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The Minimum Wage and Search Effort

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Do minimum wage increases affect the search effort by job seekers? Predictions of the impact of the minimum wage in search-and-matching models of the labor market depend heavily on endogenous search effort responses. In these models, the increased cost of hiring can be offset by the supply side in which workers search more and longer, leading to better job matches. Indeed, this is one of the primary reasons posited for the lack of employment response to minimum wage increases sometimes seen in the empirical literature.

We investigate the effect of minimum wage increases on job search effort using data from the Current Population Survey (CPS), the American Time Use Survey (ATUS), and the Survey of Income and Program Participation (SIPP). We exploit the staggered nature of CPS, ATUS, and SIPP interviews and use an event-study approach, leveraging within-state variation in the adoption of minimum wage changes.

We account for shocks affecting a particular state in a given year, month effects to control for seasonality, and individual demographic characteristics. In the SIPP, we repeat observations on the same individuals to account for unobserved time-invariant individual characteristics. Intuitively, we compare the outcomes in each month near the treatment date to the outcomes for otherwise identical individuals in the same state and year whose survey period was not near a treatment date.

We find no evidence that the minimum wage has persistent effects on search effort; the likelihood of searching does not increase in the aftermath of minimum wage increases. However, there is a large yet transitory increase in the intensive margin of search effort, concentrated in the month of the minimum wage increase, that fades almost immediately. There is no short-run increase in the employment rate, and there are no changes in observable characteristics of searchers, suggesting that our results are not driven by changes in

the number or composition of job seekers. These findings are robust to the inclusion of demographic controls, the duration of unemployment benefits, month-by-year fixed effects that account for any idiosyncratic national-level variation in a given month, and individual fixed effects in the SIPP. We also conduct a permutation test for our search duration results in which we randomly assign minimum wage increases across time periods and show that these results do not appear to be due to chance.

Our results call into question the assumption underpinning search-and-matching models as applied to analysis of the minimum wage—namely, that more workers will enter the labor market and each worker will search harder, increasing the returns to firm vacancy postings. Importantly, we find that minimum wage increases do not induce individuals to begin searching. Although we find that minimum wage increases yield significant increases in worker search effort on the intensive margin, those effects are transitory.

This effect, although not predicted by standard labor theory, has been documented in a similar setting. Alan Krueger and Andreas Mueller find that job search responses to

unemployment benefit exhaustion are transitory. Specifically, they document that individuals increase their search effort just before unemployment benefits expire, but that effort declines to previous levels soon after unemployment insurance benefits are exhausted. Our findings similarly suggest that the search responses to the increased value of obtaining a job may be short-lived.

Understanding the impact of the minimum wage on different aspects of the labor market, rather than simply on equilibrium employment outcomes, is of significant importance given its increasing prevalence as a policy instrument. Our findings suggest the need for greater analysis of not only job search behavior after a minimum wage change but also other supply-side responses.

NOTE:

This research brief is based on Camilla Adams, Jonathan Meer, and CarlyWill Sloan, “The Minimum Wage and Search Effort,” NBER Working Paper No. 25128, October 2018, <http://www.nber.org/papers/w25128>.