Raising the Minimum Wage: Both Sides of the Coin

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Raising the Minimum Wage: Both Sides of the Coin

An Explanation of Both Sides of the Argument

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Document Outline

1.) Introduction
2.) Minimum Wage History and Facts
3.) Arguments FOR an Increase in the Minimum Wage
4.) Arguments AGAINST an Increase in the Minimum Wage
5.) Summary and Personal Conclusions
6.) References
Introduction

Discussion about what to do with minimum wage laws here in America has been at a higher than normal level since the Democratic Party took over as majority leader in both the House of Representatives and the Senate in the recent midterm elections, giving them control of Congress. There has been much talk about what good things can come to America's lowest income workers as a result of an increase in the minimum wage, and there has also been equally as much discussion over what negative effects this legislation can have on those same people. The purpose of this paper is to bring both sides of this argument together into one document and to be as objective as possible when analyzing and describing all of the arguments for and against an increase in the national minimum wage. After a brief description and background of United States minimum wage policies, I will first discuss the alleged benefits objectively as possible, then the alleged societal costs, and in the last section, I will give a touch of personal feeling while explaining my thoughts and wrapping everything up with a conclusion.
Minimum Wage History and Facts

Minimum Wage Beginnings: The FLSA of 1938

The first national minimum wage laws in the United States were passed as part of the 1938 Fair Labor Standards Act, which also guaranteed time and a half for overtime in certain jobs and prohibited oppressive child labor. The statutory federal minimum wage can be defined as the lowest wage that employers may legally pay to their employees. If employers do in fact try to get away with paying their employees less than this minimum, these employees are entitled to the wages due to them as well as an equal amount of “liquidated damages.” (Finduslaw.com)

Minimum Wage Through the Years

Since 1938, there have been quite a number of amendments to the Fair Labor Standards Act that have accomplished many things, such as set rules about vacation time, more clearly define what kind of companies and types of work must abide by these rules, and increase the national minimum wage multiple times to the currently paid level, which was set in 1997. As shown on the chart, the last raise in the minimum wage was from 4.25 up to 5.15 (in two stages). This

The Federal Hourly Minimum Wage Since Its Inception:

Source: http://www.cnn.com/US/9608/20/minimum.wage.adp/graph_minimum.wage.gif
amendment was passed by the Clinton Administration in 1996 and was surrounded by controversy, just as there is now in the current push to again increase the minimum wage.

**Fair Minimum Wage Act of 2007**

The Fair Minimum Wage Act of 2007 is legislation to amend the FLSA of 1938 and it serves to raise the federal minimum wage from $5.15 to $7.25 in three increments. It was introduced in the House of Representatives on January 5, 2007 and was passed on January 10. The bill passed in the Senate as well on February 1 and is currently awaiting a signature from President George Bush. There is much talk in the media about what effects this increase in the minimum wage will have on the economy and on the low-income workers in America.

**State Minimum Wage Legislation**

In addition to the federal wage floor set in 1938, many states have since passed their own minimum wage legislation. Some of the states even had legislation before the Fair Labor Standards Act of 1938. From 1912 to 1920, thirteen states and the District of Columbia passed their own minimum wage laws, but with great opposition from large companies and economists (Quigley 1996). As of 2007, all of the states have some sort of minimum wage law except for South Carolina, Alabama, Mississippi, Louisiana, and Tennessee (The yellow states in the
The green states have minimum wage laws set higher than federally required and the blue states have laws that set their wage floor equal to what is required by the federal government. Kansas, in red, is the one state whose state required minimum wage is actually lower than is required by the federal minimum. This does not mean that workers in Kansas make less than federally required. It simply means that the state legislation has not been modified since the last increase in the federal minimum wage back in 1996.

A list of state minimum wage laws and current dollar amounts can be found at the US Department of Labor website: http://www.dol.gov/esa/minwage/america.htm.
Arguments For a Minimum Wage Increase

Introduction

The issue of whether not to increase the minimum wage or to even have one at all has divided politicians and economists for years. Advocates of an increase in the minimum wage make arguments that fall mostly into three categories. These categories are: 1.) Arguments for the social welfare of America’s lowest paid workers, 2.) Arguments that claim corporate structure to be at fault and that federal legislation must be put in place to force these companies to distribute the wealth more evenly in our advanced society, and 3.) Arguments that attempt to explain how an increase in the minimum wage would actually help or have no noticeable effect on the US economy.

