

Effects of Minimum Wage on Employment Rates

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November 10th 2022

Abstract

This paper delves into the controversies surrounding the increase in minimum wage and its supposed effects. This article is an extension of the ideas presented in Kruger's article surrounding the .80 cents increase in minimum wage in new jersey. However this perspective is more surrounding the "why", specifically why people are convinced increasing minimum wage would be detrimental to employment. While we also explore how high minimum wage effect is very elusive.

1 Introduction

The elusiveness of the effects of minimum wage on employment has caused author to delve into information surrounding why the effects are so commonly discussed. The information in this paper is primarily centered around the most studied group, the American teenager (Manning 2021, pg.5). Providing evidence on how the American teenager are the most effected by a negative impact on the employment rate. As well as evaluates information regarding a correlation between wage increase and employment.

2 Literature Review on Elusive employment effect on Minimum Wage

2.1 Initial evaluation and changes in specification, methodology and Data

Initial evaluations and research surrounding the elusiveness of the effects of minimum wage and employment had lead to data searches surrounding correlation between mean hourly wage in respect to minimum wage. Unfortunately even after such evaluation no clear evidence surrounding the effects minimum wage on employment at least in the near future (Manning 2021, p.9). Better data specifications were suggested by (Meer and West 2016) where they suggest a lag in the impact of minimum wage. Meer and West claim that specifying long

lags in aggregate employment data led them to finding a negative employment effect which as it turns out isn't a big deal. We also notice claims that better methodology should be used in order to yield a result. Authors (Neumark, Salas and Wascher 2014) use a synthetic control effect, arguing that a negative employment effect emerges when that is used. Which was contested by (Dube and Zipperer 2015) when they said it seems unlikely a synthetic control approach will deliver clear evidence on a negative employment effect. The final alternation that was claimed to possibly yield a result was a better data. The use of many other data types were explored like social security data and administrative data but they all find clear wage effects but no negative employment effects(Manning 2021, p.13).

2.2 The elusive employment effect n an international scale

Evaluating the evidence from other countries with higher minimum wages surrounding their effects may create more conclusive results. The United Kingdom similar to the United States data was evaluated to draw correlations between an increase in wages for the groups most affected which at the time was the younger market and it had no effect on employment which is also an elusive result. France is a bit different in which their minimum wage changes every year as well as reduced taxes for minimum wage workers. With that information conclusions can be drawn that in France minimum wage is high enough where it results in job losses, however there are no studies to back up that assertion(Manning 2021 p.16). Similarly to France Australia also has a high minimum wage however the effects have more of an impact on wages than unemployment. The fair wage commission also states that the prevailing level of minimum wage has no effect on employment or hours(Manning 2021 p.17). Like the United Kingdom, Germany has a national minimum wage which has minimal effect on employment and more impact on wages. Internationally we seem to find the same trend of elusiveness when it comes to the effect of minimum wage on employment.

2.3 Why is the employment effect so elusive?

One possibility for the elusiveness is that in econometric terms, it may be harder to find an equal sized impact on employment than wages, perhaps because employment has more residual variation leading to larger standard error (Manning 2021, p.18). There is clear evidence on the correlation between high wages and productivity however that productivity does not elude to any connection between minimum wage and termination. Also when it comes to non traded goods that change in local or state-level minimum wage laws will affect all firms in the industry which does not lead to any distinctive effect in terms of employment. Analyses in terms of competitive markets also proved that there is no direct link between employment and an increase in minimum wage and it is therefore not breaking any laws of economics. Overall the elusiveness of the employment effect of increase in minimum wage shouldn't be all that surprising because there is extensive information that solidifies that claim.

3 Data

Alan Manning (2021) furthered his research from the Carl and Kruger (1994) paper surrounding the effects of an increase in minimum wage in New Jersey. Through extensive research and analysis Manning worked to get data that questioned the elusiveness of the effect of minimum wage on employment. Data was collected from the American teen study in order to evaluate an effect of employment from that perspective but none was found. As well as data from international sources to evaluate if there is an effect on an international scale. After no evidence was found Manning went along to use evidence from a variety of perspectives into why the elusiveness is evident instead of trying to disprove the claim that there was no effect.

4 Model of Perfect Competition

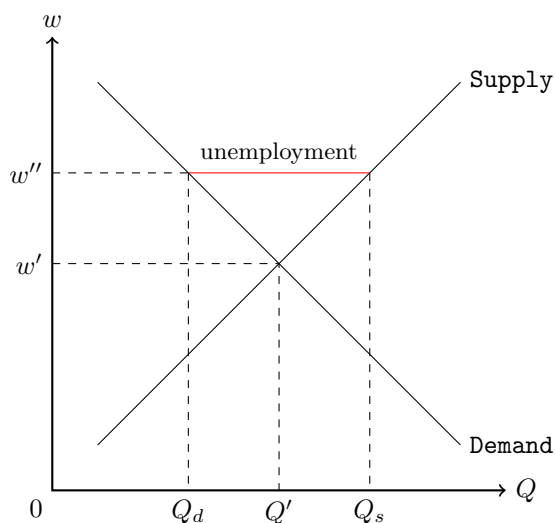


Figure 1: Price Floor

Figure 1 above shows the effect of an increase in wages in a perfectly competitive labor market. The price floor causes an increase from w' to w'' , as well as a decrease in the quantity demanded from Q' and Q_d which left a gap from $Q_n - Q_d$. This gap is the amount of unemployment caused from the increase in wages in a perfectly competitive labor market.

5 Results

	Before	After	Difference
Pennsylvania	23.33	21.17	-2.16
New Jersey	20.44	21.03	0.59
			2.76

Table 1: Difference-in-differences

Table 1 above shows the average employment rate in New Jersey and Pennsylvania before and after the minimum wage was raised to \$5.05 in New Jersey. The information above shows an increase in employment by 0.59% when the new wage was implemented. While in Pennsylvania due to the increase there was an employment decrease by 2.16% in average employment in the same time frame, primarily due to the concurrent recession happening (Card Krueger, 1994, pg.779).

6 Conclusion

The debate over the elusive employment effect of the minimum wage is an ongoing debate. Alan Manning (2021) was determined to further Carl Kruger (1994) view of the benefit of the increase of the wage increase. Manning was able to disprove claims that were made evident in the Kruger paper surrounding the possible effects of the wage increase by illustrating that it is extremely elusive. There is no direct link to an increase or decrease in employment after a wage increase so a government price floor is not detrimental to the economy. This solidifies the further research that Kruger calls for within his research that could help shift societies perspective on an increase in minimum wage.

7 References

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