50 Years of Research on the Minimum Wage

Introduction

For many years it has been a matter of conventional wisdom among economists that the minimum wage causes fewer jobs to exist than would be the case without it. This is simply a matter of price theory, taught in every economics textbook, requiring no elaborate analysis to justify. Were this not the case, there would be no logical reason why the minimum wage could not be set at $10, $100, or $1 million per hour.

Historically, defenders of the minimum wage have not disputed the disemployment effects of the minimum wage, but argued that on balance the working poor were better off. In other words, the higher incomes of those with jobs offset the lower incomes of those without jobs, as a result of the minimum wage [See, for example, Levitan and Belous, (1979)].

Now, the Clinton Administration is advancing the novel economic theory that modest increases in the minimum wage will have no impact whatsoever on employment. This proposition is based entirely on the work of three economists: David Card and Alan Krueger of Princeton, and Lawrence Katz of Harvard. Their studies of increases in the minimum wage in California, Texas and New Jersey apparently found no loss of jobs among fast food restaurants that were surveyed before and after the increase [See Card (1992b), Card and Krueger (1994), and Katz and Krueger (1992)].

While it is not yet clear why Card, Katz and Krueger got the results that they did, it is clear that their findings are directly contrary to virtually every empirical study ever done on the minimum wage. These studies were exhaustively surveyed by the Minimum Wage Study Commission, which concluded that a 10% increase in the minimum wage reduced teenage employment by 1% to 3%.

The following survey of the academic research on the minimum wage is designed to give nonspecialists a sense of just how isolated the Card, Krueger and Katz studies are. It will also indicate that the minimum wage has wide-ranging negative effects that go beyond unemployment. For example, higher minimum wages encourage employers to cut back on training, thus depriving low wage workers of an important means of long-term advancement, in return for a small increase in current income. For many workers this is a very bad trade-off, but one for which the law provides no alternative.

Summary of Research on the Minimum Wage

- The minimum wage reduces employment.

- The minimum wage reduces employment more among teenagers than adults.

- The minimum wage reduces employment most among black teenage males.

- The minimum wage helped South African whites at the expense of blacks.
  Bauer (1959).

- The minimum wage hurts blacks generally.
  Behrman, Sickles and Taubman (1983); Linneman (1982).

- The minimum wage hurts the unskilled.

- The minimum wage hurts low wage workers.

- The minimum wage hurts low wage workers particularly during cyclical downturns.

- The minimum wage increases job turnover.
  Hall (1982).

- The minimum wage reduces average earnings of young workers.

- The minimum wage drives workers into uncovered jobs, thus lowering wages in those sectors.

- The minimum wage reduces employment in low-wage industries, such as retailing.

- The minimum wage hurts small businesses generally.
  Kaun (1965).

- The minimum wage causes employers to cut back on training.

- The minimum wage has long-term effects on skills and lifetime earnings.

- The minimum wage leads employers to cut back on fringe benefits.

- The minimum wage encourages employers to install labor-saving devices.

- The minimum wage hurts low-wage regions, such as the South and rural areas.

- The minimum wage increases the number of people on welfare.

- The minimum wage hurts the poor generally.
  Stigler (1946).

- The minimum wage does little to reduce poverty.

- The minimum wage helps upper income families.

- The minimum wage helps unions.
- The minimum wage lowers the capital stock.
- The minimum wage increases inflationary pressure.
- The minimum wage increases teenage crime rates.
- The minimum wage encourages employers to hire illegal aliens.
  Beranek (1982).
- Few workers are permanently stuck at the minimum wage.
- The minimum wage has had a massive impact on unemployment in Puerto Rico.
- The minimum wage has reduced employment in foreign countries.
- Characteristics of minimum wage workers

Finds that an increase in the minimum wage from $3.35 to $4.65 over three years would increase the unemployment rate by less than 0.1% and the inflation rate by 0.2%.


Finds that the minimum wage is responsible for a considerable amount of teenage unemployment.


Notes that in 1954, black teenage males were more likely to be employed than white teenage males. Since that time, the proportion of black teenage males employed has fallen sharply, while employment for white teenage males has risen. Expansion of coverage of the minimum wage appears to be a major factor in this trend. Further notes that more than half of all teenagers would earn more in the absence of a minimum wage.


