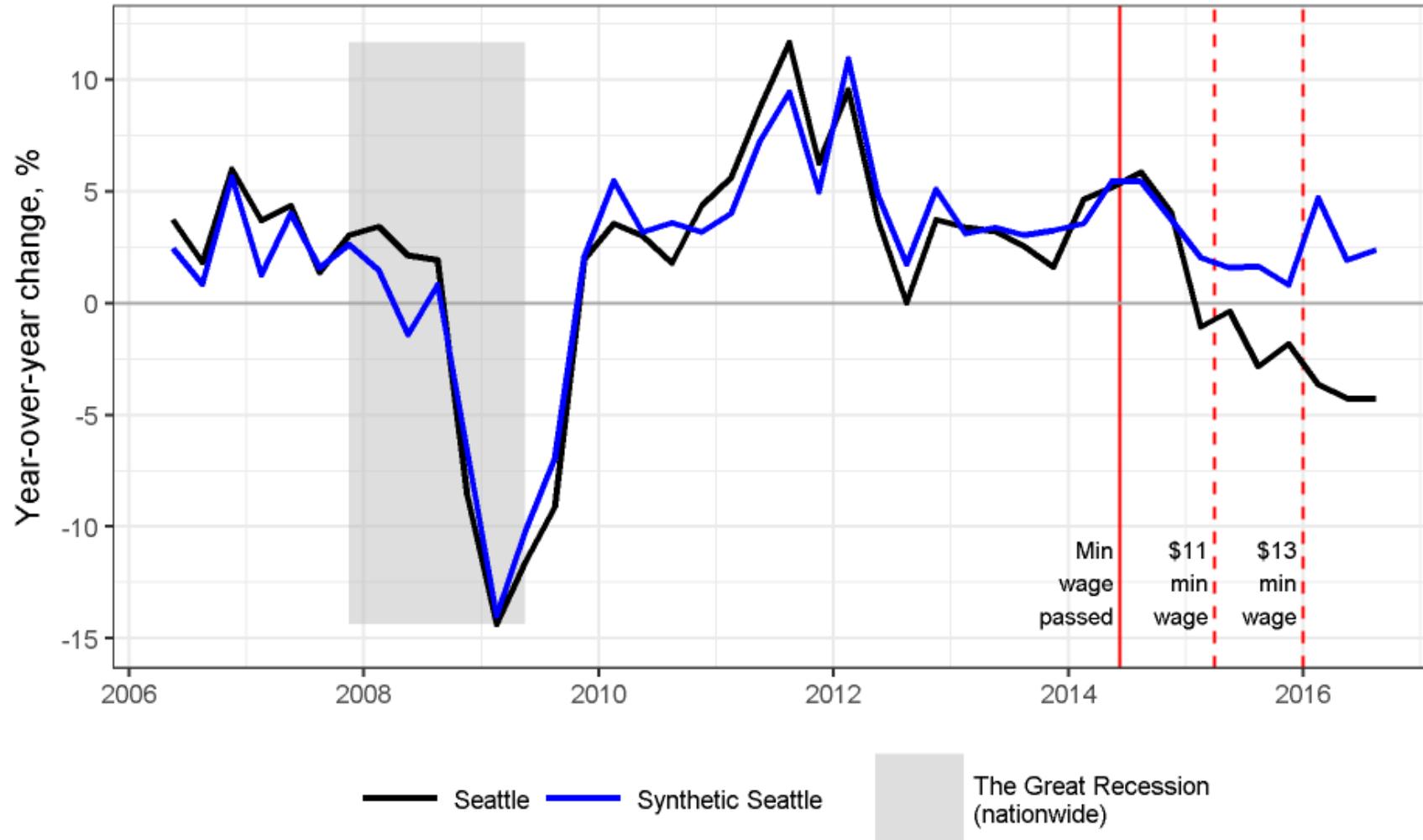
Panel A: Average Wage



— Seattle — Synthetic Seattle

■ The Great Recession (nationwide)

