

COUNTERPOINT TO MICHAEL STRAIN

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My Point essay argues: 1) \$15 would get us close to a living wage in the lowest-cost states in the U.S.; 2) \$15 by 2025 is not far beyond current policy experience and research evidence; 3) the highest-quality evidence demonstrates that minimum wages have at most minimal disemployment effects; and 4) higher minimum wages reduce child and adult poverty and create downstream benefits for children of minimum wage earners.

Michael Strain's Point claims: 1) \$15 in five years would generate excessively high ratios of the minimum wage to the median wage in much of the U.S.; 2) the preponderance of the evidence finds that minimum wages have substantial disemployment effects; 3) minimum wages have negative effects on fringe benefits, irregular work schedules, and compliance; and 4) the Earned Income Tax Credit (EITC) is a preferable substitute policy.

I respond, in turn, to each of Strain's claims.

\$15 BY 2025: NOT SO FRIGHTENING

Strain presents frightening projections of \$15 to median wage ratios in the poorest U.S. states, drawing on wage trends over the period 2009 to 2018, a time of wage stagnation. In 2018 and 2019, wage increases accelerated, especially in the lowest quintile, and accelerated again during the recovery from the pandemic. And large retailers (Amazon, Costco, Walmart, Target) and restaurant chains (Chipotle, McDonald's) are voluntarily adopting high minimum wages, even in \$7.25 states, pushing up wages of nearby employers. Pay at McDonald's own outlets will reach a \$15 average by 2024 (Marx, 2021). The Bureau of Labor Statistics (BLS) recently reported that nonsupervisory pay in accommodations and food services already averaged about \$16. In short, not so frightening.

The Congressional Budget Office (CBO) has forecast that, even without a \$15 federal minimum wage, employment costs will increase 3.5 percent per year from 2021 through 2025, for a compounded growth of 19 percent. Thus, forward-looking projections indicate that \$15 will be under 65 percent of the median wage by 2025, a lower ratio than in Britain, France, and other European countries. Again, not so frightening.

THE CAREFUL EVIDENCE FINDS MINIMAL EMPLOYMENT EFFECTS

Minimum wage research in the 1990s divided into two contrasting schools. Neumark and Wascher (1992), using panel data with controls by state and year, found

negative employment effects among teens. Card and Krueger (1994), comparing fast-food chain restaurants in New Jersey and Pennsylvania before and after New Jersey increased its minimum wage, did not find significant disemployment effects. While the two sets of authors continued their debate, the Card and Krueger approach won the day, changing the views of many professional economists. It also gave rise to a revolution in empirical economics—the use of difference-in-differences methods to credibly identify causal effects.

Subsequently, two highly cited papers that I co-authored showed that the Neumark and Wascher (1992) specification was contaminated by different pre-policy employment trends in states that increased their minimum wages versus employment trends in states that did not increase minimum wages. When we added Card and Krueger-type controls for all the minimum wage changes since the 1980s, we did not find any disemployment effects.

Recent careful minimum wage studies go farther. They check whether the treated groups in their samples exhibit actual wage gains, evaluate the size of any employment effects in relation to the size of the wage gains, use event study models to also control for changes in the composition of minimum wage workers, conduct placebo tests to check whether the methods spuriously generated gains among higher-wage groups, and check that the specifications controlled adequately for different business cycle effects across states. All these methods constitute state-of-the-art techniques that make up a large part of a credibility revolution in economics.

Nonetheless, minimum wage studies continue to be produced that are little improved over Neumark and Wascher (1992). Strain relies heavily on a flawed Neumark and Shirley (2021) meta-study of minimum wage employment elasticity estimates since 1992. Their sample excludes multiple findings in studies that find minimal employment effects while giving the same weight to papers with discredited methods that is given to careful ones. The negative studies in their sample mostly use methods that have been called into question. And since Neumark and Shirley (2021) do not report wage effects, their minimum wage elasticities are not informative. Dube (2019), who examines all the studies that provide wage and employment effects, finds the typical own-wage elasticity is small.

The most careful and most influential accepted causal studies (such as Cengiz et al., 2019) remain clear and unchallenged: minimum wages have produced minimal employment effects.

Strain refers to a minimum wage study (Jardim et al., 2018) for Seattle and a 2021 Congressional Budget Office report. He seems unaware of the shortcomings of Jardim et al. (2018) outlined in Dube (2017), or that Jardim et al. (2018) no longer claim to find disemployment effects. As Vigdor (2021) recently summarized: “We found that after the minimum wage increase they were no more likely to lose their job. They had their hours cut back a bit...But at the end of every week they were seeing at least somewhat bigger paychecks, and some extra time to study or spend with their families.”

CBO’s supposed nonpartisan summary of minimum wage research makes no attempt to exclude spurious studies. Its 2019 report leans heavily on a small number of non-credible outlier studies that have been heavily critiqued; the 2021 report simply gives them even more weight. Indeed, successive CBO reports since at least 2014 have arrived at successively larger disemployment estimates, even as the careful minimum wage research literature has headed in the other direction.

I could go on, noting that teens now account for only 10 percent of minimum wage workers. Or that the price effects would be limited to restaurants and would have extremely small effects on the low-income community. Or that much modern research finds that minimum wages counterbalance employers’ substantial wage-setting power.

But the important point remains: A new generation of minimum wage research studies—which I summarized in my essay—use modern credible causal identification methods and find at most minimal employment effects.

FRINGE BENEFITS, WORK SCHEDULES, AND COMPLIANCE

Will employers adjust to higher minimum wages by reducing benefits and making work schedules more irregular? Strain does not cite evidence supporting these assertions, which were refuted empirically in Simon and Kaestner (2003). The lowest wage jobs already have the fewest benefits and most irregular schedules, allowing little margin for further adjustments. As for reduced compliance with labor standards, Strain does not seem aware that jurisdictions with higher labor standards often enhance their enforcement efforts. Such enhancements have already been implemented successfully—for example, in San Francisco and Seattle.

THE EITC IS A COMPLEMENT, NOT A SUBSTITUTE, FOR THE MINIMUM WAGE

Like many minimum wage opponents, Strain prefers the EITC. But an EITC expansion would need to be huge to generate a living wage standard for low-wage workers. Fortunately, we need not and should not choose only one policy. The EITC research literature has found that a substantial portion of EITC payments is passed on to employers through lower wages (Rothstein & Zipperer, 2020). This leakage could be overcome by pairing minimum wage and EITC expansions as complements, as many states have done.

CONCLUSION

Minimum wages raise net earnings of low-wage groups, reduce wage inequality, and reduce poverty. The policy enjoys broad and growing support among economists and among voters of all persuasions, including in so-called red states. A \$15 minimum wage is already law for about 60 percent of the workforce and is increasingly being adopted by large companies in traditionally low-wage industries. It is time for federal law to catch up.

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