TwinCities.com
PIONEER PRESS

The case for a $15 minimum wage is far from settled

Michael R. Strain

May 30, 2019

The view that minimum wages can rise significantly without inflicting harm on the job prospects of lesser-skilled workers has certainly taken root. The success of the “Fight for $15” movement has been particularly striking, with several cities, six states and the District of Columbia moving their minimum wage up to $15 an hour. Several Democratic presidential candidates explicitly support a $15 national minimum wage. A bill that would legislate this has more than 200 Democratic co-sponsors in the House of Representatives.

Economist Jeffrey Clemens argues, however, in a recent policy paper published by the Cato Institute, that a good deal of this support is predicated on an incomplete reading of the academic literature.

Clemens correctly acknowledges a recent string of important papers — including several co-authored by the economist Arindrajit Dube — that found little evidence that minimum-wage increases reduce employment. But he argues that many other important papers written in the past few years get short shrift by journalists, opinion leaders and policy makers.

Clemens suggests they should pay particular attention to new research with transparent methods, and highlights a 2018 paper by the economist John Horton that analyzes an online labor market in which workers are hired to do programming, data entry and graphic design. Horton randomly assigned minimum-wage restrictions to the hiring companies, and found that when the wage floor increased, the employers hired workers with more skills and the hours worked declined substantially. The policy implications are clear: A higher minimum wage can reduce employment opportunities for the least-skilled workers in the labor market.

It is often easier for researchers to get their hands on the administrative records of European governments than those in the U.S., and Clemens points to a string of recent papers using high-quality European data that find reductions in employment after the minimum wage rose.

When the minimum wage for 18-year-olds increased in Denmark, a study finds employment among 18-year-olds fell relative to 17-year-olds to the point that the total earnings of the older workers was the same as the younger workers, despite their higher wage floor. Economist Jan Kabátek finds something similar in the Netherlands.

In 2012, Greece reduced its minimum wage as part of the deal it made with the International Monetary Fund during its debt crisis and bailout. An analysis of this reduction found that minimum wages are inversely correlated with employment of affected workers. Between 2007 and 2009, Sweden cut the payroll taxes paid by employers for young workers, and employment of younger workers relative to older workers increased substantially as a result.

In Hungary, the minimum wage increased from about 35% to 55% of the median wage over just two years. A 2018 paper finds that roughly one in 10 workers affected by this increase lost their jobs, and that most of the cost of the increase was borne by consumers, because businesses raised their prices. And there is recent evidence that employment fell by a small amount after Germany's introduction of a minimum wage in 2015.

Economists typically look at all minimum-wage increases over the past several decades in the same statistical analysis. Instead, Clemens argues that analyzing discrete episodes allows economists to better understand and investigate the specific context around a smaller set of minimum-wage increases, which can be taken into account in the design of the study and in interpreting its results.

My own work with Clemens looks only at the period following the Great Recession. In a series of papers, we find that large and small minimum-wage increases have different effects, with large jumps reducing employment and small changes mattering much less (or possibly even increasing employment).

Our findings suggest that the specifics of minimum-wage policy and the broader economic context matter: During an economic expansion, it may be that increases in the wage floor must be large in order to reduce hiring and employment, because in good times companies can absorb the cost through other channels, including raising their prices. Indeed, in their 2019 analysis of minimum-wage increases during the Great Recession, Clemens and Michael Wither find employment reductions larger than have been typically found in previous research.

Beyond its effects on employment, economists are actively researching other aspects of the minimum wage. Does it affect employment growth over time rather than the number of jobs in the year of an increase? Does employment respond differently to increases in states that index their minimum wages to inflation? When the minimum wage is increased, are individuals less likely to have employer-provided health insurance, is their health affected, and are they more likely to be victims of wage theft? How do industries respond to increases, and are long-run employment effects more important than short-run effects? Is the minimum wage an effective anti-poverty policy?

The minimum wage is not a settled issue. Important, high-quality studies come to different conclusions on serious questions. Journalists, commentators and policy makers: Take note.

Michael R. Strain is a Bloomberg Opinion columnist. He is director of economic policy studies and resident scholar at the American Enterprise Institute. He is the editor of "The U.S. Labor Market: Questions and Challenges for Public Policy."