Social Welfare Arguments:

“A decision to raise the minimum wage cannot be made on the basis of economic analysis alone; it also requires the value judgments of elected officials.”

- Preston J. Miller
Vice President and Monetary Advisor
Federal Reserve Bank of Minneapolis
(Miller 1995 Pg 1)

There are many problems in this world for which there is no one unanimously correct answer. Because each person is unique, people value certain things in a different manner than others. These people who hold opposing viewpoints must make compromises and when the final solution is decided upon, there are sure to be many tradeoffs between what is gained and what is lost. Some advocates of a minimum wage
admit that there are some economic sacrifices that are worth making because, as a leading economy in today’s world, we should be able to support our lowest-income workers and not advance as a society without them. As explained by Preston Miller, VP of the Minneapolis Federal Reserve Bank, “These economists [that approved of the increase] had to make a number of value judgments in order to reach their conclusion” (Miller 1995, Pg 1). Social welfare advocates of an increase in the minimum wage would say that the benefits to society of increasing the wage of our lowest-paid workers outweigh the economic costs to the more wealthy economic segments (this tradeoff is explained in greater detail in the “Arguments Against an Increase in the Minimum Wage” section). The following two segments explain more examples of “Social Welfare” arguments.

**The Declining Real Value of the Current Minimum Wage**

Through our democratic process, we as a nation have deemed it worthy to have a minimum amount that employers are allowed to pay their employees. The current question is whether or not to increase the federal minimum from $5.15 to $7.25. If we have already decided as a country that we value a minimum wage, then this increase is certainly necessary because of the decline in the value of the minimum wage over the years due to

![Figure 1: Real value of the minimum wage, 1950-2006](http://www.epi.org/content.cfm/issueguides_mnwage)
inflation. The graph above shows how the real value of the national minimum wage has decreased since the last wage increase in the late 90’s, with a downward trend since the late 60’s. Basically, this means that even though the current rate of $5.15 is the highest dollar amount that the minimum wage has been since its inception in 1938, the amount of goods and services that can be purchased by minimum wage workers has declined about 37.5 percent from its highest level in 1968 (from $8.00 to $5.00, both amounts being valued in 2006 dollars). Although the actual dollar amounts have increased, the effects of inflation have decreased these workers’ purchasing power at a rate of at least 3 percent a year. One of the main goals of the advocates of an increase in the national minimum wage is to increase the purchasing power of the workers who live and support a family on this small amount of money. According to Figure 4 supplied from the Economic Policies Institute, the average annual earnings (adjusted for inflation) of someone paid the minimum wage has been below the poverty level for a family of three since 1969, and the discrepancy between the poverty threshold and the annual earnings of a minimum wage-paid worker has grown every year with the constant decrease in the real value of the minimum wage. The Factbook states that the US government’s 2004 estimate was that 12 percent of Americans live under this poverty line (CIA 2007), meaning that they don’t have enough money to afford what is
considered to be an “adequate standard of living.” While some of the people living under the poverty line own some type of home and have adequate food and clothing, others can’t afford to do basic things such as receive proper medical care, obtain any type of non-government subsidized education, or in some cases, even eat. Things that most Americans take for granted can be considered luxuries to around 10 to 12 percent of our population, and this number is only going to increase as inflation rises and the purchasing power of these people’s incomes decline. (Rector 2004)

As mentioned earlier, we have decided as a democratic nation that we value a minimum wage to improve the living standards of the lowest earning workers above what it would otherwise be in a completely unregulated labor market. The main argument that all minimum wage supporters share is that the current level of earnings for minimum wage workers cannot be considered a living wage and should therefore be increased. The problem with poverty in America is something that certainly needs to be dealt with, and advocates of an increase in the national minimum wage would say that an increase in the amount required to be paid to these low-income workers is certainly a step in the right direction.

