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POST MONEY

## Abolish the Minimum Wage??!! A Debate

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Had a rousing and often substantive debate last night sponsored by the group [Intelligence Squared](#). My partner was the great and eloquent Karen Kornbluh (listen to the podcast -- I really thought Karen did a great job merging morality, compassion, and the facts of the case); the opposing team was Russ Roberts and Jim Dorn. The proposition was "the minimum wage should be abolished." I'll let you guess which side Karen and I took, but the good news: the audience votes at the beginning and end of the debate and team that gets more people to switch to their side wins. We won.

I've pasted in my opening statement below, but allow me to summarize the opposition's argument, half of which is, I think, a fair point from a libertarian perspective, though one with which I deeply disagree.

Their first point is that the minimum wage hurts a lot of people. But a) that's not what the research shows (even the bulk of the work that finds some negative impacts shows that the vast majority of affected workers benefit from the policy), and b) half the time they argued that it's a small policy that affects few people so getting rid of it won't be a big deal. Karen and I tried to figure out how a small, ineffectual program could be so damaging to America that it had to be abolished but I thought they were quite muddled on this point.

Their other point was this: if we abolish the minimum wage, more people who are not worth hiring at \$7.25 an hour will get jobs at... who knows?... maybe \$2 or \$3 or \$4 an hour.

As I stressed throughout the night, you've got to be empirical about all of these questions -- there are always tons of moving parts in the economy -- and the evidence doesn't support the claim. As shown in the figure below, during the 1980s, for example, the real value of the minimum wage slid 32 percent (1979-89) so we have a natural experiment (thanks, Ronnie...). And the job indicators for younger workers didn't out-perform their norms at all.

The employment rate of teens, for example -- just measuring from peak-to-peak (1979-89) to control for the cycle -- *fell* one percentage point, i.e., it went "the wrong way." Their unemployment fell too, however, but also by only one point. And in the 1990s, the real minimum wage went up by 11 percent (1989-2000, peak-to-peak again), while both unemployment *and* employment rates fell slightly again, so a confusing pattern once again. In the 2000s cycle the

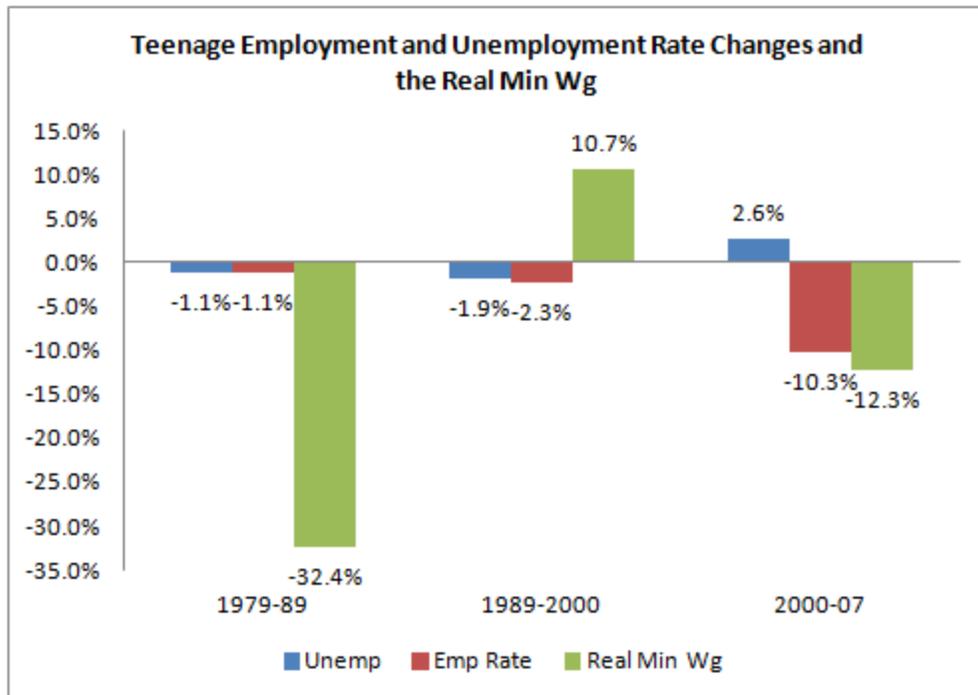
real minimum fell 12 percent but teen unemployment went up and employment went down, very much the wrong pattern from the abolitionists perspective.

In other words, no first-order evidence that changes in the real minimum wage had much to do with employment opportunities for young workers. Now, this is nothing like careful analysis-it's just broad trends. But it makes the point, especially given the steep 1980s real decline in the wage floor, that you shouldn't blithely assert without evidence that abolishing the minimum wage would automatically lead to a "sliding down the demand curve." The whole point of the new research -- and I'm talking about work that finds both positive *and* negative impacts -- is that those impacts hover around zero, which should lead objective observers to be highly skeptical that phasing out the minimum wage would lead to large employment gains.

But here's the other part of our argument against the slide: *it's the ultimate low-road strategy*. Let's dump our labor standards and emulate developing economies where such institutions as minimum wages have not yet evolved.