Panel B: Hours Worked



Implications

- > **3% increase in wages (wages only rose a little faster than in unaffected areas).**
- > **9% reduction in hours.**
- > **3-to-1 ratio much larger than previous studies.**
- > **Compare to “the Berkeley study”**
 - **Instead of “low wage” jobs, study “restaurant industry” jobs.**
 - > **Most low wage jobs are not in the restaurant industry.**
 - > **Most Seattle restaurant jobs paid above \$13 to start.**
 - **When we use same methodology, we get the same result.**

Concern 1: Establishments with multiple locations may have a single UI account.

Table 2: Characteristics of Included and Excluded Firms, Washington State

	Included in Analysis	Excluded from Analysis	Share Included
Number of Firms	123,180	14,917	89.2%
Number of Establishments (i.e., Sites)	140,451	Unknown	
Total Number of Employees	1,672,448	1,019,875	62.1%
Number of Employees paid <\$19/hour	725,231	425,023	63.0%
Employees / Firm	14	68	
Employees / Establishment	12	Unknown	

Notes: Firms are defined as entities with unique federal tax Employer Identification Numbers. Statistics are computed for the average quarter between 2005.1 and 2016.3. “Excluded from Analysis” includes firms whose location could not be determined.

Percent of low-wage employees included, selected industries

Industry	Percent of low-wage employees in locatable firms
Accommodation and Food Services	63.7%
Health Care and Social Assistance	61.6%
Retail Trade	42.6%
Manufacturing	75.1%
Educational Services	78.6%
Agriculture, Forestry, Fishing, and Hunting	74.8%
Administrative/Support/Waste Management Services	59.2%
Arts, Entertainment, and Recreation	85.8%
Construction	89.9%

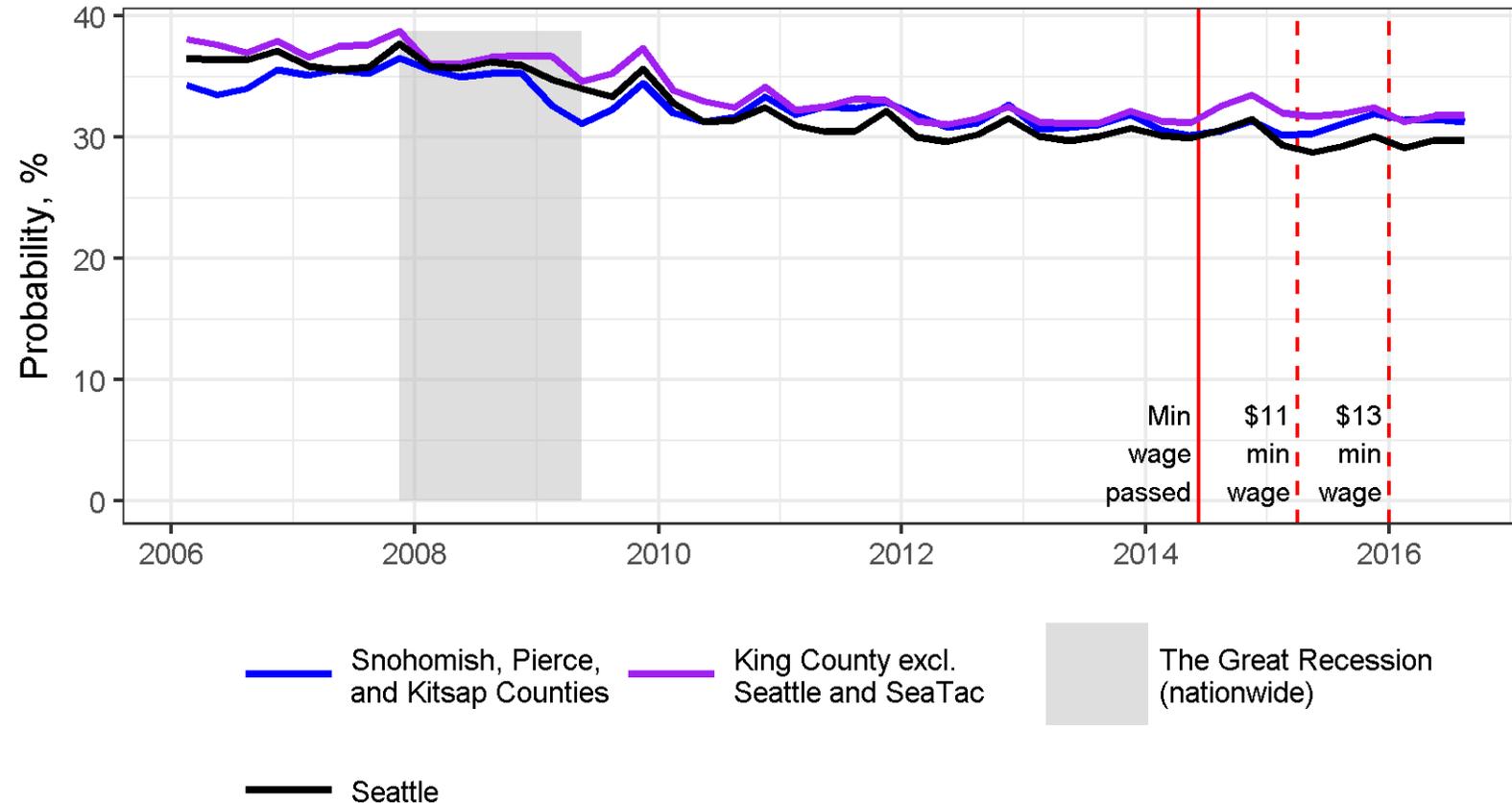
Is employment shifting to the non-locatable sector?