**Federal Minimum Lags the Avg. State Minimum, and Not by a Little**

Another argument for an increase in the federal minimum wage is the simple fact that the current minimum is less than the average of the states’ minimum wages. So, in effect, this argument is not based on levels of employment, how much workers need to be paid to earn a living wage, or the

Source: [http://www.pww.org/ezimagedata/catalogue/variations/974-150x150.jpg](http://www.pww.org/ezimagedata/catalogue/variations/974-150x150.jpg)
poverty line. It simply says that since there are so many states that see the need to
increase the social welfare of their lowest-paid workers by setting a minimum wage
above the level that the national government has currently set, the majority of America
sees it fit to have a higher minimum wage and therefore our federal government’s
legislation should reflect this view. There are currently a whopping 30 states that have
their minimum wage level set higher than that of the federal government. Many
advocates of the minimum wage would say that it is time for the federal government to
step up and even out the playing field a little bit (US DOL).

Arguments for Forced Distribution of Corporate Wealth

“U.S. companies are about to wrap up their fourth consecutive year of spectacular
profit growth, filling corporate coffers with cash and keeping the bull market alive
on Wall Street. But to many rank-and-file workers, the booming bottom line may
only serve as a reminder of what has been missing from their own paychecks.”

-Tom Petruno (Los Angeles Times)
(Petruno 2006 Pg 1)

In many cases, big businesses have an extremely large net income and CEO
compensation packages that can be described as over-generous. This is in some respect
justified, because companies have a fiduciary duty to make as much profit as is
reasonably possible for their shareholders. They would therefore in many cases not pay
their employees more than they think is the most economically efficient amount (Some
temporary companies pay minimum wage and others pay more to retain more employees to decrease
turnover and therefore decrease training costs, etc.). If these companies are to stand true
to their fiduciary duties, they will not pay more than is required to make the most profit for their shareholders. If the government were to increase the minimum wage that was required to be paid by these big companies, the living standards of America’s lowest-earning workers could be improved at the cost of lower returns to shareholders. This would in turn fulfill the objective of reducing poverty.

**Pro-Minimum Wage Economic Arguments**

**Card & Kreuger Study**

The conventional economic wisdom, as explained in better detail in the next section, is that, all other factors remaining constant, an increase in the minimum wage will raise unemployment as employers substitute cheaper inputs for the more expensive labor. Economists David Card and Alan Kreuger challenged this theory in the early 1990’s by attempting to prove that an increase in the minimum wage had either a neutral effect on employment or that it could actually increase employment. Their experiment produced some interesting results.

<table>
<thead>
<tr>
<th>Analysis</th>
<th>Source of Wage Change</th>
<th>Nature of Comparison</th>
<th>Wages</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. New Jersey-Pennsylvania Fast Food Restaurants</td>
<td>New Jersey minimum wage rises to $5.05 April</td>
<td>Across states and within NJ between high and low wage restaurants</td>
<td>+11</td>
<td>+64</td>
</tr>
<tr>
<td>2. Texas Fast Food Restaurants</td>
<td>Federal minimum wage rises to $4.25 April</td>
<td>Between high and low wage restaurants</td>
<td>+08</td>
<td>+20</td>
</tr>
<tr>
<td>3. California Teenagers</td>
<td>California minimum wage rises to $4.25 July 1988</td>
<td>Between teenagers in California and comparison areas</td>
<td>+10</td>
<td>+12</td>
</tr>
</tbody>
</table>

Source: [http://www.uvm.edu/~vhrs/doc/min_wage.htm](http://www.uvm.edu/~vhrs/doc/min_wage.htm)
These two Princeton colleagues set out to see if an increase in the minimum wage level of New Jersey (as well as other cross-state studies) would produce results as expected by conventional economic wisdom or if these results would show either a neutral or positive correlation between wage growth and employment. They collected employment information from managers of fast food restaurants during this four year study and they used this data to analyze what actually happened after an increase in the minimum wage was introduced into the selected local and state economies. They found in this study that, contrary to popular belief and what was expected by classic economic wisdom, as wages grew, so did employment. This table was taken from their 1997 book, Myth and Measurement: The New Economics of the Minimum Wage, and these results from their many small experiments show that there is actually a positive correlation between wage growth and employment.

