

Some notes on *Minimum Wages*

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Overview

Survey of the literature to answer key questions:

1. Do minimum wages lower employment opportunities for less skilled workers?
2. Do minimum wages increase earnings of less skilled workers?
3. Do minimum wages increase the earnings of poor families?
4. How do minimum wages affect acquisition of human capital among less skilled?

Answers

Survey of the literature to answer key questions:

1. Do minimum wages lower employment opportunities for less skilled workers? Yes
2. Do minimum wages increase earnings of less skilled workers? No, reduce
3. Do minimum wages increase the earnings of poor families? No, little effect
4. How do minimum wages affect acquisition of human capital among less skilled? Lower HC

Chapters 3 and 5

Survey of the literature to answer key questions:

- 1. Do minimum wages lower employment opportunities for less skilled workers? Yes**
2. Do minimum wages increase earnings of less skilled workers? No, reduce
- 3. Do minimum wages increase the earnings of poor families? No, perhaps decrease**
4. How do minimum wages affect acquisition of human capital among less skilled? Lower HC

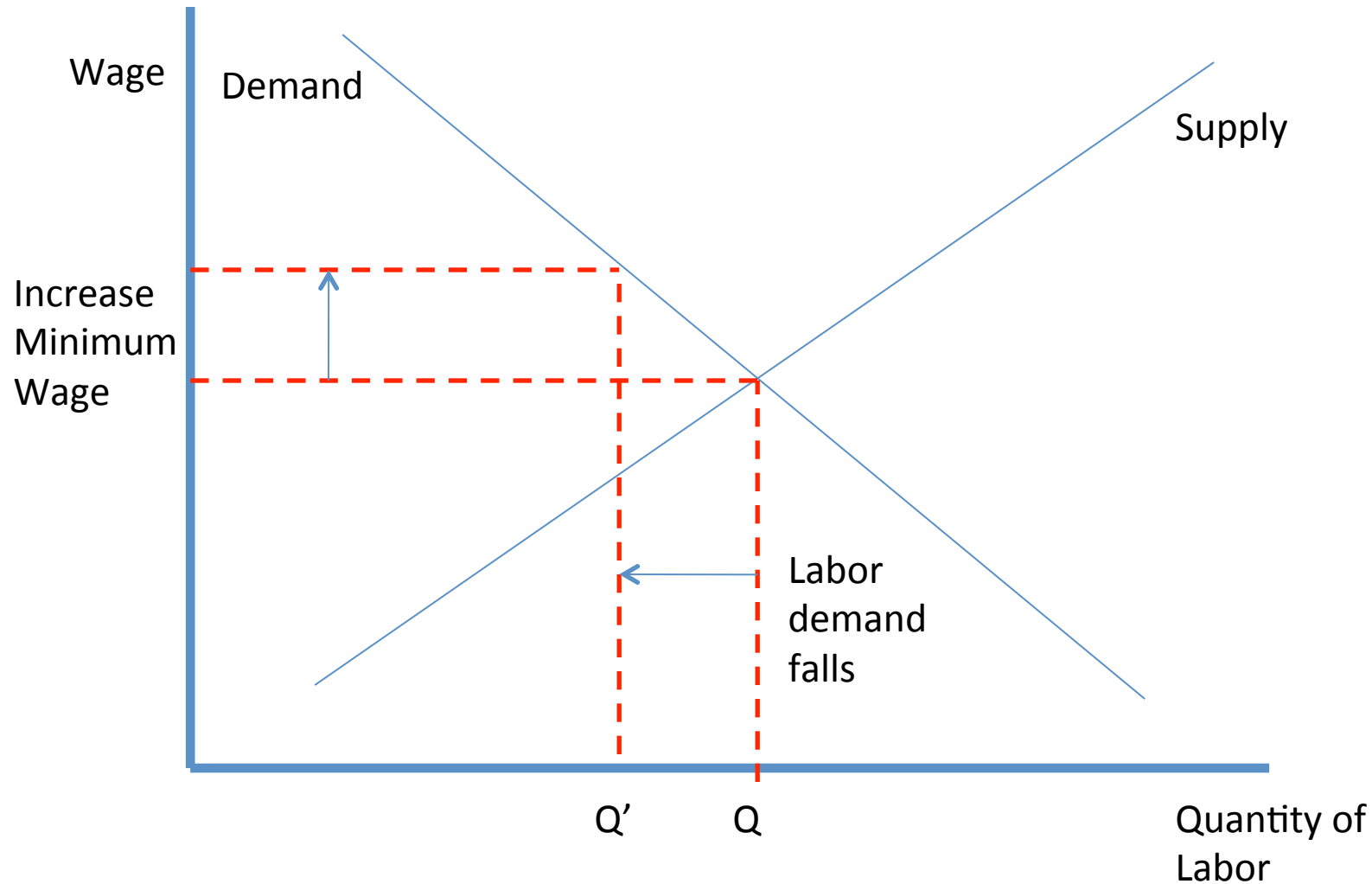
Methodological points

- Measuring empirically is important
 - Theories don't predict magnitudes, only directions
 - Different theories predict different directions
- Careful study is important
 - Distinguishing the questions
 - Endogeneity
 - Measuring the right group of workers
 - Choosing the right time horizon

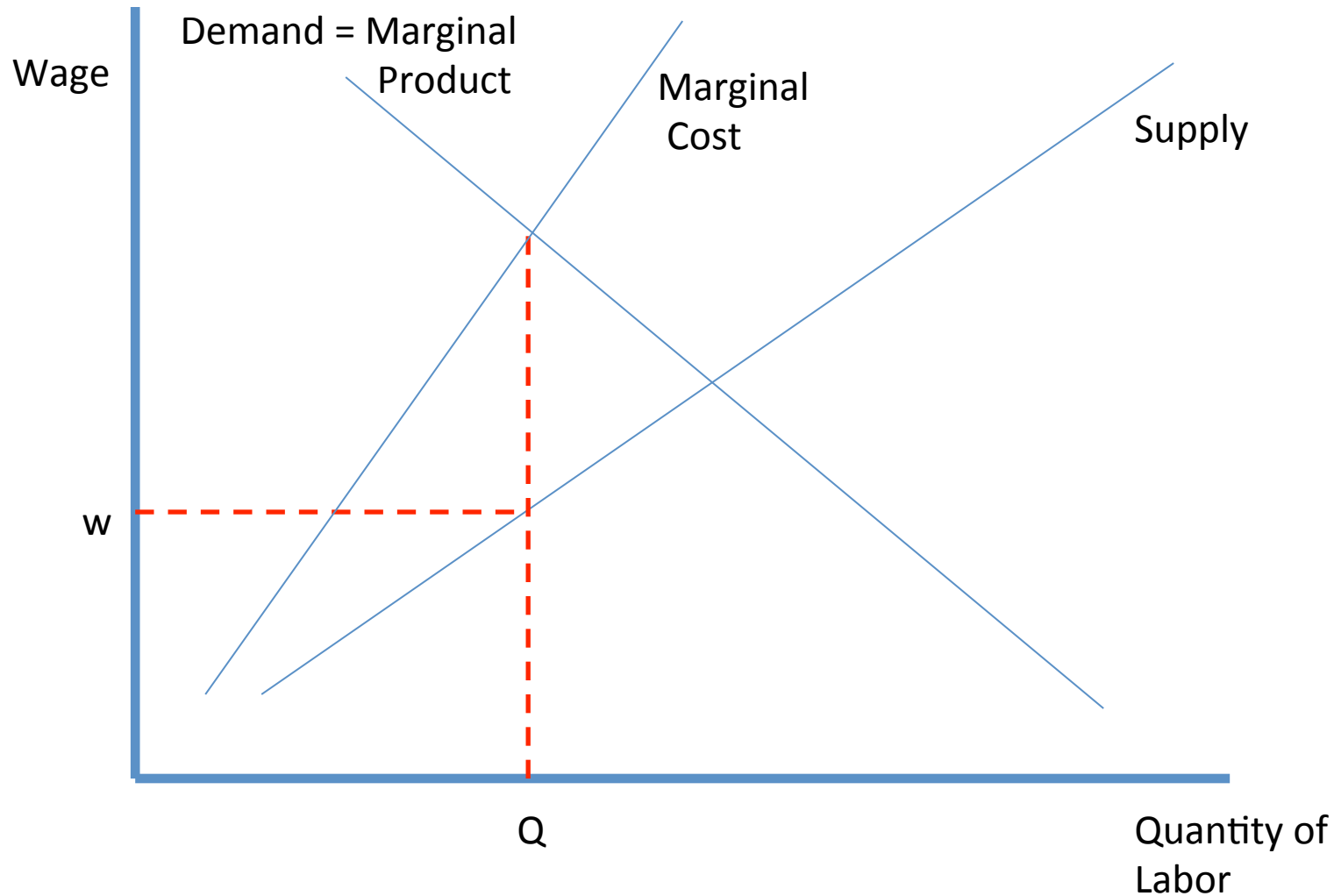
Theoretical Issues

- Competitive market?
- Monopsony market?
 - Def
 - *Monopsony* – a market for an input in which the purchaser has market power and so $wage < \text{marginal product of labor}$
 - Why might market for low-skilled labor be monopsony-like?
 - Could stem from search costs a la Mortenson and Pissarides (2010 Nobel prize winners)
 - Efficiency wages
- Effects on other markets – demand for particular industry might change

