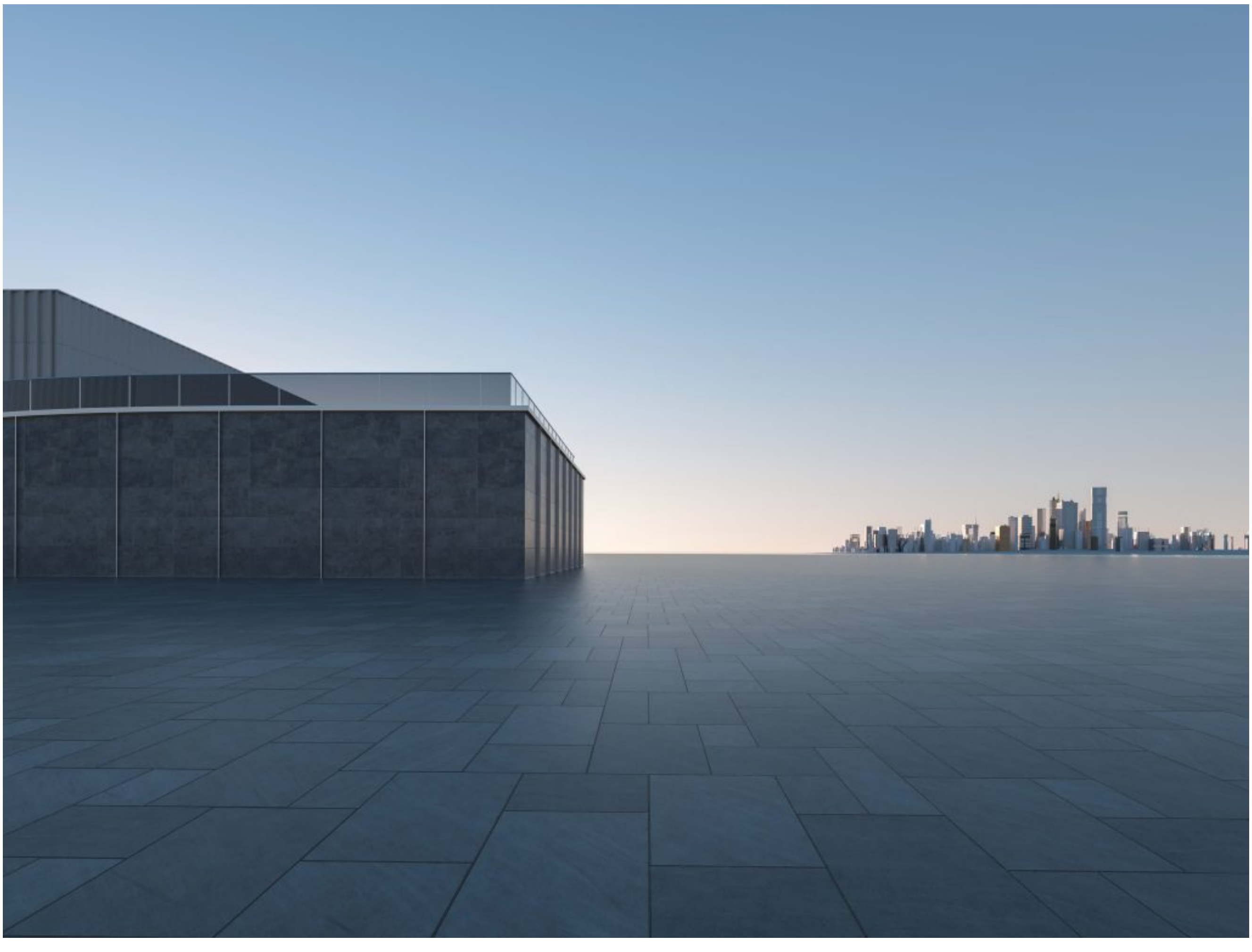
Do minimum wage hikes result in job losses? It depends on the labor market

José Azar sheds light on the nuances of raising the minimum wage in different labor markets.