Card and Kreuger are most famous for their study that focused on the effects of a New Jersey state minimum wage increase across the borders of New Jersey and Pennsylvania. This situation provided these two economists with a perfect example to study cross-state effects of an increase in the minimum wage. They found that “employment actually expanded in New Jersey relative to Pennsylvania, where the minimum wage was constant” (Card and Kreuger Pg 1). While their findings are controversial and other economists have scrutinized their methods, this study has remained the main source of proof that not all economic problems and scenarios are exactly as they seem on paper.
Arguments Against a Minimum Wage Increase

"The Evidence from a large body of existing research suggests that minimum wage increases do more harm than good."

-David Neumark
National Bureau of Economic Research Associate Professor of Economics at the University of California (Neumark 2006 Pg 1)

In the previous section, I described many different viewpoints from different economists that explain why an increase in the minimum wage could be good for the American economy and its low-income workers. In this section I will go into an in-depth discussion of why other economists say that this increase would actually be bad for the economy and “that minimum wage increases do more harm than good” (above).

Fundamental Economics: Unemployment

"Minimum Wage hikes end up hurting the very people they are intended to help by jeopardizing the jobs of those most in need of assistance."

–Mike Flynn
Employment Policies Institute (“Hot Topic” WSJ 2006 Pg 1)

According to the principles of economics, as the price of a good increases, the demand for that good

decreases, given that all else is held constant and the demand for the good isn’t perfectly inelastic. For example, let’s say you were a smoker and you normally smoked 2 packs of cigarettes a day at a price of $4.00 a pack. If overnight the government imposed taxes of $6.00 per pack on your cigarettes, would you continue to smoke two packs of cigarettes a day at $10.00 a pack? Even if you were extremely addicted you would probably cut back on how much you smoked because of the new increase in price. You might even substitute chewing tobacco for these high-priced cigarettes or be forced to find a new vice altogether. The point is that as the price of the cigarettes increases, the demand for them would decrease. This theory of economics can be readily applied to the upcoming increase in the national minimum wage.

Labor can be thought of in the same context. If there is a sudden increase in the cost of labor, the demand for that labor will decrease and companies will therefore use less. This could result in decreased overall output or replacement of human workers with machines when possible. In any case, the increase in the minimum wage would result in increased wages for those who keep their jobs and unemployment for those who are let go as a result of higher labor costs. The question is then, “Does an increase in the minimum wage make the American low-wage worker better off?” Well I guess it would depend on whether or not you lost your job because of it. Certainly the workers with a higher wage are better off, but the newly-unemployed individuals are worse off.

There are many other arguments that consider additional ways in which an increase in the minimum wage could hurt the American economy, but they are all based on this simple point. The fundamentals of economic theory state that, holding everything
else constant, an increase in the price of labor will result in a decrease in its use, and higher unemployment.

**Do Low-Wage Earners Really Gain?**

According to Gary Becker and Richard Posner, “No.” In their article, “How to Make the Poor Poorer,” they explain that “The losers will lose more than the gainers gain” (Becker & Posner 2007 Pg 1). Yes, the people that are able to keep their jobs after a federal minimum wage increase now earn more money and can afford a few more things in life than they could before and might even be considered above the poverty line, but the people who lose their jobs have lost their entire income and are now earning absolutely nothing. Keep in mind, its not as if these people can just stroll up to another employer of unskilled labor and get a new job, because the other minimum wage-paying employers are adapting to the increase in labor costs as well and most likely are not expanding their workforce.

