Milton Friedman once called minimum wage "one of the most, if not the most, anti-black laws we have on the statute books" for its perceived consequence of decreasing employment among the less skilled workers in the labor force. In a 1978 American Economic Review survey, 90% of the economists polled agreed with the idea that minimum wage increases unemployment for low-skilled workers.[1] Recent studies have challenged the historically prevalent thought amongst economists that minimum wage causes unemployment, arguing that increases in minimum wage have little if any effect on employment. However, these studies appear to be flawed or inconclusive in their research and the vast majority of studies empirically prove the traditionally held economic belief that minimum wage has an adverse effect on employment among low skilled workers as well as being a poor method for improving the welfare of those in poverty.

The economic theory behind the potential harm of minimum wage is simple. Introducing a minimum wage creates an effective price floor in the labor market, increasing the wage while simultaneously creating a surplus of workers which is, in other words, unemployment. This results from a downward-sloping demand curve showing the intuitively obvious concept that the lower the wage, the more workers a firm is willing to employ.[2]

The empirical evidence suggesting a decrease in employment from an increase in minimum wage is plentiful. Deere, Murphy, and Welch, for one, found that the 1990-91 increase of minimum wage by 27% reduced employment for all teenagers by 7.3% and for black teenagers by 10%.[3] Burkhauser, Couch, and Wittenberg "found a decline in employment of 2% to 6% for each 10% increase in the minimum wage."[4] Overall, the United States Joint Economic Committee surveyed all empirical research on the employment effects of minimum wage available in 1995 and found that "a 10% in the minimum wage reduced teenage employment by 1% to 3%."[5]

On the reverse, the predominant study supporters of the minimum wage cite is one done by

---

1 Kearl
2 See appendix
3 Deere, Murphy, Welch, p. 237.
4 Burkhauser, Couch, and Wittenburg, p. 658.
5 Joint Economic Committee

David Card and Alan Kreuger that surveyed employment of the fast food industries in Pennsylvania and New Jersey. At the time of the study, New Jersey had recently raised its minimum wage above the federally mandated level while Pennsylvania had kept its minimum wage static. The study's results found “no evidence that the rise in New Jersey's minimum wage reduced employment at fast-food restaurants in the state”[6]. The study was done around the time of a proposed increase in the federal minimum wage and was often cited as proof that such an increase would not affect employment.

Critics quickly pointed out the many flaws in the Card and Kreuger study. First of all, when they surveyed employers, they asked only the *intentions* of whether the rise in minimum wage in New Jersey would affect their employment practices. Berman, Neumark, and Wascher did a similar study to Card and Kreuger's but asked for payroll records for verifications instead of just intentions. Their study yielded opposite results, showing that there is not only net disemployment level, but causes youths to leave school earlier.[7] A second flaw is the potential for misinterpretation of the question they asked when surveying. The study was based on asking employers one question: 'How many full-time and part-time workers are employed in your restaurant, excluding mangers and assistant managers?' Defining full-time and part-time, among other aspects, could vary amongst different restaurants. Another reason to deem the study inconclusive is that, regardless of whether their results are found to be accurate, it represents very small portions of two states and only one industry; this could very well be an exception to the aggregate labor market as a whole.

Another argument against the Card & Kreuger study, and the level at most minimum wages is set, is the suggestion that minimum wages are set very near to the natural market equilibrium. No one suggests setting a mandated wage of a million pounds an hour, as the market clearly couldn't survive such a condition. As a result, the minimum wage that is often set is a 'reasonable' one that coincidentally is extremely close to the natural equilibrium wage. This could partly explain why, for someone initially working at minimum wage, the median raise in hourly wage after one year is 10%,[8]

6 Card and Kreuger, *Minimum Wages and Employment.* p. 792

7 Neumark and Wascher
8 Even and Macpherson

showing signs of a natural labor market occurring. It is also clear that the natural equilibrium wage differs throughout the United States. Rural Iowans will likely have lower costs of living and factors of production and hence a lower wage while those working in downtown Manhattan will have higher ones. Because of this, it should be noted that the very specific region Card and Kreuger analyzed, the border of Pennsylvania and New Jersey, has a relatively wealthier standard of living compared to the rest of the country. A study by Marshall Colberg confirms that unemployment was proportionately bigger where wages were lower before a minimum wage increase and smaller where wages were relatively high before minimum wage enactment.[9] This is because a greater difference between the minimum wage and the natural market equilibrium will cause a greater effect on unemployment, as labor demand is more elastic here.

