BLOG

What Do Economists Think about the Minimum Wage?

Ryan Young • *03/05/2019*

LABOR AND EMPLOYMENT

The playwright George Bernard Shaw once said that if you laid all the world's economists end to end, they would not reach a conclusion. President Truman allegedly once asked for a one-handed economist, who would be unable to say "on the other hand…" Economists richly deserve such jokes. But there are still issues where economists overwhelmingly agree, regardless of politics, ideology, or methodology. One of those issues is the minimum wage. Economists are far more likely to be against it than the general public.

A new poll of professional economists finds 74 percent of respondents opposing a $15 per hour minimum wage—and nearly a mirror image of non-economist public opinion, which is nearly a mirror opposite. 84 percent believe it would have a negative impact on youth employment levels. 43 percent favor eliminating the minimum wage outright. Only 12 percent of respondents identify as Republicans, which is roughly representative of the profession as a whole, with 35 percent identifying as Democratic and 46 percent as independents.

A subtle point people often overlook is that at a high minimum wage, employers will tend to ignore the least skilled employees. They will require more experience or skills for their minimum-wage jobs at $15 than at lower levels. Economists recognize this, with 83 percent responding that a $15 minimum wage would have exactly this effect.

Finally, if government is going to have a poverty relief program, a minimum wage is a lousy way to do it. There are better options. Rather than messing with the wage system and inviting all sorts of unintended consequences, it is simpler and more efficient to simply give cash. 64 percent of respondents view a $15 minimum wage as "not at all" efficient at addressing low income needs, while 64 percent rated an expanded Earned Income Tax Credit (EITC) as "very" efficient.

None of this comes as a surprise, though it is nice to have some empirical data on professional skepticism of minimum wages.

Relatedly, as a hobby, I've collected a fair number of economics textbooks over the years. While this occasionally makes me question my life choices, they do come in handy sometimes. Below are quotations on minimum wages from some of the various textbooks on my shelf, which range across ideologies from the anti-globalist Joseph Stiglitz to the standard Keynesian Paul Samuelson/William Nordhaus text to the ardent classical liberal Ludwig von Mises. They provide still more evidence that people who have studied economics tend to be more skeptical of the minimum wage than people who have not. The only text that is favorable on net is Samuelson-Nordhaus, and even then it acknowledges tradeoffs. There is nothing scientific about my choice of books to quote from; they are merely what I have on hand. That said, take a look for yourself:

Armen A. Alchian and William R. Allen (Ed. Jerry L. Jordan), *Universal Economics* (2018), p. 645: "The law only specifies the *money wage component*. The unintended consequence is that to get or retain jobs at the higher imposed wage rates, job applicants will tolerate less pleasant and stricter working conditions, less vacation, less insurance, less employer-supplied work clothing and tools, shorter coffee breaks, more intense labor, less job security, and more occasions of temporary layoffs when demand is transiently low."

Roger A. Arnold, *Macroeconomics, Third Edition* (1996), p. 15: "Bob, 16 years old, currently works after school at a grocery store. He earns $5.50 an hour. Suppose the state legislature passes a law specifying that they minimum dollar wage a person can be paid to do a job is $6.00 an hour. The legislators say their intention in passing the law is to help people like Bob earn more income.

"Will the $6.00 an hour legislation have the intended effect? Perhaps not. The manager of the grocery store may not find it worthwhile to continue employing Bob at $6.00 an hour. In other words, Bob may have a job at $5.50 an hour, but not $6.00 an hour."

Tyler Cowen and Alex Tabarrok, *Modern Principles of Economics, Second Edition* (2013), p. 148: "In the United States, for example, more than 95% of all workers paid by the hour already earn more than the minimum wage. A minimum wage, however, will decrease employment among low-skilled workers. The more employers have to pay for low-skilled workers, the fewer low-skilled workers they will hire."

Linda Gorman, "Minimum Wages" in David R. Henderson, ed., *The Concise Encyclopedia of Economics*, (2008) p. 348. Citing work by David Neumark, Mark Schweitzer, and William Wascher: "This suggests that minimum wage increases generally redistribute income among low-income families rather than moving it from those with high incomes to those with low incomes. The authors found that although some families benefit, minimum wage increases generally increase the proportion of families that are poor and near-poor. Minimum wage increases also decrease the proportion of families with incomes between one and a half and three times the poverty level, suggesting that they make it more difficult to escape poverty."

Paul Heyne, Peter Boettke, and David Prychitko, *The Economic Way of Thinking, Eleventh Edition*, (2006), pp. 138-139: "Nearly one-half of those employed at the minimum wage are members of families with incomes above the U.S. average. More crucially, if $200 a week isn't an adequate income, nothing per week is even less adequate. A large increase in the legal minimum wage would produce more income for some, but it would mean less income for a substantial number who could not obtain employment at any significantly higher wage… Battles over the minimum wage do sometimes seem to be mostly opportunities for people with different political views to call each other insulting names."

