

Why Does the Minimum Wage Debate Never End?

Written by Donald Boudreaux.

The always-interesting Vincent Geloso asks if the increasing rate of incarceration in the U.S. – which began in the mid-1970s and (I’m guessing with a high degree of confidence) disproportionately affects lower-income males – has caused empirical minimum-wage studies done since then to fail to uncover the full negative employment and earnings effects of minimum wages. It’s an interesting point, and I have nothing of substance to add beyond nodding my head in agreement that the effects on empirical findings of increasing incarceration rates might well be as Vincent suggests.

I do, though, have two small, tangential points to make. The first is in response to this sentence in Vincent’s post:

In recent times, minimum wage surveys have tended to find some gains in earnings for some workers following increases in minimum wage rates.

I don’t believe that anyone ever doubted that increases in minimum-wage rates resulted in some workers receiving gains in earnings. Indeed, the prospect of such gains is the lure that attracts some higher-skilled workers to support minimum-wage legislation, for to the extent that minimum wages effectively make illegal the employment of workers who are substitutes for higher-skilled workers, higher-skilled workers’ earnings rise. (Also, many of those low-skilled workers who get jobs under a minimum-wage regime have higher earnings as a result of the minimum wage. As I’ve said before, I’m quite sure that minimum-wage legislation has increased my household income by artificially raising my teenage-son’s earnings.)

My understanding of the so-called ‘new’ minimum-wage research – the most iconic piece of which is David Card’s and Alan Krueger’s 1994 paper (here’s the ungated 1993 version) – is that its alleged key contribution was to cast doubt on the familiar claim that minimum wages cause some low-skilled workers to lose jobs. That is, I never interpreted this research to find, for the first time, that some workers are indeed paid higher earnings as a result of minimum-wage hikes.

If I misread Vincent here (which is possible), I apologize.

Economics Hasn’t Changed

My second point rests upon my reading of the 'new' minimum-wage research as allegedly casting doubt on the economist's familiar argument that raising minimum wages reduces the employment opportunities for low-skilled workers. I make my second point in the form of a rhetorical question: Has any science ever devoted so much time, effort, and cleverness to elaborate attempts to determine whether or not a central and indisputably correct tenet of that science – a tenet used without question to predict outcomes in general – fails to work as an accurate predictor for one very specific, small slice of reality as has been devoted by economics over the past two decades to determine whether or not the law of demand works to accurately predict the effects of minimum wages on the quantity demanded of low-skilled labor?

I'm pretty sure that the answer to my question is 'no.'

I judge from the furious debate over the effects of minimum wages on the quantity demanded of low-skilled labor that were there to exist powerful political and ideological forces that stand to benefit if the general public believes that small orange rocks dropped into swimming pools cause no increases in the water levels of swimming pools, there would be no shortage of physicists who conduct and publish studies allegedly offering evidence that, indeed, the dropping of small orange rocks into swimming pools does not tend to raise the water levels of swimming pools (and, indeed, might even *lower* pools water levels!).

A whole new school of physics research – the 'new' small-rock-in-pools physics research – would produce empirical study after empirical study showing evidence that the water levels of swimming pools remain either unchanged, or even lowered, whenever small orange rocks are dropped into pools.

Powerful political interests have a stake in the market for low-skilled workers being immune from the normal operation of the law of demand.

Conventional physicists would point out that, because small orange rocks have mass, as they sink to the bottom of pools these rocks must displace water and, hence, cause the water levels of pools to rise.

The 'new' physicists would sneer contemptuously at the conventional physicists for dogmatically elevating abstract theory over empirical reality. The 'new' physicists would proudly boast of being "data driven" and not blinded by theoretical biases. They know only what the data that they gather tell them.

Conventional physicists would point out that they do not deny empirical reality; far from it. It is empirical reality that anything with mass that falls into a pool of water necessarily displaces water, and there's no good reason to believe that small orange rocks are an exception to this well-established empirical fact.

Many other conventional physicists would conduct their own empirical research, controlling differently than do the 'new' physicists for factors other than the presence of small orange rocks that affect the water levels of pools - other factors such as rainfall and evaporation, swimmers jumping into and out of pools, and the condition of each of the many pools' drainage and filtering systems. Conventional physicists would find, empirically, that dropping small orange rocks into swimming pools does indeed cause the water levels of pools to be higher than they would be absent the small orange rocks.

'New' physicists would respond with equally sophisticated empirical studies, controlling for other factors differently than do the conventional physicists. The 'new' physicists would continue to find, empirically, no evidence that dropping small orange rocks into swimming pools puts upward pressure on the water levels of pools.

The press would report the findings of the 'new' physics research, informing the public that 'Physicists prove that small orange rocks do not displace water when dropped into the bottom of swimming pools.' The public, yearning for this finding to be valid, cheer, and they accuse conventional physicists of being either dogmatically unscientific or paid shills for Big Corporations that have a financial interest in denying the truth that small orange rocks can be dropped into swimming pools without raising the water levels of pools.

And so it is with minimum-wage legislation. The strong political and ideological interests on the pro-minimum-wage side keep alive the debate over whether or not raising employers' costs of employing low-skilled workers causes employers to further economize on the amounts of low-skilled labor that they hire. There is no furious empirical debate among scholars over whether or not, say, raising an excise tax on oranges would, *ceteris paribus*, cause fewer oranges to be bought and sold. There is no furious empirical debate among scholars over whether or not, say, an increase in the tuition charged to attend college would, *ceteris paribus*, discourage some people from enrolling in college. There is no furious empirical debate among scholars over whether or not, say, imposing a poll tax would, *ceteris paribus*, discourage some people from voting.

Yet because powerful political and ideological interests have a stake in the market for low-skilled workers being immune from the normal operation of the law of demand, a furious debate rages over whether or not employers forced to pay more for labor do or don't further economize on labor.

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