SURVEY OF MINIMUM WAGE LITERATURE

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One of the perennial questions in empirical economics is the effect on minimum wages on unemployment and wages. The empirical analysis of this question goes back as far as Obenauer and Von Der Dienburg 1915. Basic economic theory tells that a price floor should cause a surplus, and hence unemployment should rise. In 1994, Card and Krueger present an empirical analysis in their now seminal study that does not find any such effect. In so doing, they restarted the then stagnant literature analyzing this question. In the approximately twenty years since then, a huge number of papers have been written analyzing this question. This then raises the question – what is the current state of literature?

Before we consider that question, it is helpful to consider potential explanations for why the empirical literature has not formed a consensus around a strongly negative elasticity? In other words, why is it not obvious in the data that minimum wages increase unemployment? Two main explanations dominate the literature. The first is time-varying spatial heterogeneity in unemployment across regions. In other words, to calculate the employment effect of minimum wage, you have to create an estimate of the employment level if the minimum wage had never been put in place and then difference that estimate from the employment level that actually occurred. However, as different regions employment is trending in different directions at different rates, forming this control while not using up all of the degrees of freedom in the data is by no means trivial. There is substantial disagreement in the literature concerning the optimal way of doing this. The second potential explanation regards the different between short-run and long-run elasticities. One would a priori expect that the long-run elasticity to be large as companies have more time to adjust. It is conceivable that the short-run elasticity is quite small while the long-run elasticity is economically large. However, the short-run elasticity is significantly easier to measure and so most empirical papers have assumed that the two elasticities are equal. We explore both of these explanations in greater detail in what follows.

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Evidence Concerning the Short-Run Elasticity

Perhaps the most useful article to examine when considering the current state of the literature is Neumark, Salas, and Wascher 2014.

References

Card, David, and Alan B. Krueger. 1994. "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania." *The American Economic Review* 84, no. 4 (September): 772–786.

Neumark, David, J.M. Ian Salas, and William Wascher. 2014. *Industrial & Labor Relations Review* 67 (3 suppl.): 608–648.

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