- > Law permits smaller businesses to pay lower wages.
- > Perspective of a wholesale business co-owner interviewed by SMWS:

“I had someone come in from the City talking about how I was exempt from the \$15 an hour wages because I was not a larger business and I told him, ‘You know, you have no clue because the minute you changed it for any size business, it raised the bar for everybody else’.”

Figure 1: Rates of Transition from Locatable to Non-Locatable Employment

**Panel A. $P(\text{non-locatable job in } t \mid \text{locatable and paid under } \$19/\text{hour in } t-4, \text{ employed in WA in } t)$
by initial location**



Do non-locatable businesses behave differently?

- > **SMWS Survey of Seattle Employers: Consistently across multiple survey waves, multi-location respondents report equal or greater likelihoods of reducing staffing in response to the minimum wage increase.**

Other important data limitations

- > **Excludes employment not covered by UI, including contract workers (Uber drivers; 1099 recipients).**
- > **Excludes informal sector.**
- > **Tip income likely underreported.**
- > **Focus in this analysis: employment in the City of Seattle. Outcomes for employees may vary due to access to employment opportunities outside the City.**

Concern 2: Strong labor demand is pushing wages above \$19 threshold, or any threshold we might choose.



Figure 2: Changes in the Wage Distribution in Seattle

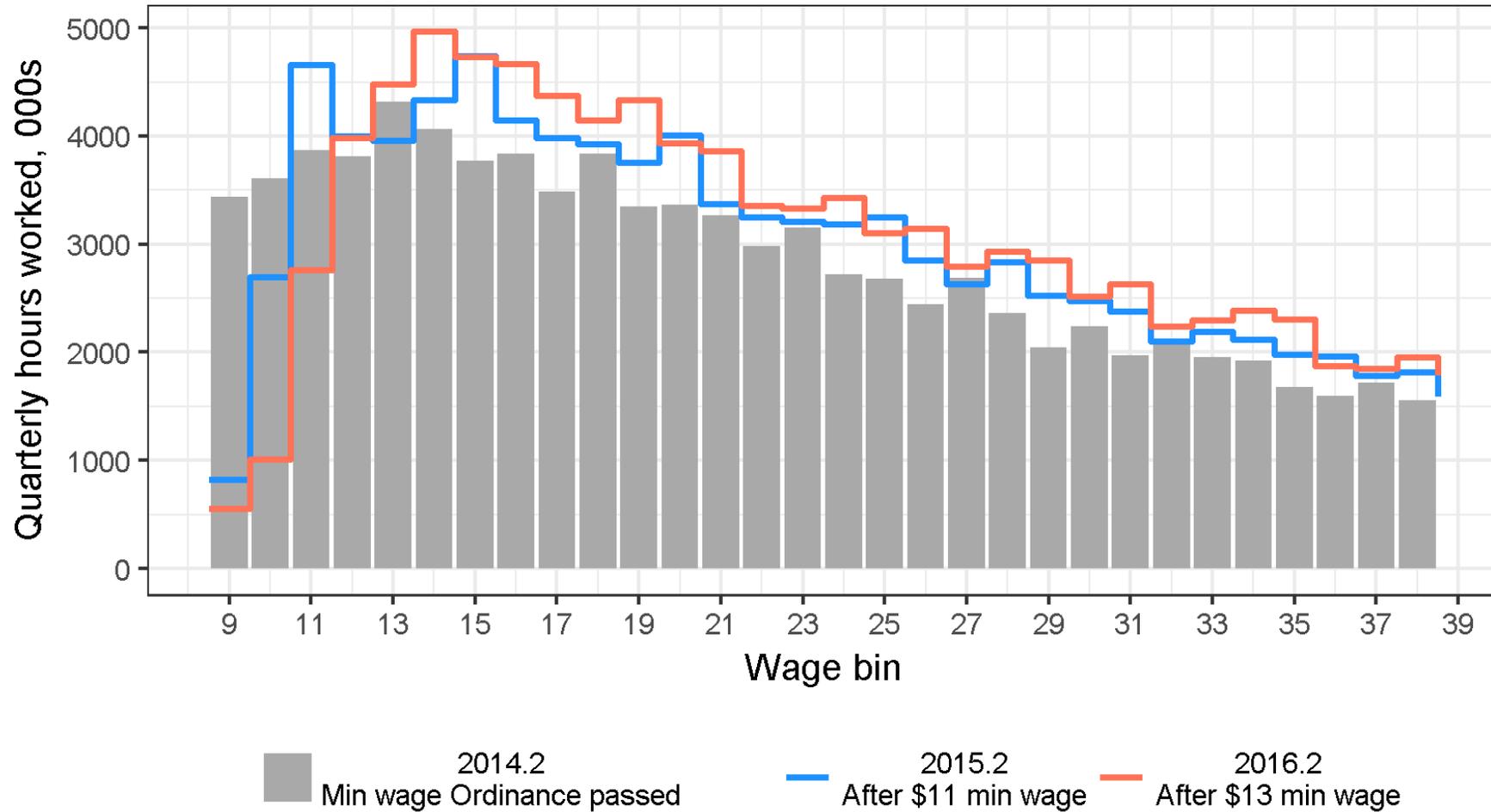


Figure 3: CDF of wage distribution for those earning under \$19/hour one year prior