Even if we were to consider the new higher-paid worker’s gains to be significant enough to overcome the now unemployed losers’ losses, low-income workers would be hurt after the ramifications of price increases came around to them. Companies in an industry that uses large amounts of unskilled labor wouldn’t be able to or would choose not to lay off employees as a remedy to the increase in labor costs. This would result in an increase in industry prices on the products and services they offer to offset the higher cost of labor. Although these workers make more money, they need to spend more of it to buy what they need because of the inflation of costs that came from the increase in the amount that they are being paid.
So instead of $X$ workers making $5.15 \text{ an hour}$ and paying a certain price for goods, we have a portion of $X$ that is now unemployed and the remaining workers are making a touch more and both are paying more than the pre-wage increase price for the goods they need to buy. Although economists differ in their views of exactly what portion of the workforce will lose their jobs, the point is simply that unemployment will increase as a result of a required minimum wage. Have the low-income workers benefited from this? Their answer: “No.” (Becker & Posner)

**Competitiveness: Why Put the Burden on Companies?**

“A minimum wage is equivalent to a wage subsidy for unskilled workers paid for by a tax on employers who hire unskilled workers.”

-Gregory Mankiw  
Former Council of Economic Advisors Chairman  
Harvard Economics Professor  
(Sachdev 2003 Pg 1)

Outside the realm of the relationship between a small business and its employees, an entire industry can suffer on the whole from an increase in the national minimum wage. There are certain companies and industries that depend more on labor and are therefore hurt more than other companies. If managers in this type industry or company have the option of raising prices on products to compensate for the growth in the cost of labor, these managers could save their entire workforce and then no one would immediately lose their job as a result. On the other hand, this increase in price is likely to be felt in the form of fewer sales for whichever companies choose this option. So by keeping their employees and raising prices, companies become immediately less
competitive with other companies in the industry that simply laid off employees to keep their prices stable.

The effects of decreased competitiveness are felt wider than in just the domestic industry. If a national industry as a whole is forced to raise prices as a result of an increase in the national minimum wage, the entire industry is hurt in the global market. This effect is also increased if these industries are labor-intensive. For example, if American T-shirt manufacturers were suddenly forced to pay the cotton pickers an extra $2 an hour, the price of each individual T-shirt would be certain to rise. This rise in price, as previously explained, would make a customer somewhere else in the world discontinue purchasing from their American supplier and buy from another country whose labor costs aren’t so high. The T-shirt manufacturer would also lose money in a second way because their American customers, who previously bought from them because they cost just barely less than having to pay for the extra shipping costs on T-shirts from abroad, will now go ahead and buy abroad because they aren’t saving any money by buying domestically.

There was a study done on the effects of Oregon’s mandatory annual minimum wage increases to keep up with inflation. While a local eatery owner in Portland says that “I don’t worry about it, because if I have to raise prices, next door will have to do the same thing,” people who work in industries on a larger scale have run into financial distress. Oregon’s $4 Billion farm industry has been hurt the most, says the study. “The biggest yelps have come from Oregon’s farm industry...So while a competing blueberry farm in New Jersey can pay $6.15 an hour and one in Chile may pay even less, Oregon farmers pay $7.50” (Solomon Pg 1). And a local farmer Barb Iverson said, “Why grow a
potato here when you can do it in Idaho for $5.15 [an hour]?" (Solomon Pg 1). How can they expect to compete? Without government subsidization in today’s flat world, they can’t.

From an industry view, opponents of an increase in the minimum wage and therefore increased labor costs would say that it is clearly not good for business because of the decrease in competitiveness that would arise as a result of increased wages.

**Who does this Legislation affect?**

Most of the arguments for an increase in the minimum wage are based around a man or a woman trying to provide for his or her family of at least 3 on only the minimum wage. Using this example, it is easy to point out the current minimum wage level’s inadequacy to provide enough money for a family. In reality, most workers who receive minimum wage are not in this situation.

According to a 2005 study by the Bureau of Labor Statistics (US DOL), most minimum wage workers are young. About half of these workers are less than 25 years old and about 25

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Source: [http://www.caglecartoons.com/archive.asp?ArtistID=1F8ECEF5B-DEF5-4444-92C3-B01E3607ACTFB1](http://www.caglecartoons.com/archive.asp?ArtistID=1F8ECEF5B-DEF5-4444-92C3-B01E3607ACTFB1)

percent are between 16-19 years old. Many of the people who are included in the "minimum wage or lower earners" are tipped workers. Restaurants in many states are allowed to pay their servers less than the minimum wage because the servers earn tips, which bring them above the hourly minimum wage. Even though these workers can earn loads of money, they are sometimes included in the "minimum wage or lower earners", and this skews the number of people who would be affected by a change in the minimum wage to make it look bigger. Although economists aren't sure to what degree this skews the data, it is important to note that these measurements are sometimes slightly exaggerated (Hot Topic: WSJ).