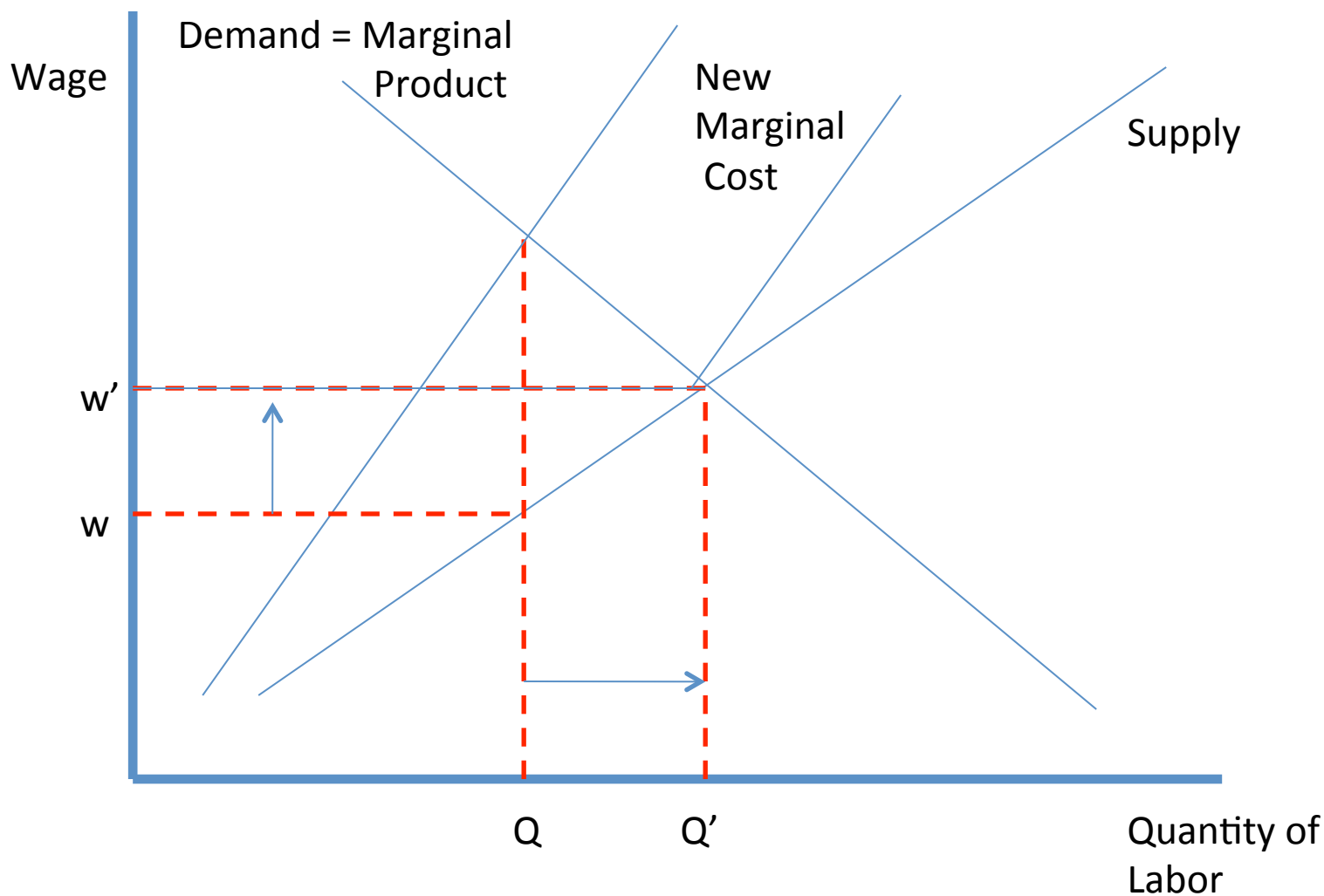
Competitive market: Employment falls



With monopsony: Marginal Cost > Wage



With monopsony: Minimum wage increase employment



Empirical Equation for Ch. 3

- Estimate:

$$Y_{it} = \alpha MW_{it} + R_{it} \beta + \varepsilon_{it}$$

- Y_{it} is outcome measure (time t, state i)
 - (e.g.employment, employment ratio, hours, earnings)
- MW_{it} is minimum wage
- R_{it} are state and time controls
- α is the policy effect we want to measure

