Joint Economic Committee Republicans
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Raising the Minimum Wage: The Illusion of Compassion

"[B]ut as Clinton himself explained two years ago, hiking the minimum [wage] is 'the wrong way to raise the incomes of low-wage earners.'"

(*Time*, February 6, 1995, p. 27)

Once again, we hear the cries to raise the minimum wage. The rhetoric is familiar; "the minimum wage isn't a living wage," and "we need to ensure that work pays." However, raising the minimum wage is a misguided passion. All the valid research shows that raising the minimum wage destroys jobs. It hurts exactly those workers it intends to help -- the poor, the unskilled, and the young. Everyone wants to see income growth boost the economic well-being of the working poor, but throwing many of them out of work is not the solution.

Sawing Off The First Rung

The major way the minimum wage hurts the poor is by cutting off the first rung of the employment ladder. Raising the minimum wage destroys jobs. This statement is incontrovertible. Economists have consistently proven the job-destroying effects of higher minimum wages.[1] But more importantly, higher minimum wages destroy entry-level jobs. Without entry level jobs, low-skilled and young workers cannot start jobs and gain valuable work skills.[2]

Blocking Work to Welfare

The rhetoric of raising the minimum wage has been linked to welfare. Proponents of higher minimum wages argue that a higher minimum wage is necessary to encourage welfare recipients to enter the work force. Tragically, as the minimum wage encourages welfare recipients to search for employment, it makes it more difficult for them to find work. First, with fewer jobs available, it is more difficult for all workers to find employment. Second, a higher minimum wage makes work more attractive to many people. This expanded pool of job applicants allows employers to be more selective. Employers pick applicants with more skills from this pool. Welfare recipients suffer because there are fewer jobs and more competition. The result of higher minimum wages is to keep welfare recipients dependent on the government for a longer time.[3]

Destroying Human Capital

It is increasingly apparent that the key to a prosperous life is education. Sadly, incomes of high-school drop-outs are failing to keep pace with the incomes of college graduates. Dropping out of high school is almost a guarantee of a difficult life. Public policy should take careful pains to encourage students to stay in school. Unfortunately, raising the minimum wage encourages high-school students to drop out. By altering the rewards to work, some students leave school for minimum wage jobs.[4] However, without a high school degree, advancement is more difficult.

The Argument for Higher Minimum Wages: The Sandy Foundation

"Now, I've studied the arguments and the evidence for and against a minimum wage increase. I believe the weight of the evidence is that a modest increase does not cost jobs, and may even lure people back into the job market."

(President Bill Clinton, State of the Union Address, Jan. 24, 1995)

The argument against raising the minimum wage has a long and noble history. Several of the most prominent economists have argued against minimum wages. Yet, the Democrats continue to argue for higher minimum wages. Labor Secretary Robert Reich and Laura D'Andrea Tyson held a press conference to laud several studies that claim that higher minimum wages have no deleterious effects on employment. The whole argument of the press conference was based on a study by Dr. David Card and Dr. Alan Krueger of Princeton University.[5] Drs. Card and Krueger examined the differences between New Jersey, which imposed a state-wide higher minimum wage, and Pennsylvania, which kept the federal minimum wage. The research, on which the Administration has based its arguments, has collapsed under its own weight.

Card and Krueger interviewed fast-food restaurants on both sides of the Delaware River. They posited that any differences between New Jersey and Pennsylvania could be explained solely by the minimum wage. What they found was that New Jersey restaurants hired more employees over the period of the study than Pennsylvania restaurants.

The results of the study were extraordinary. Card and Krueger seemed to have discovered a refutation of the law of demand. Economists were stunned. Because of these extraordinary results, they debated the results. Many economists argued that the differences between New Jersey and Pennsylvania were more than simply differences of minimum wage rates. Other economists argued that the study design was flawed.

Other economists were able to review the study using better data with devastating results for the Card-Krueger study and the Administration argument. Card and Krueger gained their data by asking one question. "How many full-time and part-time workers are employed in your restaurant, excluding managers and assistant managers?" Depending upon the answer, they interpolated employment trends. It is clear from this question that their report was deeply flawed.