Argues that the negative effects of minimum wage laws in LDCs is even greater than in industrialized countries, because there is greater diversity of supply and demand for labor in LDCs. Also points out that in South Africa minimum wages helped whites at the expense of blacks.


Finds that the minimum wage has helped white males and females while hurting black males and females.


Finds that increases in the minimum wage would benefit few families with incomes below the poverty level. Much of the benefit would accrue to upper income families with secondary earners, such as wives and children.

Finds that the minimum wage increases the employment demand for illegal aliens, who are less likely than legal residents to report violations of the labor laws.


Argues that employment losses from higher minimum wages have been overstated and that much of the higher unemployment among minority youth has been due to cyclical factors.


Finds that the 1991 increase in the federal minimum wage actually reduced the income of some single parents, after welfare and taxes are taken into account.


Finds a decrease in work by women on welfare in states raising their minimum wages and an increase in time on welfare in such states.


Finds that they employment impact of the minimum wage and its impact on reducing poverty are both less than generally believed.


Finds that a 10% increase in the minimum wage will reduce teenage employment by 1% to 3%.


Finds that a 10% increase in the minimum wage will reduce teenage employment by 1%.


Summarizes a large volume of research on the minimum wage.

Found that increases in the minimum wage drove low-wage workers into uncovered occupations, such as household work. Predicts that broadening of coverage to such occupations will increase structural unemployment.


Points out a contradiction between the Johnson Administration's desire to hold wage increases to the rate of productivity growth, in order to reduce inflationary pressures, and its support for a higher minimum wage.


Finds that increases in the minimum wage only speed up wage increases that would have occurred over time. However, in the interval between an increase and the time when productivity catches up to it results in higher unemployment and business failures. In the case of teenagers, many who are barred from jobs suffer long-term effects from the failure to gain job skills, thus injuring them permanently.


Finds no evidence that the April, 1990 increase in the minimum wage reduced teenage employment, but does find evidence that it led to higher wages.


Finds no evidence that an increase in the California state minimum wage in July, 1988 led to any loss in teenage employment, but does find evidence of higher wages.


Finds no evidence of reduced employment from an increase in the New Jersey state minimum wage in April, 1992.


Finds that after an increase in the minimum wage unemployment increased most in the areas where wages were lowest and least in areas where wages were highest beforehand.

Examines votes on the minimum wage and finds heavy support for it in high wage states of the North and opposition from low wage states in the South. This suggests that the North was attempting to reduce the South’s competitive advantage in wages.


Finds substantial job losses from the minimum wage in Chile.


Favors differential minimum wages to reduce the impact of the minimum wage.


Finds that minimum wages have altered the distribution of teenage employment. Teenagers are less likely to be employed in low wage industries, such as retailing, and increase employment in high wage industries, such as manufacturing.


Finds that union support for the minimum wage is significant politically.


Explains why unions support minimum wages.


Finds that the minimum wage causes unskilled wages to be 15.7% higher than they otherwise would be, and that this causes employment to be 11.2% lower than it otherwise would be.


Finds that minimum wages discourage part-time work and lowers school attendance.

Finds that employed individuals affected by the increases in the minimum wage in 1979 and 1980 were 3% to 4% less likely to be employed a year later. Since the methodology employed is similar to that in Card (1992a and 1992b), it casts doubt on any generalization of his conclusions.


Finds that an increase in the minimum wage increases white family incomes more than black family incomes. Also, middle- and high-income families benefit more than low-income families.


Finds that the increase in the minimum wage from 75 cents to $1.00 in 1956 did lead to an increase in pay for many workers, but at the cost of jobs. Long-term employment losses by industry ranged from 3.2% to 15%.


Opposes restrictions on mandatory overtime.


Presents data on characteristics of workers earning the minimum wage.


Argues that the minimum wage prevents many young people from accepting jobs that would provide them with on-the-job training, thus contributing to long-term unemployment.


Extension of the minimum wage to retail trade lowered employment in that industry by as much as 500,000, with the main impact on teenagers. Also finds that higher minimum wages led to a scale-back of fringe benefits and training.


Estimates that 40% of the increase in teenage unemployment in Canada since the 1950s is due to higher minimum wages.

Finds that the minimum wage has had a massive impact on the labor market in Puerto Rico.


Finds that the 1967 extension of the minimum wage to the farm labor market, which had previously been uncovered, led to an increase in wages and a reduction in employment.