Any way you look at it, an increase in the minimum wage increases the income of many teenagers and other youngsters that work only part-time and have the job only as a source of extra spending money. While this isn't inherently bad, the purpose of increasing the minimum wage is to help out the poverty-stricken people who are trying to survive on these wages. Looking at the pie chart provided by the Employment Policies Institute, we can see that the single parents trying to support a family by themselves and the married, single-earner families together make up only about 11 percent of the total number of people who earn wages in the range of $5.15 to $7.25 an hour and would therefore be affected by an increase in the minimum wage. This number compares with a whopping 35.5 percent of earners in this range that live with their parents and are most likely not a major contributor to the household income. According to opponents of the minimum wage, there are better, more efficient ways of distributing wealth to the poor without loading teenager's pockets at the cost of adding financial strain to many
companies, unemployment of people who really need the money, and decreased industry competitiveness for affected firms.

**Earned Income Tax Credit (EITC)**

For most all economists, the question is not whether or not to help the poor, but rather *how* it should be accomplished. According to Gary Becker, an economics professor at the University of Chicago, and Richard Posner, a law professor at the same institution, “As a means of raising people from poverty or near poverty, the minimum wage is inferior to the Earned Income Tax Credit, which compensates for low wages without interfering with the labor market or conferring windfalls on the non-poor” (Becker & Posner 2007 Pg 1).

The Earned Income Tax Credit is a refundable tax credit that either reduces or eliminates federal income tax on low-income workers. It has become one of the biggest poverty-fighting tools in use both in America and in England. It works by eliminating part or all of a low-income individual’s taxes and therefore giving them more spending power by reducing the amount of money that they would have otherwise paid out to the federal government in the form of taxes. The Earned Income Tax Credit also works as a type of subsidy to workers who currently earn too little to pay taxes in the first place. These low-income workers, in effect, pay a “negative” tax on their earned income. Many economists seek an expansion of the Earned Income Tax Credit instead of an increase in the minimum wage because the EITC is a direct link between the taxpayers, the government, and low-income families. These economists favor the EITC because there is...
also minimal interference in free trade and there is no industry-wide increase in unemployment.

There is of course still debate about whether or not this is the perfect solution to all of America’s poverty problems, because the Earned Income Tax Credit has faults as well, including the fact that the EITC places the burden on taxpayers and reduces government income. However the main argument for the Earned Income Tax Credit as opposed to the minimum wage is that it distributes wealth to poor workers and their families without putting an unnecessarily large burden on employers. For the purposes of this paper, just know that not all opponents of the minimum wage are against helping low-income individuals. Many of them simply think that the minimum wage isn’t what needs to be fixed to solve the problem (Becker & Posner).

**Card and Kreuger Experimental Flaws**

"While it is not yet clear why Card, Katz and Krueger got the results that they did, it is clear that their findings are directly contrary to virtually every empirical study ever done on the minimum wage."

-Joint Economic Committee, Congress of the United States (Joint Economic Committee 1995 Pg 1)

"Both economic common sense and past research contradict the Princeton studies, and an examination of the evidence surrounding the 1990-91 increase in the federal minimum wage shows that rumors of the death of the conventional economic wisdom are premature."
As explained earlier in the “Studies Show...” section of the arguments for an increase in the minimum wage, Card and Kreuger found that an increase in New Jersey’s minimum wage was actually positively correlated with an increase in employment. Many minimum wage supporters use this study as proof that conventional economics can be and is occasionally wrong. What could strengthen an anti-minimum wage argument more than to find flaws in the Card and Kreuger Study? According to many economists, this study was poorly done they are out to prove it.