Steven E. Landsburg, *Price Theory and Applications, Fifth Edition* (2002), p. 407: "Although this law is often presented as protective of the unskilled, it is precisely they whom it excludes from the labor market. At a minimum wage of $5.15 per hour, someone who produces $3.00 of output per hour will not be hired to work. Overwhelming empirical evidence has convinced most economists that the minimum wage is a significant cause of unemployment, particularly among the unskilled."

Alfred Marshall, *Principles of Economics, Eighth Edition* (1920 [1890]), Book VI, Chapter XIII, §12 (p. 424 of the reprint edition I own, p. 410 of this PDF). Note that when Marshall wrote, very few jurisdictions had a minimum wage, though proposals were picking up steam. The U.S. first implemented a federal minimum wage in 1938:

"A scheme, that has any claim to be ready for practical adoption, must be based on statistical estimates of the numbers of those who under it would be forced to seek the aid of the State, because their work was not worth the minimum wage; with special reference to the question how many of these might have supported life fairly well if it had been possible to work with nature, and to adjust in many cases the minimum wage to the family, instead of to the individual."

Deirdre McCloskey, *The Applied Theory of Price, Second Edition*, (1985), p. 455. Note: My copy of this book was published when Deirdre was still Donald, making it a bit of a collector's item. Deirdre was also CEI's 2013 Julian Simon Award winner.

"The usual example of this effect is unemployment among teenagers. Present company excepted, teenagers are on the whole less reliable, prompt, responsible, strong, and skilled than adult workers. They are therefore, by the logic of derived demand, less useful to, say, a manufacturing company. They are not worthless, but worth less. A minimum wage would therefore be expected to cause disproportionate unemployment among teenagers. It does.

"…In the end the argument in favor of the minimum wage must come down to a simple distaste for the result of exchange in the absence of intervention. The feeling is that we simply should not tolerate anyone in a job so undignified that it was worth only $2 an hour. Better that such people be supported by the rest of us, or even starve, than that they be required to work at such a job."

Campbell R. McConnell, *Economics, Seventh Edition*, (1978), p. 644: "On balance, however, the evidence seems to suggest that periodic increases in the minimum wage are followed by employment declines in affected industries. Empirical studies suggest that the unemployment effect is particularly pronounced among teenage workers. The other side of the coin, of course, is that those who remain employed receive higher incomes and tend to escape poverty. The overall antipoverty effect of the minimum wage may thus be a mixed, ambivalent one."

Ludwig von Mises, *Human Action: A Treatise on Economics, Fourth Revised Edition* (1996 [1949]), p. 776: "What matters is not whether wages are "fair" or "unfair" by some arbitrary standard, but whether they do or do not bring about an excess of supply of labor over demand for labor. It may seem fair to some people to fix wage rates at such a height that a great part of the potential labor force is doomed to lasting unemployment. But nobody can assert that it is expedient and beneficial to society."

Paul A. Samuelson and William D. Nordhaus, *Economics: Eighteenth Edition*, (2005 [1948]), pp. 78-79: "Those who are particularly concerned about the welfare of low-income groups may feel that the modest inefficiencies are a small price to pay for higher incomes. Others—who worry more about the cumulative costs of market interferences or about the impact of higher costs upon prices, profits, and international competitiveness—may hold that the inefficiencies are too high a price. Still others might believe that the minimum wage is an inefficient way to transfer buying power to low-income groups; they would prefer using direct income transfers or government wage subsidies rathe rthan gumming up the wage system."

Joseph E. Stiglitz, *Principles of Macroeconomics, Second Edition* (1997), p. 388: "Most workers in the United States earn considerably more than the minimum wage, so minimum wage legislation has little effect on unemployment for these workers. However, many economists believe that minimum wage legislation does contribute *some* to the unemployment rate of unskilled workers, including teenagers just entering the labor force."

Hal R. Varian, *Intermediate Microeconomics: A Modern Approach, Sixth Edition*, (2003), p. 467: "Since demand equals supply at the equilibrium wage, the supply of labor will exceed the demand for labor at the higher minimum wage… Things are very different if the labor market is dominated by a monopsonist. In this case, it is possible that imposing a minimum wage may actually *increase* employment"

Note: Monopsonies are similar to monopolies, but have one buyer instead of one seller. Minimum wage advocates, unlike Varian in this example, typically argue that monopsonies *harm* workers. A monopsony employer would, by definition, be workers' only option, leaving no escape from low wages or bad working conditions. Monopsonies are very rare in the real world, especially since the invention of the automobile, so there is little empirical evidence to confirm either Varian's or minimum wage activists' position. Varian's monopsony example is useful for students sharpening their theorizing chops, but not so much for analyzing real-world labor markets.

So there you have it. Polls say economists are more skeptical of the minimum wage than the general public. Their textbooks say so too, and in a variety of ways. Just one thing of many to keep in mind when evaluating current proposals to raise the minimum wage to $15.