

TESTIMONY OF JACOB L. VIGDOR, Ph.D.
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UNIVERSITY OF WASHINGTON, SEATTLE
BEFORE THE COMMITTEE ON THE BUDGET
UNITED STATES SENATE
ON
“Insights from the Seattle Minimum Wage Study”

February 25, 2021

Good morning Chairman Sanders, Ranking Member Graham and members of the Committee. For the record, my name is Jacob Vigdor and I serve the people of Washington state as Professor of Public Policy and Governance at the University of Washington in Seattle. Thank you for the opportunity to appear before you today. Let me state at the outset that any opinions I express to you today are my own and do not reflect official positions of the University of Washington or any other organization with which I am affiliated.

In June 2014 the City of Seattle passed an ordinance imposing a city minimum wage, rising in stages to \$15 per hour and indexed to inflation thereafter. Today, the minimum wage is \$16.69 per hour for most employees.

On the day the City Council passed this ordinance, it also passed a resolution calling for a five-year independent academic study of its impact. From 2014 until 2019, I had the privilege of leading the University of Washington’s efforts to conduct this study, coordinating the efforts of dozens of faculty, staff, and students.¹ Our study accepted no support from business groups and no support from labor groups either. We conducted repeated surveys of business owners and managers. We sent interviewers and interpreters into the homes of parents trying to raise children on low wage jobs. We sent research assistants into the streets and grocery store aisles of Seattle and its suburbs once a month, going door to door tracking consumer prices. And we used administrative employment data from Washington state to track the experiences of individual workers over time.

We learned a lot in the course of doing all these things, and I’m here today to share some of those lessons. I can summarize these lessons under two basic headings: businesses adapted, and while not every worker came out ahead, the ones struggling the hardest to make ends meet saw meaningful increases in their paychecks.

¹ I wish to acknowledge in particular the work of my six faculty co-investigators: Dr. Scott Allard, Dr. Heather Hill, Dr. Mark Long, Dr. Jennifer Otten, Dr. Robert Plotnick, and Dr. Jennifer Romich. Ekaterina Jardim, Emma van Inwegen, and Hilary Wething also worked tirelessly to produce the findings that form the backbone of this testimony.

If you're the owner of a business that pays low wages, how do you adapt to a minimum wage increase? If your business is comfortably profitable, one option is to accept lower profits. And some Seattle businesses did that. But not every business in Seattle is comfortably profitable. In our research we heard from manufacturers trying to contain costs in order to compete against imported goods. We heard from bricks-and-mortar retailers competing against the internet. And we heard from restaurant, bar, and coffee shop owners competing against one another.

Even without raising the minimum wage, competition can be too much for some businesses. In a year where the minimum wage stays the same, about 5 percent of all businesses with employees in Seattle shuts down. To be more precise, the shutdown rate averages 51 out of every 1,000 businesses.²

In April 2015 Seattle's minimum wage went up to \$11/hour in large businesses (which the city defined as any establishment with at least 500 employees worldwide). My collaborators Ekaterina Jardim and Emma van Inwegen found no effect of this increase on business exit rates.³ Raising the minimum wage by \$1.53 did not cause businesses to close. They adapted.

In January 2016 Seattle's minimum wage went up again, this time to \$13/hour for large businesses. Here, Jardim and van Inwegen found an impact. Instead of seeing 51 of every 1,000 business shut down, they saw 58.⁴ The impact of raising the minimum wage by \$3.53 in just over 9 months was to cause under 1% of all businesses – seven out of every thousand – to shut down. In a separate analysis, Jardim and van Inwegen found that businesses continued to open in Seattle at the same rate they had in the past.⁵

So the first finding to emphasize is this: Seattle's very rapid pace of increasing the minimum wage was not harmless to business, but it's important to keep the magnitude of that harm in perspective: seven businesses out of a thousand, as a consequence of raising the minimum wage by \$3.53 in less than a year.