One Key Empirical Issue

- Estimate:

$$Y_{it} = \alpha MW_{it} + R_{it} \beta + \varepsilon_{it}$$

- Is MW_{it} “exogenous”? i.e., not correlated with other things in ε_{it}
 - E.g., what if the minimum wage is raised in states with low unemployment, but not in states with high unemployment?
 - R_{it} , the state and time controls take care of that, but what if this changes over time?
 - Use the federal minimum wage and see if it effects states differently?
 - Use “natural experiment” compare one state with increase (treatment) to impact in nearby state without (control)

Second Key Empirical Issue

- Estimate:

$$Y_{it} = \alpha MW_{it} + R_{it} \beta + \varepsilon_{it}$$

– What should we choose for Y_{it} ?

- Choosing too broad population hurts measurement, so they look at teens
- Choosing too narrow a population (e.g., fast food workers) ignores effects on other markets (e.g., maybe people eat fast food because other restaurants become too expensive)
- Should we measure hours or employment?

Third Key Empirical Issue

- Estimate:

$$Y_{it} = \alpha MW_{it} + R_{it} \beta + \varepsilon_{it}$$



- Time horizon?

- How long should it take for minimum wages to take effect?
- Remember that long run elasticities > short run elasticities

Key Findings for Employment

- Wide range of elasticities from near -1 to positive
- Most estimates around -0.1 to -0.3,
- Most positive estimates were research by Card, short panel, narrow type of worker

How does the third question relate to the first?

- Findings for first question:  
Individual earnings=hours*wage
 - Individual earnings may also increase from spillovers
- Second question asks about *distribution of* :
Household Income=sum (Individ. Earnings)
 - Sums over many people
 - Some families gain (higher wages)
 - Some families lose (no jobs)

Minimum wage is a blunt policy

- Only 13 percent of low-wage earners are in poor families (e.g., teen jobs) in 2003
- 46 percent percent are in families earning over 3 times the poverty line
- Workers affected by minimum wage are distributed fairly evenly across family income distribution
- Many families are poor because of low hours, rather than low wages

Empirical Equation for Chapter 5

- Estimate:

$$\{f_{2,MW=1}(I) - f_{1,MW=1}(I)\} - \{f_{2,MW=0}(I) - f_{1,MW=0}(I)\}$$

- f is density of income to needs (I)
- “difference-in-differences”
- 1st difference is the changes with the minimum wage increase
- 2nd difference is the changes without the increase
- Look at the difference between the two

Alternative: EITC

- Earned Income Tax Credit effectively subsidizes the earnings of poor families
 - Better targeted because it subsidizes at the family level
 - Phases out at higher incomes
 - Increases employment rather than reducing it
 - Ambiguous effects on hours
 - Costs government money

Is EITC “Just Remuneration”?

- JP II talked about “Just Remuneration” rather than only “Just Wage”
- “This means of checking concerns above all the family. Just remuneration for the work of an adult who is responsible for a family means remuneration which will suffice for establishing and properly maintaining a family and for providing security for its future. Such remuneration can be given either through what is called a *family wage*-that is, a single salary given to the head of the family for his work, sufficient for the needs of the family without the other spouse having to take up gainful employment outside the home-or through *other social measures* such as family allowances or grants to mothers devoting themselves exclusively to their families. These grants should correspond to the actual needs, that is, to the number of dependents for as long as they are not in a position to assume proper responsibility for their own lives.” (LE 19)

Methodological Critique

- Are labor economists measuring something that is actually stable?
 - E.g., we set the minimum wage to \$1000/hr, then we will lose almost all employment (elasticity would be infinite)
 - E.g, effects on income may vary by country, depending on family structure, for example
- What is the proper time horizon to consider?

Ethical Critique

- How can we ensure a just wage and a right to work?
 - CST neglects that firms can always offer a wage of zero (i.e., no job)
- Can we think about “just remuneration” to include EITC?
 - the firm doesn’t pay the worker but worker receives through political economy
 - John Paul II seemed to take this view (LE 19)
- What happens as wages fall for less skilled?
 - Issue is not exploitation, but participation and universal destination

Further Literature

- The minimum wage debate has become extremely politicized.
- Dube, Lester, and Reich (2010) compared contiguous border counties to examine impact of minimum wage changes.
- Neumark, Salas, and Wascher (2013) questioned these results.