



What Would Happen if We Got Rid of the Minimum Wage?

Jordan Weissmann | May 14, 2014

Most voters love the idea of raising the minimum wage. But Republican politicians, with a handful of notable exceptions, do not, because they're convinced that even a small boost will kill jobs. And as my colleague Jamelle Bouie points out this week, a few are honest enough to take their opposition to its logical conclusion and advocate abolishing the minimum wage entirely.

So what would happen if they got their way? What if we bid the minimum wage goodbye for good?

The Econ 101 answer is that it would create more jobs for low-skill workers, such as teenagers and high school dropouts, as wages drifted down to their market rate. When the cost of labor falls, the argument goes, employers should demand more of it. It may not be profitable for your local Five Guys to hire an extra burger cook at \$7.25 an hour, but at \$5 or \$4 an hour, the math might change. The Cato Institute's James Dorn and the Hoover Institution's Russell Roberts made this point at length during an Intelligence Squared debate last year in which they advocated doing away with minimum wages. "Right now there are people within a few blocks of where we are sitting who cannot find work simply because their skills are not worth \$7.25 an hour," Russell told the audience. "Why would you condemn those men and women to a wage of zero?"

There's another big question to answer: If we ripped up the wage floor, would pay for low-skill workers actually fall all that much?

But when it comes to the labor market, Econ 101 is almost never the whole story. To start, it's actually a bit of a leap to assume that just because existing businesses *could* hire cheap workers to do new jobs, they necessarily *would*. Economist Jared Bernstein, who also took part in the Intelligence Squared debate, pointed out last year that although the value of the minimum wage fell 32 percent during the 1980s thanks to inflation, teen employment actually dropped slightly.

"Now, this is nothing like careful analysis—it's just broad trends," he wrote. "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.'" (In this case, sliding down the demand curve is a fancy way of saying "more hiring.")

It's easy to think up reasons why nixing the minimum wage might not lead to a flood of new career opportunities for the unskilled. Because we have minimum wages today, businesses are required to work at a certain level of efficiency. Unless a business is understaffed, adding a new worker, even a

cheaper one, might not be particularly profitable. Or take technology. Minimum-wage skeptics often point out that when employing a real live human being becomes too expensive, companies start buying computers and machinery instead. In a post-minimum-wage world, it seems unlikely that businesses would suddenly throw their profitable business models into reverse, and start scooping up cheap workers to handle tasks they had already purchased fancy new equipment to accomplish. Your local McDonald's, for instance, wouldn't suddenly return the fancy new soda machine that lets customers fill their own cups with umpteen variations on Diet Coke, just so that it could hire another person to work behind the counter for \$4 an hour.

Of course, there's another big question to answer: If we ripped up the wage floor, would pay for low-skill workers actually fall all that much? It's hard to say. First, many low-wage businesses still offer their workers more than the absolute minimum. Second, wages tend to be "sticky," meaning that once they go up, they tend not to come down. The reason why is still a bit of a mystery, but it likely has a lot to do with the fact that making your employees take a pay cut is a) emotionally unpleasant for both parties and b) a good way to sap their motivation on the job.

That said, if workers were to quit, it's entirely possible that businesses would look to hire cheaper replacements, even at the risk of getting a slightly lower caliber employee. Which brings us to another potential problem with eliminating the minimum wage: Just as raising it might encourage businesses to hire more experienced workers to get the best bang for their buck, lowering it could encourage them to hire less skilled workers—such as teenagers, who live rent-free at home—who are willing to work for less. You may well end up imperiling job opportunities for adults who need the work to support their families—remember, the median front line fast-food worker today is 28 years old. Is that a trade a lot of people would want to make?

If wages were to fall quickly across low-wage industries—or simply be eaten away by inflation—there'd be another trade-off to consider. By raising the minimum wage, it's possible that the U.S. would eliminate some jobs, but increase overall living standards by giving raises to millions of families. If we killed off the minimum, it's possible that we would create a few jobs, while decreasing living standards by decreasing pay overall. If increasing the minimum wage benefits the many at the expense of the few, eliminating it might well benefit the few at the expense of the many.