

Increasing minimum wage has positive effects on employment, says study

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In labor markets where employers have more control over wages, increasing the minimum wage often results in a rise in employment, according to a new study coauthored by Ioana Marinescu, an associate

professor at Penn's School of Social Policy & Practice (SP2) who is director of the SP2 Master of Science in Social Policy Program and currently working with the National Bureau of Economic Research.

In the [paper](#) published in the *Review of Economic Studies*, Marinescu and co-authors study the effects of [minimum wage](#) increases on a low-wage retail sector. The authors also utilize nationwide data on labor market concentration—a measure of competition for workers, where high concentration means that a few companies dominate hiring. Their results apply to the fast-food sector and the entire low-wage labor market.

"We find that in [labor markets](#) that are more concentrated or less densely populated, minimum wage increases lead to overall positive employment effects," Marinescu and co-authors write.

The findings reveal that in less competitive job markets where employers have more wage-setting power, and tend to pay workers less, there is more room to increase [wages](#). In the most concentrated labor markets, the authors found that employment rises following a minimum wage increase.

This research provides evidence that the degree of "monopsony power"—or the ability of companies to pay workers less than their contribution to the companies' bottom line—in the labor market can determine how minimum wage changes affect employment.

"This paper provides compelling evidence that responses to a key labor market institution (the minimum wage) are influenced by the structure of the labor market. As such, the findings also help to further underscore the role of employer concentration in the [labor market](#)," the researchers write.

More information: José Azar et al, Minimum Wage Employment

Effects and Labour Market Concentration, *Review of Economic Studies* (2023). [DOI: 10.1093/restud/rdad091](https://doi.org/10.1093/restud/rdad091)

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