The problem with the Card and Kreuger study was not their results, but rather their methodology. According to Deere, Murphy and Weltch, the Card and Kreuger Study examined only a single state in most of their experiments and they only looked at one industry. One of the most widely scrutinized parts of their experiment was the fact that they didn’t use actual payroll data. They instead used a telephone survey approach where they simply asked managers about the number of workers that they employed and nothing about the number of hours that these workers did in fact work (Millstead). To correctly measure the effects of an increase in the minimum wage, it is important to know how many hours they worked. Card and Kreuger neglected to collect this information. If the number of employees for a given fast-food restaurant rises from 4 to 5, that shows a 25% increase in employment, but if each employee only works 32 hours a week instead of their usual 40, the actual hours worked by the employees as a whole didn’t change at all. In this situation, the actual employment can hardly be said to have been changed and many economists claim that the Card and Kreuger study is flawed because it does not
take this into account by not collecting information on actual hours worked by the workers of these surveyed employers.

Economists David Neumark and William Wascher criticized the Card-Kreuger methodology and then redid their study using actual payroll data from the same region and time period. Not surprisingly, they came up with the opposite, traditional conclusion. When accounting for actual hours worked and not just number of employees, they found that the hours worked in New Jersey fast-food restaurants did in fact decline after the state minimum wage was increased (Millstead).

When advocates of a policy use only one study that shows results contradicting economic thought and many other academic studies on the same topic, one can’t help but be suspicious of this single study’s findings. Opponents of the minimum wage would say that this study is flawed and can therefore not be considered to be evidence that disproves fundamental economic principles.

What Some Other Policy Studies Find

In the last section, I explained that the Card and Kreuger study showed results “contradicting economic thought and many other academic studies on the topic.” Because of this claim, I deemed it worthy to have a section describing the results from a few of these other studies. One of these such studies was done in 2006 by the Show-Me Institute in Missouri. This policy study was done by David Neumark, a professor of Economics at the University of California, Irvine and a Research Associate at the National Bureau of Economic Research. This policy study combined the research of many economists nation-wide and found that: 1) Minimum wages do in fact reduce
employment of young and less-skilled workers, 2) Minimum wages, in many circumstances, deliver no net benefits to poor or low-income families, and if anything may make them worse off, increasing poverty, and 3) Minimum wages have longer-run adverse effects, lowering the acquisition of skills and therefore lowering wages and earnings even beyond the age when individuals are most directly affected by a higher minimum (Neumark 2006 Pg 3). The reasoning behind the first has already been explained in the preceding section “Unemployment: Fundamental Economics”, and a more in-dept discussion on finding number 3 can be seen in the following section entitled: “Lower Long-Term Skills.” Point number 2 is one that is central to the argument against an increase in the minimum wage. After summarizing many economic studies that supported this claim and others that didn’t, Neumark “took a direct approach” (Neumark 2006 Pg 18) and did a study himself to find the overall effectiveness of the minimum wage as a tool against poverty. His more direct approach examined both state and federal minimum wage increases and he “used methods that provide very flexible estimates of how minimum wage increases change the distribution of income-to-needs” (Neumark 2006 Pg 18). He then explains that, “Although direct evidence on the effects on low-skill workers differentiated by family income has not been offered, these results are consistent with more of the adverse effects of minimum wages falling on low-skill workers in poor and low-income families” (Neumark 2006 Pg 18).