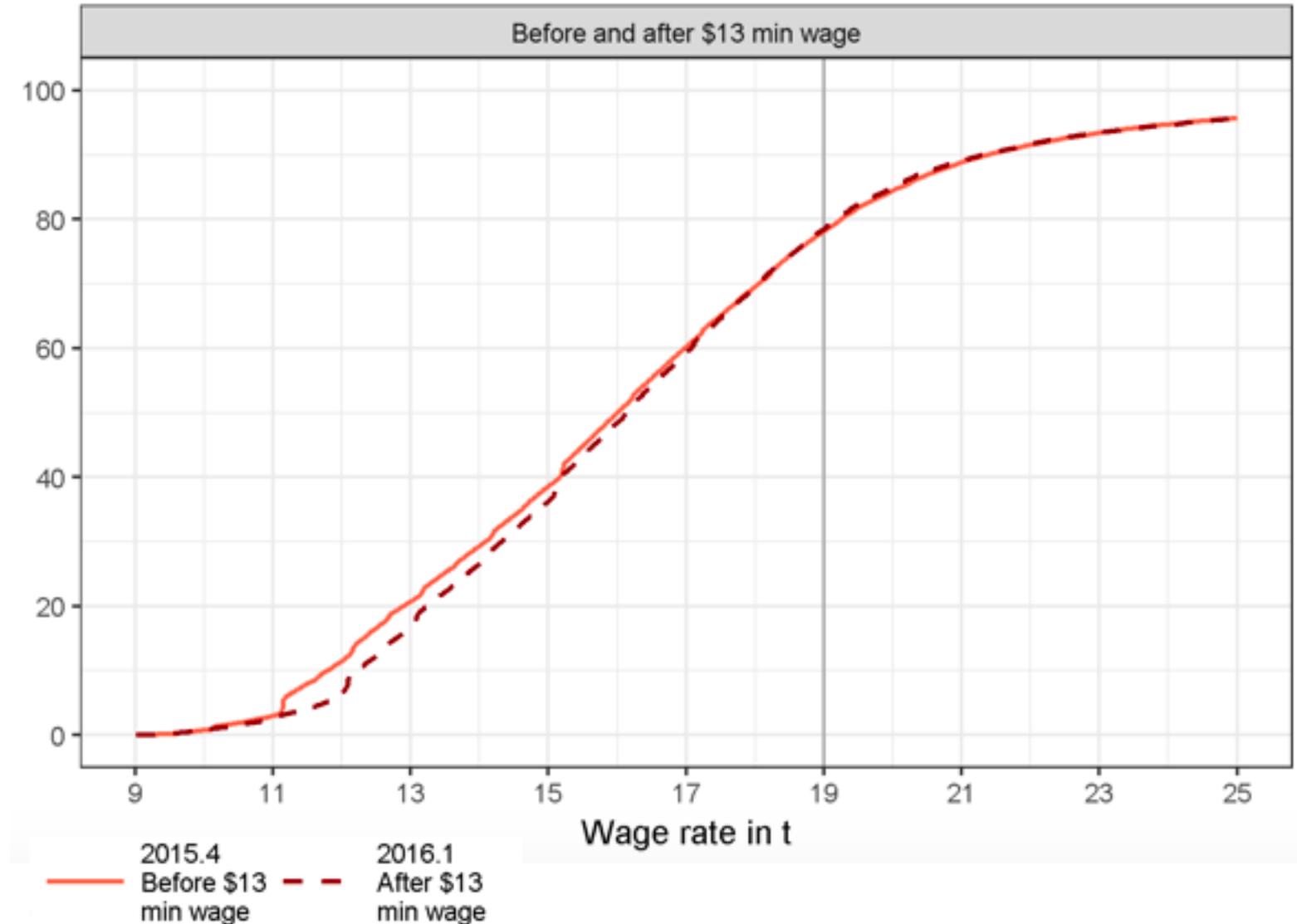