The possible proximity of minimum wage to the natural wage equilibrium can be emphasized by the fact that while several economists argue that a modest minimum wage will have a relatively insignificant effect on employment, almost none argue that a "living wage" would have no adverse effect on employment. One need to look no further than the Davis-Bacon Act of 1931 in the United States to prove that overly high artificial wages have negative effects. The law held that a prevailing wage, defined by the Secretary of Labor as the union wage or higher, be paid on all federally financed or assisted construction projects. As a result, unskilled, untrained, and disproportionately black workers would be passed over for experienced, well trained, and often white construction workers whose skills more closely justified such high wages. As Bullock and Fratnz observe, "Prior to the passage of the Davis-Bacon Act, blacks suffered from unemployment at approximately the same rate as the general population. After Davis-Bacon became law, the rate of minority unemployment began to deviate from that of whites."[10] The effects of Davis-Bacon Act on low wage workers shows the potential effect any minimum wage can have and that most modest minimum wages could have relatively little effects on employments because of their proximity to the natural market equilibrium.

---

9 Colberg, p. 107.
10 Bullock and Frantz

The category of restaurants Card and Kreuger analyzed is also important. The fast-food restaurants taken into consideration were all chain stores like Wendy's, Kentucky Fried Chicken, or McDonald's. Chains, instead of small businesses, may misrepresent the change in unemployment because “the greater the degree of market power over recruitment held by firms, the smaller will be the negative effect [of unemployment]"[11]. As the restaurants all analyzed were large corporate chains, their slightly more monopsonistic power could show different effects on employment compared to other firms in the industry.

Several other studies reach the essential conclusions that Card and Kreuger's study does, as well, so the intrinsic flaws in their methodology doesn't necessarily rule out the possibility of the minimum wage having little effect on employment. The United Kingdom's Low Pay Commission Report, for example, reach similar conclusions to Card and Kreuger, but also point out “it is not possible to conclude from the data that there has definitely not been any effect [on employment].”[12] A vast number of sources, like Gerald Starr's synopsis of minimum wage, state that much of the literature on employment effects of such wage legislation have at best mixed and inconclusive findings.[13] While there exists studies agreeing with the Card and Kreuger findings, theirs is most often cited in support of minimum wage laws and thus deserves the closest look.

Although supporters of minimum wage hold steadfast to the idea that it causes little or no unemployment, its effect as an anti-poverty tool is almost unanimously disregarded. Card and Kreuger themselves state that “the minimum wage is a blunt instrument for reducing overall poverty.”[14] In terms of public policy then, modest increases in minimum wage should receive much less attention than other anti-poverty measures. In order to directly lift workers out of poverty through minimum wage rates, the wage could have to be as high as £13 an hour, something that intuitively would put a large portion of low skilled workers into unemployment. Setting mandated wage floors is not the only way to effectively increase the incomes of low-wage and unskilled workers, however. In a survey done by the