How did those other 993 out of a thousand businesses make it? As noted above, if they were profitable they could just fund the wage increases out of their profits. But talking to business owners and managers helped us to understand other ways businesses had to adapt.

Some businesses raised prices. That's another core finding of our study. But it's important to note how limited those price increases were. We looked for evidence that the minimum wage increased grocery prices. We found none.⁶ We looked for evidence that the minimum wage

² Ekaterina Jardim and Emma van Inwegen (2019) "[Payroll, Revenue, and Labor Demand Effects of the Minimum Wage](#)." W.E. Upjohn Institute Working Paper 19-298. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.

³ *Ibid*, Table 10, p.43.

⁴ *Ibid*, p.42.

⁵ *Ibid*, Table 10, p.43.

⁶ Jennifer Otten, James Buszkiewicz, Wesley Tang, Anju Aggarwal, Mark Long, Jacob Vigdor, and Adam Drewnowski (2017) "The Impact of a City-Level Minimum-Wage Policy on Supermarket Food Prices in Seattle-King County." *International Journal of Environmental Research and Public Health* v.14 n.9. See also James Buszkiewicz, Cathy House, Anju Aggarwal, Mark Long, Adam Drewnowski, and Jennifer Otten (2019) "The Impact of a City-Level Minimum Wage Policy on Supermarket Food Prices by Food Quality Metrics: A Two-Year Follow Up Study." *International Journal of Environmental Research and Public Health* v.16 n.1. See also

raised gas prices. We found none. We looked for evidence that the minimum wage raised Seattle's very high housing costs. We found none. We looked for evidence that the minimum wage raised prices in drugstores, clothing stores, and other street-level retail. We found none.⁷

The one place we found evidence of price increases was in restaurants. Restaurants rely heavily on labor. And if you're selling lunch, you don't have to compete against restaurants halfway around the world or against a website that will ship you lunch in a cardboard box overnight. The price increases were on the order of 10%.⁸

The other key adaptation we observed was economizing on labor. Treating labor like it was worth more, because that's exactly what the minimum wage requires them to do. We measured a significant reduction in turnover rates in Seattle.⁹ We measured increases in labor productivity: businesses racked up more dollars' worth of sales per hour of labor.¹⁰

Economizing on labor also means finding ways to get by with less. Imagine a hamburger restaurant where you order at the counter and then go find a table. There are two ways to get the food to your table. One is to have an employee, who is working for pay, bring it out to you. The other is to call out your name and have you, who is not working for pay, do the job. We saw evidence of this happening in Seattle. Restaurants and other businesses found ways to get by with fewer workers on a shift by doing little things, like expecting their customers to complete tasks that an employee might have otherwise done. Or having an employee clock out and go home if they are more productive and get their work done faster.

So at this point I should address one of our study's more well-known findings. In the summer of 2017, we made a few headlines by reporting that the Seattle minimum wage had significantly reduced employment.¹¹ This turned a few heads in part because a litany of studies dating back to the seminal work of David Card and the late Alan Krueger had suggested that minimum wage increases don't cause job losses.¹²

There's a key distinction that everyone should understand, between effects on employment versus effects on jobs. Those two words are often used as synonyms, but for most businesses the easiest, safest way to cut staffing is not to lay people off or reduce headcount. It's to cut back hours. That

⁷ Heather Hill, Jennifer Otten, Emma van Inwegen, and Jacob Vigdor (2016) "Early Evidence on the Impact of Seattle's Minimum Wage Ordinance." Paper presented at the Labor and Employment Relations Association Annual Meeting.

⁸ *Ibid.*

⁹ Ekaterina Jardim, Mark Long, Robert Plotnick, Emma van Inwegen, Jacob Vigdor, and Hilary Wething (2018) "Minimum Wages and Individual Employment Trajectories." National Bureau of Economic Research Working Paper #25182. A revised version of the evidence in this paper has been conditionally accepted following peer review at the *American Economic Journal: Economic Policy*.