Our opponents believe -- I'm quite certain they would happily agree with this assessment -- that all that matters is to get people working at any wage level... if that's \$1 an hour, than that's what the market says they're worth and so be it.

Thankfully, for the rest of us, and for most of last night's audience, that's neither a correct assessment of the evidence nor a vision of America we share.



Source: BLS; Unemp and Emp Rate changes are percentage points; real min wg is percent change.

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## Opening Statement: Minimum Wage Debate

Jared Bernstein

Here's my main point: abolishing the minimum wage would be a terrible policy mistake that would needlessly hurt millions of low-wage workers. It is not a policy anywhere near the current agenda -- in fact, the current debate asks whether the minimum wage should be increased. Yes, Michele Bachmann and Herman Cain endorsed the idea in the R primary, but the idea of abolishing a policy that's been in place helping low wage workers since the 1930s is about as far out of the mainstream as you can get.

Let me explain why.

I got all this grey hair through a lifetime of analyzing social and economic policies. I began as a social worker in NYC working with the poor and worked my way up, or down, or sideways to whatever I'm doing today. And over all those decades, I've focused almost exclusively on two things: what's gone wrong in our economy and which policies could give less advantaged folks a fair shot.

It is through that simple agenda that decades ago, I became interested in min wg policy.

As globalization, technological change, and a bunch of other stuff we can talk about has evolved, economic growth no longer reaches working families the way it used to. And the further you go down the pay scale, the less growth you're likely to see.

The minimum wage partially helps offset that problem. In fact, you will be hard pressed to find a policy that does what it sets out to do -- to raise the pay of our lowest wage workers -- more effectively. And importantly, reams of high quality research shows that it does so with a minimum of the type of side effects that I suspect our opponents will emphasize.

Consider this: the American minimum wage has been in place since 1938 -- that's 75 years ago. It has been raised 22 times; 19 states now have their own minimum wages, above the federal level. If this policy was so damaging that it needs to be abolished, how could it be that citizens and legislatures in 19 states decided not to abolish it but to raise it above the federal level?

If it was as damaging as our opponents claim, how could the minimum wage not only survived this long, but flourished and expanded?

The answer, once again, is because it is widely understood and accepted by mainstream economists, policy makers, and perhaps most importantly, low-wage workers themselves, who overwhelmingly support the policy -- as doing what it's supposed to do: steering a bit more of the economy's growth their way.

To do what our opponents advocate -- to get rid of the minimum wage -- would figuratively take the wage floor out from under millions of low-wage workers, many of whom, as Karen will emphasize, depend on the minimum wage to support their families.

For these reasons, President Obama has recently proposed increasing the federal minimum wage. Now, I firmly believe that economists can and should have good, robust arguments about such proposals... whether it should be *increased or not*. But that's not what we're arguing about tonight. Our opponents think America should have no minimum wage at all.

To me, a better question than should the min wg be abolished is why anyone would even suggest such a bad idea.

I think the answer comes down to two factors. First, common misconceptions, ones that have should have been banished by the research. Second, because of a laissez-faire market ideology that trumps common sense and empirical evidence.

A word about that evidence: there's probably no question that's been analyzed more carefully by economists than this one of impact of minimum wage on low-wage workers. And the conclusion is that it raises the pay of low wage workers without hurting their job prospects.

Of literally thousands of estimates on the impact of minimum wage on the job impacts of affected workers the vast majority find that the benefits to low wage workers far outweigh any costs in terms of reduced hours or job loss.

Economist John Schmitt recently published a graph of these estimates -- 1,500 of 'em -- and while there were outliers on both sides of zero, the mass of the estimates were just slightly below zero or slightly above.

Now, recall that I mentioned all those states with their own minimum wage levels. That's provided minimum wage researchers with something very rare in economics: pseudo experimentation.

The best way to test the impact of an intervention like a minimum wage increase is to compare places that are as alike as can be in terms of the relevant economic variables, yet only one place sees a minimum wage increase. And these studies consistently find results for say, job loss effects for workers that hover around zero.

Now, the empirically established fact that minimum wages don't hurt the people who get it isn't the same as showing that they help them. So why do we need a minimum wage and why would abolishing it be so harmful?

Karen will say more about this, but here I'll just note that opponents like to say the minimum wage just goes to rich kids who don't need to the money. I wish that was true. But analysis of the president's planned increase shows:

- The average minimum wage worker brings home about half of her household's earnings;
- 84 percent of total affected workers are at least 20 years old;
- over 60 percent of the benefits of the increase go to those in the bottom half of the workforce by income level;
- 47 percent of affected workers are full-timers, 83 percent work at least 20 hours per week.

So, we have here a simple policy that for 75 years has been doing what it's designed to do with little fanfare and minimal, if any, negative side effects, reaching mostly workers from low and moderate income families who need the money. I'm perfectly happy to argue about whether it should be increased. But abolishing it makes absolutely no sense at all.

*This post originally appeared at Jared Bernstein's [On The Economy](#) blog.*

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