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61. The Minimum Wage

Congress should

- repeal the federal minimum wage; and
- using its authority under the Commerce Clause, prohibit state and local governments from establishing minimum wages.

State and local lawmakers should

- repeal state and local minimum wage laws.

The "Fight for $15" movement is mustering supporters and critics of minimum wage laws to their traditional battle stations. Supporters argue that raising the minimum wage would help the working poor at a time of high living costs and growing income inequality. Opponents respond that it would harm critical entry-level employment at a time of high, persistent joblessness for low-skilled and new workers. Both sides spout economic theories and cite empirical studies to back their positions and discredit the other side.

The preponderance of the scholarly literature is on the critics' side. But employment effects alone do not discredit minimum wage supporters' position; they can still argue that a higher minimum wage would improve public welfare even if it raises unemployment. This chapter argues the exact opposite: for both economic and public welfare reasons, minimum wage laws should be *repealed*. For their mutual benefit, laborers and employers should be free to strike work agreements at any wage rate.

Economic Theory

Supporters and critics of minimum wage laws both cite classical price theory—the interaction of supply and demand—to support their positions. They differ, however, on important assumptions about the real-world

conditions of labor supply and demand: specifically, the number of people who want jobs and how badly they want them, and the number of jobs that are available to them and how badly employers want to hire them.

Classical price theory usually assumes there are many potential suppliers and consumers for a good such as labor. These would-be consumers and suppliers decide whether to buy and sell the good based on the price they would pay or receive for it; if the price is too high, consumers will buy less, and if it is too low, producers will provide less. These decisions result in an equilibrium price and quantity of goods exchanged in the market.

Minimum wage law supporters typically believe there is relatively little demand for low-skill, inexperienced labor, but there is ample supply. As a result, employers of such workers have "market power" and will pay wages well below the equilibrium price. As a result, low-skilled workers must accept (or decline) wages that are insufficient to support a family—a situation the supporters argue is harmful to public welfare.

Critics of minimum wage laws respond that, yes, there are more low-skilled workers than there currently are jobs for them. But that's because minimum wage laws prohibit employers from paying many low-skilled workers the value of their labor. Some jobs simply aren't profitable enough, and some labor isn't valuable enough, to justify paying those workers the minimum wage plus other costs that employers must bear for workers (e.g., payroll taxes, training costs, health care and other benefits, liability insurance). As a result, potential low-skilled workers endure unemployment and struggle to accrue the skills and experience that would lead to better pay. If those workers are willing to accept such jobs, even at low pay, then minimum wage laws that prohibit such arrangements hurt those workers and public welfare.

Empirical Evidence

Both theories are prima facie plausible. They are also empirically testable to determine which better describes the U.S. labor market. If minimum wage supporters are correct, increasing the wage would increase employment as the higher wage would induce more low-skilled individuals to join the workforce; if critics are correct, raising the minimum wage would result in *less* employment.

Supporters frequently cite a 1994 paper by economists David Card and Alan Krueger as evidence that their characterization of the low-skill labor market is correct. Card and Krueger found that a 1992 New Jersey minimum wage increase resulted in higher fast-food restaurant employment

in that state's part of the Philadelphia metropolitan area relative to the Pennsylvania part. But that is just one of several dozen empirical studies of the employment effects of minimum wage increases. Is the Card and Krueger paper representative of that broader literature or an outlier to it?

In 1977, the U.S. Congress and President Jimmy Carter formed the Minimum Wage Study Commission to identify the effects of these laws and make recommendations for future policymaking. The committee's senior staff economists, Charles Brown, Curtis Gilroy, and Andrew Kohen, assembled a literature review of prominent empirical studies of minimum wage laws; the review was later published as an academic article. After examining more than 30 studies, Brown, Gilroy, and Kohen determined the following:

- For teenagers, who comprise a large share of minimum wage workers, studies typically found that a mere 10 percent increase in the minimum wage resulted in a 1–3 percent decrease in employment. The authors add that "the lower half of that range is to be preferred."
- For young adults age 20–24, who comprise another large share of minimum wage workers, studies found the employment effect "is negative and smaller than that for teenagers."
- For adults over age 24, who are a minority of minimum-wage workers, the employment effect "is uncertain."