¹⁰ Jardim and van Inwegen *op. cit.*

¹¹ Ekaterina Jardim, Mark Long, Robert Plotnick, Emma van Inwegen, Jacob Vigdor, and Hilary Wething (2017) "Minimum Wage Increases, Wages, and Low-Wage Employment: Evidence from Seattle." National Bureau of Economic Research Working Paper #23532. A revised version of the evidence in this paper has been conditionally accepted following peer review in the *American Economic Journal: Economic Policy*.

¹² David Card and Alan Krueger (1994) "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania." *American Economic Review* v.84 n.4.

way, you still have some workers on payroll if others quit, or if you are anticipating an exceptionally busy shift.

And so that’s what we found in Seattle: the strongest reaction to a minimum wage increase wasn’t to lay workers off. It was to send them home if they got their work done early, or if business was slow. Schedule them for fewer shifts. Tell them you’ll call them if you need them on a given day.

In 2018 we released a second study that focused on several thousand workers who had low-wage jobs in Seattle in early 2015, before the minimum wage increase.¹³ We tracked them for a year and a half after the increases started (see Figure 1). We found that after the minimum wage increase they were no more likely to lose their job. They had their hours cut back a bit. If you were working 20 hours a week before the minimum wage went up, it looked like maybe you were now averaging 19. That lost hour meant that they ended up giving back some part of their increased wages. But at the end of every week they were seeing at least somewhat bigger paychecks, and some extra time to study or spend with their families.

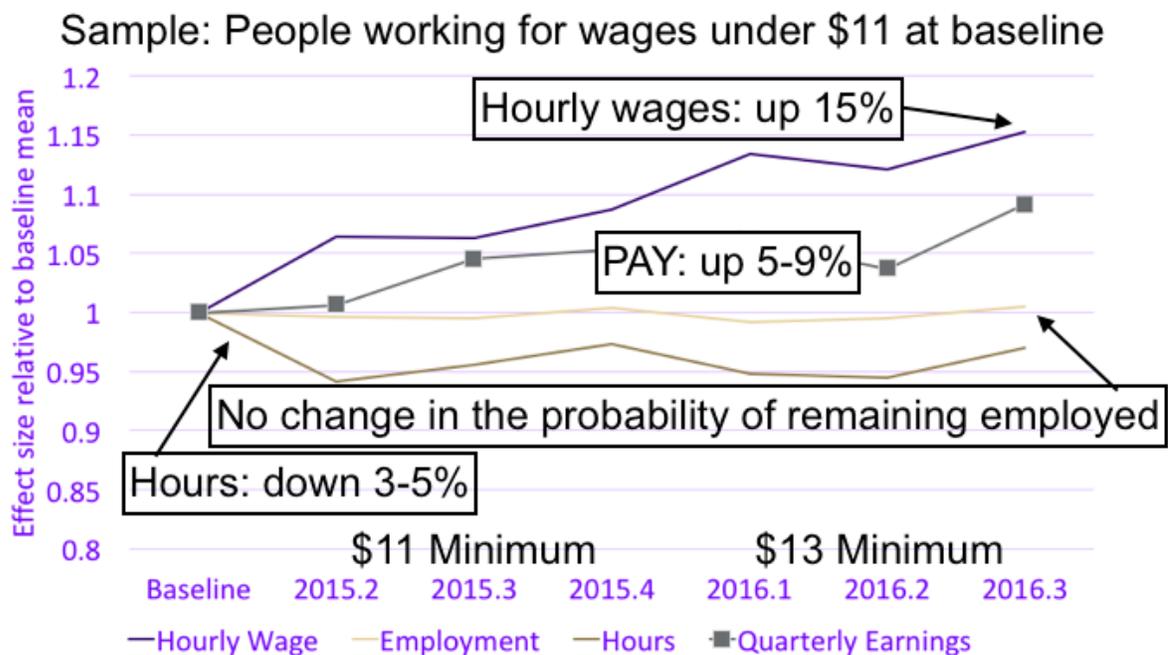


Figure 1 (Summarizing Jardim et al., 2018)