April 3, 2025

By José Azar

©IESE Business School

In the ongoing debate over the economic impact of raising the minimum wage, one question continues to dominate: Does it cost jobs? Previous studies have found that — contrary to what some economists expected — raising the minimum wage does not always result in lower employment rates. But why is that?

In our research published in *The Review of Economic Studies*, my co-authors and I conclude that it depends on labor market concentration. We found that in areas where a few employers dominate hiring, raising the minimum wage can lead to increased employment. Conversely, in markets with many employers, the same policy can result in neutral or slightly reduced employment rates.

These findings can have significant implications for policymakers, who should consider labor market concentration when assessing potential employment effects of minimum wage policies.

A tale of two labor markets

Our empirical data looked at the effects of minimum wage increases across the U.S., where minimum wage laws differ from state to state. In particular, we analyzed job postings and earnings records from 2010 to 2016 for sectors where low-wage work is prevalent, such as retail and fast food.

We found that in highly concentrated markets (with few employers hiring and many workers in need of jobs) companies tend to have more power over wages — which leads to paying workers below their productivity value. So, increasing the minimum wage — and therefore, workers' salaries — in those contexts won't result in a loss of employment because the companies have an economic margin to work with. A higher minimum wage, in those contexts, also prompts more people to join the workforce.

For example, in small towns where a single factory or retail chain employs most of the population, a higher minimum wage can reduce worker turnover, increase productivity and even attract more people to seek jobs locally. The net employment effect of a minimum wage hike in those contexts will likely be positive — that is, up to a certain point. Once the minimum wage is on par with marginal productivity, these positive effects can start to diminish.

But in less concentrated labor markets (where there are more employers hiring than employees looking for jobs), we found that minimum wage increases tend to have less

©IESE Business School

dramatic effects. That’s because employers are already paying wages closer to workers’ productivity levels. When the minimum wage rises, some businesses may reduce hiring, trim hours or adjust benefits to offset higher labor costs. But even then, the negative impact is small — confirming decades’ worth of research showing that moderate increases in minimum wages rarely lead to widespread job losses.

What does this mean for policymakers?

Understanding labor market concentration is crucial for companies evaluating the potential impact of minimum wage policies. Businesses in highly concentrated markets may find that raising wages enhances worker retention and productivity, ultimately justifying higher labor costs. By contrast, companies in less concentrated markets may need to get creative to expand their workforce — it won’t depend solely on salaries.

This means that a universal approach to minimum wage laws may yield uneven outcomes for firms operating in varying contexts. Retail giants, for instance, are often present in both concentrated rural areas and competitive urban markets. Local governments, then, should use labor market data to set region-specific minimum wages, ensuring that the policy achieves its intended goals without unintended consequences.

Our findings show that minimum wage hikes are not just about numbers — they’re about understanding the market dynamics that shape economic outcomes.

This also suggests broader implications for addressing inequality: By focusing on concentrated labor markets, policymakers can target areas where workers are most vulnerable to low wages and limited job opportunities. These interventions could not only boost income but also promote economic mobility in underserved communities.

In the ongoing debate over minimum wage policies, our research provides a critical insight: Labor markets are not one-size-fits-all. Recognizing and responding to these differences are key to crafting policies that work for businesses, workers and the economy at large.

READ ALSO:

[Why are wages so low in so many markets?]

[Why wages stagnate in areas with few employers]

©IESE Business School

[Business and inequality: purpose-driven strategies for a more equitable world]

[Part-time work has a positive impact on productivity]

https://cfvod.kaltura.com/pd/p/1766931/sp/176693100/serveFlavor/entryId/1_ms7jbkiw/v/1/flavorId/1_snac2orc/name/a.mp4

José Azar

Visiting Professor of Economics at IESE and Assistant Professor at the University of Navarra. He specializes in antitrust issues and corporate governance, and has done research on labor market concentration.

www.iese.edu/insight

©IESE Business School