Study: Minimum wage 'an effective tool' for increasing incomes of older workers

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In an era of rising inequality and aging populations in the US, the effect of the minimum wage on the labor market for older workers is increasingly important, says new research from Mark Borgschulte, a professor of economics at Illinois. Credit: L. Brian Stauffer

A new paper co-written by a University of Illinois expert who studies

labor economics says the minimum wage is an effective tool to increase the incomes of older workers who are at or near retirement and—contrary to the notion that higher minimum wages force earlier retirements—has no discernible "disemployment" effects.

In an era of rising inequality and aging populations, the effect of the minimum wage on the labor market for older workers is increasingly important, said Mark Borgschulte, a professor of economics at Illinois.

"From a public policy perspective, lawmakers are really interested in incentivizing people to work longer—it's the uniform prescription across the political spectrum for how we can tackle aging-related budget issues," Borgschulte said. "For programs like Social Security, getting people to work longer is very helpful."

Borgschulte and co-author Heepyung Cho, a graduate student at Illinois, studied the effect of the minimum wage on the employment outcomes and Social Security claiming of older U.S. workers from 1983-2016. According to the paper, the probability of work at or near the minimum wage increases substantially near retirement, and previous research suggests that older workers may be particularly vulnerable to any disemployment effects of the minimum wage.

But results show no evidence that the minimum wage causes earlier retirements, Borgschulte said.

"If we think the minimum wage has harmful effects on employment—which is a controversial position in economics, but one that a lot of economists subscribe to—then it's going to potentially undermine our public policy goals of trying to get people to work longer," he said. "We find that the minimum wage not only increases the financial resources of these older households, it also more than offsets whatever small, negative unemployment effects may exist, which are

statistically indistinguishable from zero."

Instead, the researchers found that higher minimum wages increase earnings and may have small positive effects on the labor supply of workers in the key age 62-70 demographic.

"Higher minimum wages result in increased earnings and delayed retirement in that cohort, which translates into a decrease in the number of Social Security beneficiaries as well as the amount of benefits disbursed," Borgschulte said. "The way the Social Security systems works in the U.S. should not disincentivize work, but for whatever reason, many retirees perceive Social Security claiming as indicative of an exit from the labor force. And so we were able to show that there is no harmful effect of the minimum wage on older workers' employment—and, in fact, it seems to delay Social Security claiming, which would be consistent with increased financial resources for older households."

If anything, employment goes up for workers who are at retirement age, which suggests that minimum wage jobs keeps people in the labor force a little bit longer, Borgschulte said.

"Public policymakers have not spent as much time as they should thinking about how we should keep people in the labor force," he said. "So in that way, having a minimum wage is an effective policy for keeping people in the labor force for longer. And economists haven't spent enough time studying why people retire. So this paper is a small step in that direction. The reality is that many older workers are working for low wages, so the minimum wage is particularly relevant for this part of the labor market."

The federal minimum wage is $7.25 per hour, and the minimum wage at the state level can go as high as $11.50 per hour. If it were to be

increased to $15 per hour, then you might see some disemployment effects, Borgschulte said.

"An absolutely essential caveat to any minimum wage paper is that we're only able to study—empirically, at least—the range of minimum wages observed in the data," he said. "And the theories about how the labor market works suggests that small changes in the minimum wage likely will have small changes in employment. Firms have some wage-setting power, and if they make changes at the margins, a higher minimum wage will likely only have a marginal effect or no change at all."

Raising the minimum wage to $15 per hour would potentially run into a disincentive to hiring more workers, "particularly if we're going from $8-$10 per hour to $15," Borgschulte said.

"There's room to raise the minimum wage without expecting negative consequences for older workers' employment status, but it's not clear what happens when it goes up to $15 per hour," he said. "It's harder for economists to predict when you make large changes because you're moving out of the range of what the previous data can tell you, and so you need something to extrapolate out of your sample."

More information: Heepyung Cho et al. Minimum Wages and Retirement, *ILR Review* (2019). DOI: 10.1177/0019793919845861

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