We split these workers into two groups based on how much prior experience they had. The more experienced group, workers who were more likely to be adults than teenagers, was faring the best. They kept more of their hours and saw a bigger boost to their paychecks (see Figure 2). The less experienced group saw deeper cuts to their hours, so deep that their weekly pay went down, on average, for the first 15 months after the minimum wage began increasing (see Figure 3).

¹³ Jardim et al. 2018, *op. cit.*

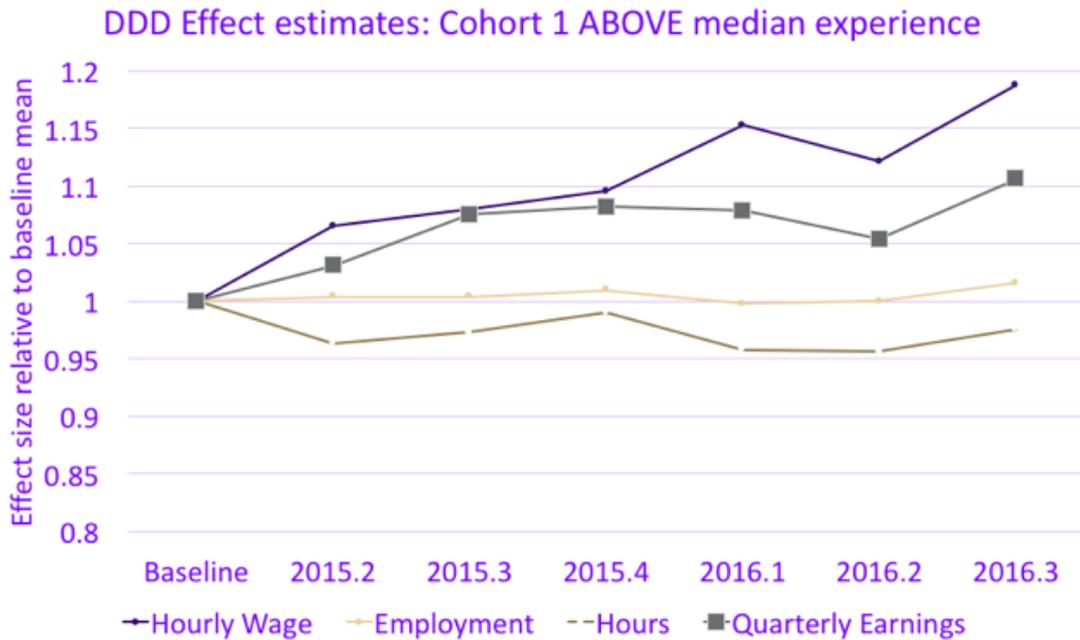


Figure 2 (summarizing Jardim et al. 2018)