In a separate, slightly different study done by two well published PhD economists from Chicago, Aaronson and French examined government-collected price data and found that the effects of both reducing total output because of raised prices and the substitution of other inputs rather than labor because of higher labor costs are important
(Aaronson and French). As described earlier in “Unemployment: Fundamental Economics,” labor is just like any other input. If the costs of one of the inputs of a good are increased, the producers of that good will seek to either reduce the amount of that input used and/or discontinue use of that input and find another to replace it. For example, if all of Smoothie King’s top-selling products contain oranges, what would be the natural thing for them to do if there was an awful freeze and all of the oranges in Florida were ruined? They could just continue to sell their orange-containing smoothies at regular price and try to make it until the price of oranges came down, even if they were forced to sell their smoothies at a loss for some indefinite period of time. Smoothie King could handle this for a while, but what if the situation never got better? They would be forced to change the way they made their smoothies. They could cut down on the amount of oranges used in each of their smoothies, they could replace the oranges with tangerines or some other fruit that survived the freeze, or they could simply raise their prices and maybe lose a few sales on that type of smoothie. As the study explains, labor can be compared to this smoothie example. If the price of labor is suddenly and permanently raised, employers are possibly forced to cut back on this type of labor and if possible replace human work with machines to do the same type of work (as the political cartoon explains in an obviously exaggerated manner).
By using this government-collected price data, they showed that a 10 percent increase in the minimum wage should, on average, reduce minimum wage employment also by about 10 percent. Because only 30 percent of all restaurant industry workers would be affected by this increase, this should reduce restaurant industry employment by about 3 percent. Taking this projection into account, the current legislation raising the minimum wage from $5.15 to $7.25 (a 41 percent increase) would result in a 12.3 percent decrease in restaurant industry employment. The Aaronson and French study was then compared to other surveys published in the *Journal of Economic Literature* and its results were found to be within 0.5 percent of the average loss in employment found by other such studies (Aaronson and French). Opponents of an increase in the minimum wage base their arguments both on sound economic academic theory as well as the many studies, such as these two, that confirm their position.

**Lower Long-Term Skills**

"*Over the longer-term minimum wages lead to lower skill levels and therefore lower wages.*"

-David Neumark  
National Bureau of Economic Research Associate Professor of Economics at the University of California  
(Neumark 2006 Pg 3)

One of the disadvantages of higher minimum wages that is commonly overlooked, even by staunch opponents, is that these higher minimum wages can actually lead to lower wages down the road for affected workers. Higher minimum wages
encourage employers to cut training expenses and also students to leave school in search of these higher wages, therefore limiting their education, training, and long-term income. If employers all of a sudden have to pay their employees more than what they currently do, they may be forced to cut employee training, thus depriving these low-income workers of an important means of long-term advancement. So, in effect, these workers are trading in their opportunity for long-term advancement and higher wages for a small increase in their current income. While living the minimum wage lifestyle is often not completely by choice, some high school students may see these slightly higher wages and choose for themselves that going to college or even receiving more of any type of training looks a touch less inviting because the gap between what they could potentially receive and what they are forced by law to receive is made that much smaller because of this increase in the minimum wage. As was said in the report by the Joint Economic Committee of the United States Congress, “For many workers this is a very bad trade-off, but one for which the law provides no alternative” (Joint Economic Committee 1995 Pg 1).
Summary and Personal Conclusions

After all of my research, I’ve discovered many things about the hotly-debated minimum wage issue. First, almost all of the arguments made by opponents of the minimum wage are based on the economic effects of such legislation on the national economy and its low-income workers. They argue that, as a result of a minimum wage increase (or the existence of a minimum wage in general), 1) Unemployment among the poor is increased, 2) Low-income workers as a group do not benefit and may more than likely be negatively affected, 3) The economy as a whole suffers, and that 4) There are other, more efficient ways of fighting poverty. On the other hand, most of the arguments for a minimum wage are based on the idea of social welfare. Advocates of a minimum wage argue among other things that, even if there are potential negative economic effects, it is not ethically or morally right in a nation as advanced and powerful as ours to leave a portion of our nation’s citizens living under the poverty level when they work full-time. These advocates say that what is currently being paid to America’s lowest earning families is not enough to be considered a living wage, and that the raising the minimum amount that these workers are required to earn is, if not a solution, at least a step in the right direction.

While both sides of the issue have strong points, I personally find the arguments put forth by opponents of the minimum wage to be more convincing. The fundamentals of economic theory state that, holding everything else constant, an increase in the price of labor will result in a decrease in its use, and therefore higher unemployment among minimum wage workers is the result. I understand and appreciate the benefits gained by the workers that are able to keep their jobs and earn a higher income to help improve
their standard of living, but I think that the workers who lose their jobs and the individuals that are not able to find a job because of a depressed market for unskilled labor experience losses that outweigh the benefits gained by those who retain their jobs. Almost everyone who earns the minimum wage would be thrilled if the federal government were to require their employers to pay them an extra two dollars an hour, but I guarantee that their take on the minimum wage would change in a heartbeat if they were in the group of individuals who lost their job because of it.
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