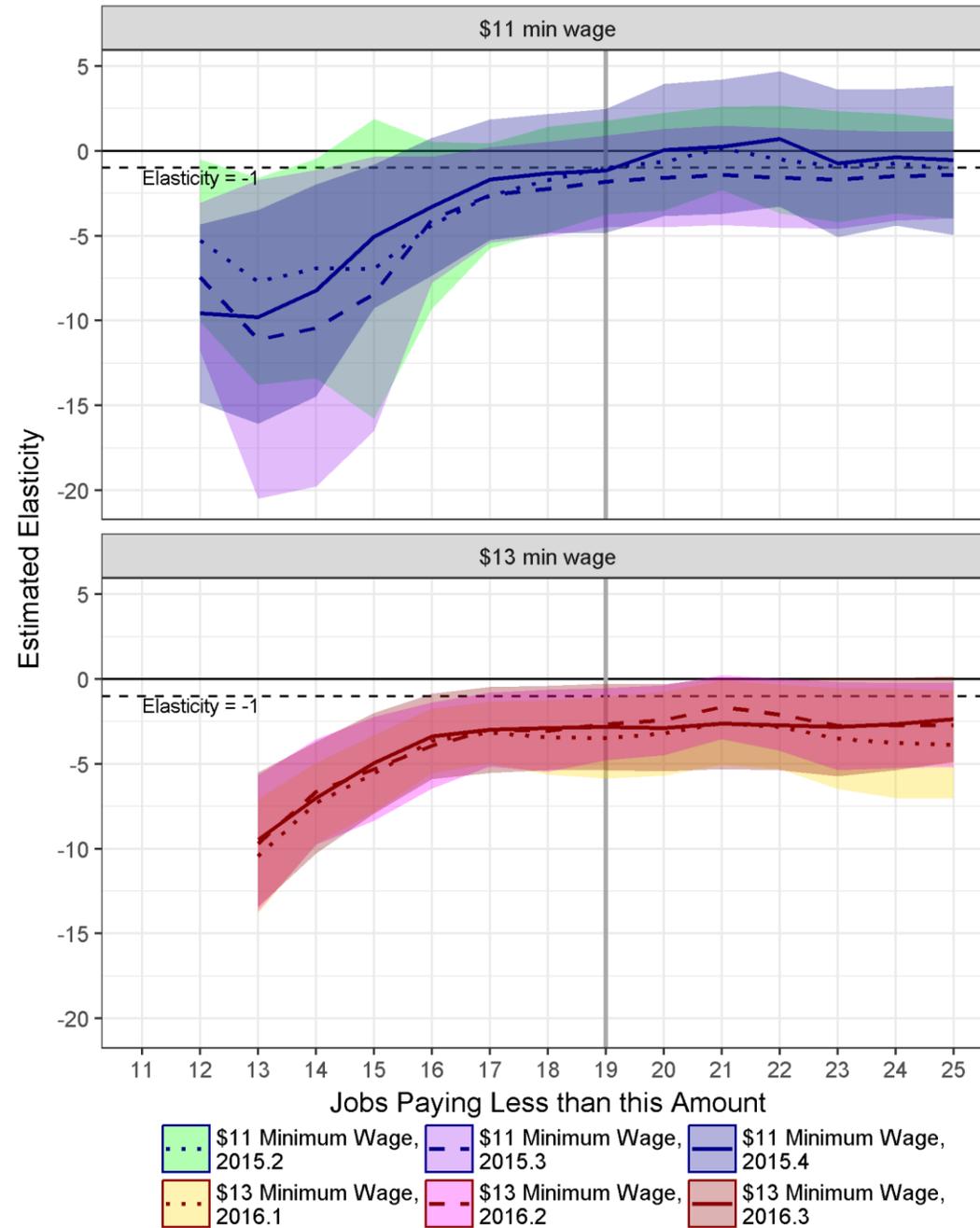