Finds that extension of the minimum wage to farm workers has increased wages but reduced employment.


Finds that the minimum wage has led to a dramatic reduction in household workers. Also notes that the policy of enforcement of labor laws by complaint converts the minimum wage from an instrument of public policy to a tool of private disputes.


Finds that raising the minimum wage above 40 to 50 percent of median wages leads to increased compliance costs, higher unemployment, workers forced to leave full-time work for part-time work, more benefits for high-income families, and inflationary effects on prices.


Finds that the minimum wage has been ineffective in reducing income inequality.


Finds that an increase in the minimum wage increases wages of those above the minimum wage for two reasons. First, workers above the minimum will want to restore their relative wage position, and second there will be increased demand for workers above the minimum to do the work previously done by those below the minimum.

Reviews the legislative history of passage of the first federal minimum wage law. Notes the limited coverage of the initial legislation.


Finds that the higher unemployment among youth resulting from the minimum wage is primarily due to higher job turnover.


Finds that a 10% increase in the minimum wage will reduce teenage employment by 1.2% overall, with smaller declines in services and retail trade and a higher impact in manufacturing.


Finds that a minimum wage reduces teenage employment.


Finds that minimum wage laws lead to a curtailment of training by employers.


Finds that minimum wages reduce training, first because workers lose job opportunities, and hence on the job training, and second because employers will no longer be able to afford to give such training.


Suggests that increases in the minimum wage may be responsible for increases in teenage crime rates.


Estimates that two-fifths of workers reporting wage rates at or below the minimum wage in 1988 had supplements raising their wage rates above the minimum. However, some 1.5 million salaried workers may also make the minimum wage or less on an hourly rate.

Explains the popularity of minimum wage laws even among those who lose their jobs as a result as stemming from the high turnover in the low-wage market. Although a worker may initially lose his job because of an increase in the minimum wage, he will expect to get other jobs in the future that will pay more.


Concedes that the minimum wage has had a significant negative effect on teenage employment, especially for blacks.


Finds that much of the benefits of a higher minimum wage accrue to high-income families and that many low-income families benefit at the expense of other low-income families.


Finds that a 22% increase in the minimum wage in 1976 would have increased the incomes of the lowest 10% of households by just $200 million.


Finds evidence that an increase in the minimum wage led to an increase in employment in Texas.


The minimum wage hurts small businesses.


Suggests that support for the minimum wage even among those adversely affected may result from those benefiting having a clearer perception of the benefits than those who are harmed have of the negative effects.

Finds that 60% of low-wage workers are women and less than 40% are teenagers. Also finds that low wages are not strongly associated with poverty. Less than 25% of low wage workers are heads of households, and only 30% live in families with incomes below the poverty level.


Since many low-wage workers live in high-income families, increasing the minimum wage is an ineffective way of increasing the incomes of poor families.


Finds that increases in the minimum wage have a significant effect on employment patterns, especially for nonwhite teenagers. As a consequence, teenagers are less able to find jobs during periods of normal employment growth and are more likely to lose their jobs during cyclical downturns.


Finds that lower-skilled workers tend to be disemployed when minimum wages are applied uniformly, leading to higher wages for higher-skilled workers. Also, because the cost of living varies from region to region, the real minimum wage will also vary.


Finds that increases in the minimum wage leads fast food establishments to replace adult workers with younger workers, and to replace full-time workers with part-time workers.


Finds that increases in the minimum wage lead to increases in welfare rolls. Argues that advocates for the poor may favor higher minimum wages in order to increase the number of people on welfare, because welfare benefits may exceed the income from work.


Finds that minimum wages discourage on-the-job training.


Argues that the benefits of the minimum wage outweigh its costs.

Finds that the disemployment effects of the minimum wage fall mainly on blacks, females, restricted individuals, residents of small cities, those with low education, the old, and non-union members. Beneficiaries of the minimum wage mainly are males and union members.


Finds that the disemployment effects of the minimum wage have encouraged youths to stay in school. Also, youths have shifted out of full-time work and into part-time work, in order to accommodate schooling.


Finds negligible effects from the minimum wage on inflation. However, it may reduce the size of the capital stock by reducing profitability in covered industries, thereby leading to lower wages in the long run.


Finds that the minimum wage discourages part-time employment in favor of full-time jobs.