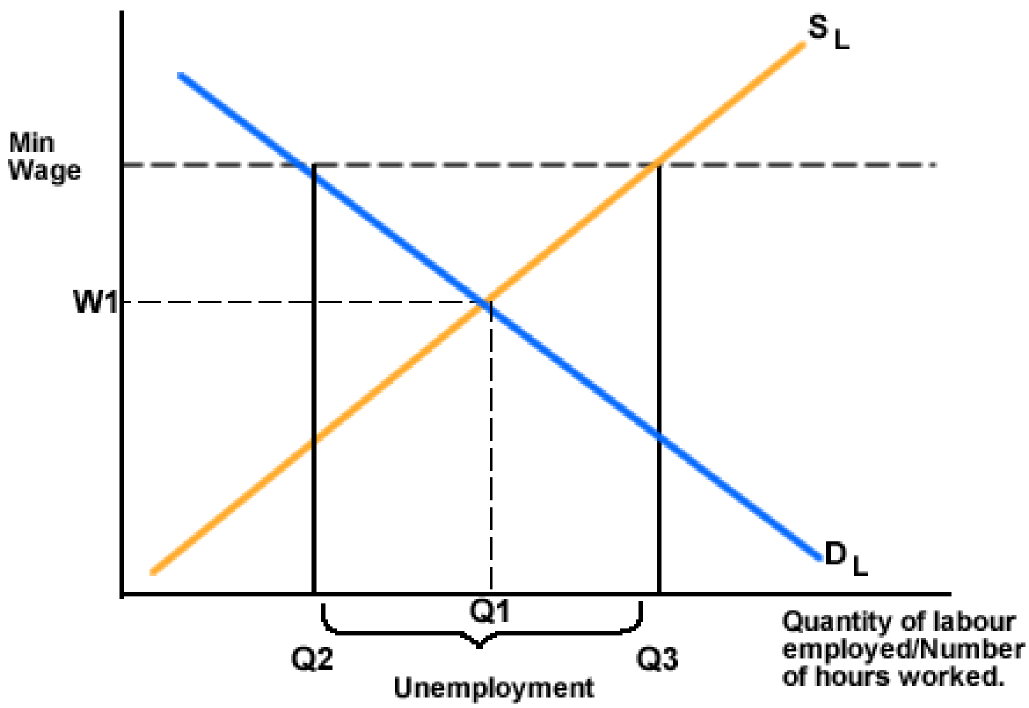
11 Bank of England, p 31.
12 Card and Kreuger: *Minimum Wages and Employment.* p. 780
13 Starr, p 156.
14 Card and Kreuger, *Myth and Measurement.* p 3.

Employment Policy Institute, 70% of polled labor economists believed that increasing the earned income tax credit will best improve the income of those in poverty.[15] Not only does this directly put money into the pockets of those in working poverty, it does so without disrupting the labor market.

15 Employment Policies Institute, p. 2.

Appendix

Q1 and W1 represent the natural labor market equilibrium for labor and wage, respectively.



Source: http://www.bized.co.uk/educators/16-19/economics/macrocont/lesson/curve1.htm

Bibliography

Bank of England (1998) Inflation report, p. 30-31

Bullock, Scott and Frantz, John. “Removing Barriers to Opportunity: A Constitutional Challenge to the Davis-Bacon Act,” for *Institute for Justice*, Available: http://www.ij.org/index.php?option=com_content&task=view&id=861&Itemid=165 Accessed: 3 Dec 2008.

Burkhauser, Richard V., Kenneth Couch, and David C. Wittenburg. “A Reassessment of the New Economics of the Minimum Wage Literature with Monthly Data from the Current Population Survey.” Journal of Labor Economics 18, no. 4 (2000): p. 653–680.Kearl, J., “A Confusion of Economists?” American Economic Review 69 (1979): p. 28–37.

Card D, Kreuger A. Minimum wages and employment: a case study of the fast food industry in New Jersey and Pennsylvania *American Economic Review* 84, 1994, p. 772-793.

Card D, Kreuger A. Myth and measurement. The new economics of the minimum wage.(Princeton UP) 1995, Chs 1 and 2.

Colberg, Marshall R. Minimum Wage Effects on Florida's Economic Development. Journal of Law and Economics, vol. 3 (October), 1960: p. 106-117.

Deere, Murphy, Welch, “Employment and the 1990-1991 Minimum-wage Hike” American Economic Review, 1995. p. 232–237.

Employment Policy Institute. “EPI Minimum Wage Survey of Labor Economists,” July 2007. p. 2-5.

Even, William and Macpherson, David. "Rising Above the Minimum Wage," Employment Policies Institute, January 2000.

Joint Economic Committee, Congress of the United States. “50 Years of Research on the Minimum Wage,” 15 Feb 1995. Available: http://www.house.gov/jec/cost-gov/regs/minimum/50years.htm. Accessed: 2 Dec 2008.

Neumark, David and Wascher, William. 1995. The Effects of Minimum Wages on Teenage Employment and Enrollment: Evidence from Matched CPS Surveys. NBER Working Paper: Cambridge, MA.

Starr, Gerald. Minimum Wage Fixing. “Evaluating the Economic Impact of Minimum Wages,” International Labour Office: Geneva, 1981. p. 153-182.