Figure 9: Sensitivity of the Estimated Elasticity of Labor Demand With Respect to Wages Using Different Thresholds



Concern 3: The results are “too large,” Seattle has such a low unemployment rate, etc.

Is a 9% hours reduction “too large?”

- > **Of every 11 hours worked in affected wage bands, cut 1.**
 - **Just-in-time scheduling: reduce staffing on slow shifts (may be altered by scheduling ordinance effective 7/1/2017).**
 - **Salaried managers perform additional tasks including opening/closing.**
 - **The Starbucks app.**
 - **Re-allocate tasks to customers (busing dishes).**
 - **Improve productivity: same amount of work accomplished with fewer worker hours.**



Perspective of a distribution firm manager interviewed by SMWS.

“No. No, you can’t increase your prices because it a competitive market. I mean, the market drives the prices. You can’t. I’m a [type of good] company. If you look in the phone book, there’s 15 other [companies that sell the same kind of good]. No, I mean, all I can do to tighten it up as far as, like, maybe making runs more efficient. You know, day-to-day operations, but it’s just really hard. We’re pretty thin as it is, I mean, I keep things pretty thin as it is. I try to control the overtime and things like that. I have no problems with overtime, but I think that it’s not productive hours. Things like that, I guess.”



Where's the unemployment?

- > **SMWS worker study: recruited 55 parents working for wages under \$15 in Seattle in early 2015, track them for 2+ years, up to 7 re-interviews/phone check-ins.**
 - 23% of respondents experienced an unemployment spell (excluding direct job-to-job transitions) over two years.
 - 17% of respondents were unemployed at least half the times we contacted them.
 - **Caveat: no counterfactual. And to be sure, other respondents are experiencing very positive things. But there is indeed unemployment.**

Perspective of a 46-year-old African-American/ Hispanic single mother interviewed by SMWS

“Everybody that I know is doing multiple things as far as employment. People are really hustling to be able to get by. I’m knowing a lot of people in lower income brackets. It’s a struggle for survival. It doesn’t seem like their struggle has gotten any easier...”

Perspective of a 49-year old African refugee & single mother of 3 interviewed by SMWS

“...it seems a lot more people are investing in Seattle, but not for the low income. They're not interesting for the low-income, they're investing for well-to-do, and rich people. Houses are being built left and right, but we cannot afford them.”

Perspective of an African-American mother interviewed by SMWS

“I know a lot of people that are moving out. They have to. They just cannot afford it. Rent is going up so much.”

(this respondent experienced spells of unemployment and homelessness across interview waves)



Employment prospects may be most severely reduced for new workers ineligible for UI.

> Perspective of retail owner interviewed by SMWS:

“Clearly, the first people to suffer are going to be young people trying to get in, because how can any of us afford to train someone at that wage?

So we’re going to... I’m always looking for someone with experience. I can’t afford to pay an extra person that doesn’t know what they’re doing. Not at that level. We would never, we couldn’t take... We used to employ high school kids, sometimes in the summer. Sometimes at Christmas. We won’t be doing that again, not at that price.”



How will \$15 work in Northern California?



It's not the same policy...

- > **Seattle imposed a \$3.53 increase (on franchises and large businesses) over 9 months.**
- > **California's minimum wage law allows more time.**
 - To date, increases have only been 50 cents per year.
 - Increases of \$1 per year will soon begin.
- > **California's law defines small businesses differently.**
 - In Seattle, most franchises follow the large business schedule.

There aren't many places like Seattle...

- > **Economy adding tens of thousands of high-paying jobs every year.**
- > **Construction boom, population growth.**
- > **But also....**
- > **High and escalating housing costs, displacement of low-income families.**
- > **High and escalating commercial rents, putting additional strain on business.**

Important questions

- > **What will the general inflation rate be over the next few years?**
- > **What trends will we see in workforce demographics?**
- > **Does the minimum wage just accelerate inevitable shifts in the labor market?**

Perspective of a retail owner interviewed by SMWS

Now you didn't ask me this, but it was one of the worst rollouts of any policy I've ever seen. There was no information out there. The mayor's site, you couldn't even understand what it was about. Three weeks before it went into effect they sent out a threatening postcard to all business, a threatening postcard, where they direct you to a site. And it was the first time I actually understood the schedules even though I had read as much as I could reading online about them. It was incomprehensible.... And the city was totally inept, completely inept execution of that. Yet they were so busy patting themselves on the back, "We're the highest minimum wage in the country". It was truly insulting.



Perspective of a retail store owner interviewed by SMWS

“I don’t mind to pay more to the employees, but the Ordinance itself, for me, is: why do we have to pick on the employers to do this kind of wealth redistribution. I think there should be welfare that everybody has to be taking part to increase the wage or increase the income for those people.”