Argues that increases in the minimum wage, which apply only to money wages, will lead to a reduction in non-money wages, such as fringe benefits. Thus employers can respond to a higher minimum wage by lowering benefits by the same amount.


Finds that those earning at the minimum wage or less consist largely of young persons and women. The majority worked part-time in services or sales. Since many of these people probably also received commissions or tips, the number of workers earning the minimum wage or less may be overstated.


Finds that 60% of those earning the minimum wage or less are under age 25 and one-third were teenagers.

Finds that abolition of the minimum wage would increase employment by out-of-school youth by 6%.


Estimates that abolition of the minimum wage would have led to significantly higher employment among youth, especially black youth. Finds no evidence of higher earnings from the minimum wage.


Finds that if the minimum wage did not exist in 1978, employment among out-of-school young men would have been 7% higher. Also, the average earnings of youth would have been higher.


Finds that the negative effects of a minimum wage increase are greatest for nonwhite teenagers. Moreover, the disemployment effects on the size of the labor force are greater than the effects on the unemployment rate.


Finds a significant impact on reducing poverty from an increase in the minimum wage. This is because the disemployment impact falls mainly on teenagers, whose contribution to family income is small.


Concludes that a 10% increase in the minimum wage will reduce teenage employment by 1%-3%.


Finds that the minimum wage increases unemployment primarily for nonwhite teenagers.

Finds that a 10% increase in the minimum wage reduces teenage employment by 1% to 2%, and a decline of 1.5% to 2% among young adults.


Finds that the minimum wage mainly reallocates income among low-wage workers, benefiting adult females and hurting teenagers of both sexes.


One of the first empirical studies to show that minimum wages reduce employment.


Calculates the impact of the minimum wage on different industries. The negative employment effects primarily impact low-wage industries such as retailing.


Summarizes a large number of studies finding negative employment effects from minimum wages.


Finds that primary impact of minimum wage is on young males, especially black males. This has encouraged continued school enrollment and entry into the armed forces. However, it has also encouraged "illegitimate" alternatives to employment, such as crime.


Confirms that higher minimum wage rates reduce youth employment and increases youth unemployment rates, especially for nonwhite males.


Because the minimum wage reduces employment for teenagers, government funds spent on job training for teenagers must be counted as part of the cost of the minimum wage.

Finds that the minimum wage reduces employment of youth in France, especially males.


Collection of papers.


Finds that the minimum wage has caused massive disemployment in Puerto Rico and lowered the overall standard of living.


Finds that 70% of workers earning the minimum wage in 1985 lived in families in which at least one other member held a job. Also, teenagers held almost one-third of all jobs paying the minimum wage.


Examines a panel of workers earning the minimum wage in the mid-1980s and finds that over 60% were earning more than the minimum wage a year later, with gains averaging 20%.


Argues that indexing the minimum wage would magnify its problems.


Argues that political support for the minimum wage results from the fact that those who benefit from a modest increase will outnumber those who lose.


Argues that a minimum wage will reduce output and decrease the earnings of the poor.


Finds that increases in the minimum wage tend to lower wages for those in uncovered sectors, because there is increased demand for uncovered jobs from those no longer employable at the minimum wage.


Finds that extension of the minimum wage to seasonal cotton workers in 1966 led to a substitution of mechanical processes for labor.


Finds large reductions in teenage employment from an increase in the minimum wage.


Shows that wages in the fast-food industry are closely tied to the minimum wage.


Finds that the minimum wage has reduced employment, especially among teenagers; it has made teenagers more vulnerable to the business cycle; and has forced teenagers out of covered occupations into those not covered by the minimum wage.


Finds that those primarily affected by the minimum wage are the aged, teenagers, and part-time workers.


Finds that in 1970 the minimum wage reduced employment of 14-15 year olds by 46%, by 27% for those 16-17, and by 15% for those 18-19.


Finds that increases in the minimum wage lead to a reduction in fringe benefits and a deterioration of working conditions.

Argues that economists should do a better job of explaining the negative effects of the minimum wage.


Argues that minimum wage laws have had a disproportionately negative effect on black teenagers.


Points out that in 1947, prior to expansion of the minimum wage, black teenage unemployment was actually lower than white teenage unemployment, and that teenage unemployment generally was sharply lower than it is today.