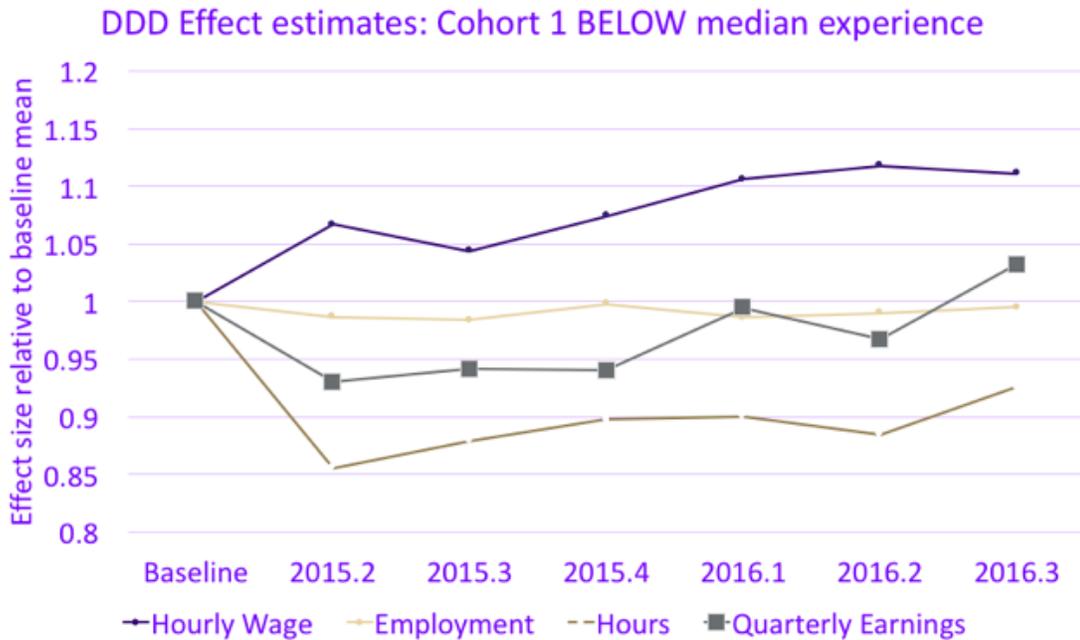


Figure 3 (summarizing Jardim et al. 2018)

The stories we heard from both business owners and low-income parents backed up the data. Employers told us that as wages went up, they preferred to give more hours to their experienced staff. Hiring teenagers, they told us, was not a winning proposition at high wages. Young workers need to be trained, typically don't have references you can check, and they are less reliable

employees. When you get right down to it, the best, most reliable workers are the ones who need their jobs to survive. Many teenagers don't fall into that category.

The low-wage-earning parents we interviewed – most of them women, many of them immigrants – were by and large doing well at keeping their jobs and their hours. It wasn't necessarily becoming any easier to make ends meet in a city with continually escalating rents, but they were happy to have the extra pay.

I know that many of you on this committee aim to raise the minimum wage in order to put more money in the pockets of adults and working parents. In Seattle, we found evidence that this did in fact happen.

I know that many of you on this committee are concerned that a higher minimum wage will make it harder for younger people to find their first job, to reach the first rung of the ladder. To be perfectly honest, in Seattle we found evidence that that happened too. Businesses are reluctant to hire inexperienced workers who haven't yet learned the value of showing up on time and ready to put in an honest day's work. One of the few things a young worker can do to persuade an employer to hire them is to offer to work for a low wage. They can afford to do that because they often don't need the money to survive.

The policy challenge in the low-wage labor market is that this second type of worker – the inexperienced one, who has to prove themselves and is willing and able to accept a low wage to do it – competes against adults who are out on their own and really do need the money to survive. A low minimum wage gives the advantage to the young worker; a high minimum wage gives the advantage to the older worker.

I know that many of you on this committee are concerned that a higher minimum wage will drive up prices, making it harder for low-income families or those living on fixed incomes. In Seattle, the prices of restaurant meals went up, but we didn't find evidence that the minimum wage raised the prices of groceries, transportation, or shelter.

I know many of you on this committee are concerned that businesses, especially small mom-and-pop businesses, won't be able to survive with a higher minimum wage. In Seattle, the business survival rate was 99.3%.

Not every place is like Seattle. The effects of a local minimum wage and a Federal minimum wage would likely be different. And we studied the effect of a policy that was phased in between 2015 and 2017, things are quite different now. No single study can reveal the impact of a minimum wage increase in all locations at all points in time. Nonetheless, our evidence provides some insight as to how the labor market might evolve with a higher minimum wage.

I appreciate the opportunity to share these insights with you and would be happy to answer any questions you might have.