First, the person answering the phone was allowed to interpret this question differently. Did they mean how many people this week, this month, this shift? Who is a part-time worker? Varying interpretations of this question allowed different answers from the same restaurant over the period of the study. The data Card and Krueger collected show incongruous results. For example, a Wendy's restaurant went from 35 employees (zero full-time, 35 part-time) to 65 employees (35 full-time, 30 part-time). Other restaurants show strange results as well.

Second, they simply divided the number of part-time employees by two and added them to the number of full-time employees. This method of estimating employment effects cannot accurately estimate the effects of higher minimum wages. Restaurant managers simply could have responded to a higher minimum by forcing employees to accept fewer hours.

The best data Card and Krueger could have obtained from these restaurants were hours worked. However, they did not obtain that data. Another set of economists, Dr. David Neumark and Dr. William Wascher, obtained the payroll data from the restaurants Card and Krueger surveyed. When Neumark and Wascher calculated the numbers, using the identical statistical methodology of Card and Krueger, they found the exact opposite of Card and Krueger. Card and Krueger found that restaurant employment in New Jersey rose, while restaurant employment in Pennsylvania fell. Neumark and Wascher found that employment in Pennsylvania rose more rapidly than employment in New Jersey. A Presidential Commission found in 1980 that teenage employment fell one to three percent for every ten percent hike in the minimum wage. The difference between Pennsylvania and New Jersey was exactly within that range.

The Card and Krueger study has collapsed. The foundation of the Administration's argument for higher wages has fallen apart. Raising the minimum wage destroys jobs. Only by doing sloppy research can economists arrive at another answer. The Card and Krueger fiasco is an example when inadequate research is used to buttress unwise policy.

The minimum wage is an example of misguided compassion. It is a policy that hurts those it is intended to help. We have too many policies from Washington that are detrimental to America's citizens. Effective compassion requires a government that assists its citizens in acquiring the skills necessary to provide for themselves and their families. It requires a government that allows workers to keep more of their income through lower taxes. It requires a government that encourages economic growth through less government spending and less regulation. It is time to measure compassion by our efforts to minimize the number of Americans receiving federal aid -- not by the amount of government largesse. Raising the minimum wage fails to live up to its promise of assisting the poor.

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Endnotes

1. For the latest example see Neumark, David and Wascher, William 1995. The Effect of New Jersey's Minimum Wage Increase on Fast-food Employment: A Re-evaluation using Payroll Records. NBER Working Paper: Cambridge, MA.

2. For examples of the importance of work skills see Stanback, Dee Dee 1996. "The First Rung on the Ladder." The Wall Street Journal, April 1, 1996, p. A14. and Jenkins, Holman W. Jr. "Here's to Human Capital." The Wall Street Journal, April 2, 1996, p. A15.

3. See Brandon, Peter D. 1995. Jobs Taken by Mothers Moving From Welfare to Work and the Effects of Minimum Wages on this Transition. Employment Policies Institute: Washington, DC.

4. See Neumark, David and Wascher, William. 1995. The Effects of Minimum Wages on Teenage Employment and Enrollment: Evidence from Matched CPS Surveys. NBER Working Paper: Cambridge, MA.

5. Card, David and Krueger, Alan B. 1994. "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania." American Economic Review, 84 (Sept.): 772-793.

Other JEC reports available on this issue:

- The Minimum Wage (Economics Untangled -- January 24, 1995)
- The Minimum Wage (JEC Briefings -- February 15, 1995)
- The Minimum Wage: Part 1 (Talking Points -- February 16, 1995)
- The Minimum Wage: Part 2 (Talking Points -- February 21, 1995)
- 50 years of Research on the Minimum Wage (Talking Points -- February 15, 1995)
- Minimum Wage Hearing Testimony -- Rep. Jim Saxton (JEC Hearing Excerpts -- March 3, 1995)
- Minimum Wage Hearing Testimony -- Mr. Herman Cain (JEC Hearing Excerpts -- March 3, 1995)
- Nouveau Reich Economic Theories (Economic Update -- March 20, 1995)

In addition, the JEC held two hearings on the minimum wage on February 22, 1995 and April 5, 1995.