The commission's report apparently soured Washington's enthusiasm for the minimum wage, as Congress did not seriously consider another increase until a decade later. However, several states and local governments enacted or bolstered their own minimum wage laws during that interval. Those policy changes allowed economists to use cross-state analysis to estimate the employment effects of such increases. A wave of new research appeared in the academic literature, including Card and Krueger's.

In 2006, economists David Neumark and William Wascher produced an exhaustive review of the new research. They found that "nearly two-thirds [of the 102 analyses they reviewed] give a relatively consistent (although by no means always statistically significant) indication of negative employment effects of minimum wages while only eight give a relatively consistent indication of positive employment effects." Further, of the 33 analyses that Neumark and Wascher "view as providing the most credible evidence[,] 28 (85 percent) . . . point to negative employment effects. Moreover, when researchers focus on the least-skilled groups most likely to be adversely affected by minimum wages, the evidence for disemployment

effects seems especially strong." They conclude, "We view the literature—when read broadly and critically—as largely solidifying the conventional view that minimum wages reduce employment among low-skilled workers."

A few more empirical studies have appeared since Neumark and Wascher's. The most important of these is by economists Jonathan Meer and Jeremy West. Innovatively, instead of following the traditional research method of comparing employment *levels* (i.e., the number of people employed) before and after a minimum wage increase, they looked at changes in employment *rates*: If employment was trending upward or downward before the wage increase, did that trend slow down or speed up? Meer and West's approach helps to isolate the effect of the minimum wage change from other factors that might be affecting the economy. They find much larger harmful effects from minimum wage increases than what earlier studies had generally indicated, and those effects were especially strong in retail and construction—job sectors that are especially important to low-skilled and new workers.

Overall, the empirical literature strongly supports minimum wage law critics: these laws hurt employment, especially for low-skilled, young, and minority male workers.

Beyond Employment Effects

Given the empirical evidence, some minimum wage supporters concede that, yes, these laws do hurt employment. But, they say, the lost jobs are a worthwhile tradeoff for boosting wages for other low-skilled workers who find employment, thereby reducing poverty.

The problem is, minimum wage increases historically have proven to be poor tools for fighting poverty. People working at or near the minimum wage typically aren't primary earners, but are secondary or tertiary earners in middle- to upper-middle-class households. In contrast, impoverished households usually aren't struggling with low-wage jobs, but with having no jobs at all.

Given that, it's unclear whether would-be low-wage workers benefit from minimum wage increases. Some receive more money, but others lose work hours or desirable employment opportunities. The teenagers who want an after-school job to help them buy their first car and establish a work history, the students who want paying internships, the first-time workers who are willing to "pay their dues" to pursue higher ambitions, young workers with low living costs, idealists who will accept a low wage

to work for a cause, people who want to make a little money while helping an entrepreneurial friend, seniors who want a little extra income—all of them would be hurt by a higher minimum wage. And so would their employers and customers: the summer camp that will hire fewer counselors and lifeguards, the nonprofit that can't afford higher stipends for its interns, the local diner, the business that hires applicants with thin work histories, the employer whose jobs don't pay much but are pleasant to do. All of those losses reduce public welfare.

Conclusion

The U.S. economy provides a wide variety of jobs at many different wage rates. To get better-paying jobs, workers need entry-level opportunities that build skills and work histories. And if a job proves too demanding for the wage offered, a worker is free not to accept it or to quit. Politicians shouldn't interfere in those workers and employers' private agreements. For those reasons, the minimum wage shouldn't be raised—it should be abolished.

Suggested Readings

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