Cornell University
ILR School

ILR Review

Volume 64 | Number 1 Article 10

July 2010

Minimum Wages. By David Neumark and William L. Wascher.

Richard V. Burkhauser
Cornell University, rvb1@cornell.edu

Minimum Wages. By David Neumark and William L. Wascher.

BOOK REVIEWS

Labor Economics

Minimum Wages. By David Neumark and William L. Wascher. Cambridge, MA: MIT Press, 2008. 400 pp. ISBN 0-262-14102-7, $42.00 (cloth).

The minimum wage provisions of the FLSA of 1938 have been repealed by inflation. Many voices are now taking up the cry for a higher minimum. Economists have not been very outspoken on this type of legislation. It is my fundamental thesis that they can and should be outspoken, and singularly agreed. The popular objective of minimum wage legislation—the elimination of extreme poverty is not seriously debatable. The important questions are rather (1) Does such legislation diminish poverty? and (2) Are there efficient alternatives? The answers are, if I am not mistaken, unusually definite for questions of economic policy. If this is so, these answers should be given. Some readers will probably know my answers already ("no" and "yes," respectively); it is distressing how often one can guess the answer given to an economic question merely by knowing who asks it. But my personal answers are unimportant; the arguments on which they rest are.

George Stigler, Preamble to "The Economics of Minimum Wage Legislation." *American Economic Review,* 1946.

In a profession that rewards scholars based primarily on journal articles that push the frontier of knowledge outward one small step at a time, it is news when leading scholars at the peak of their careers write a book that captures the full scope of the literature in which they are currently contributing. It is even bigger news when the book turns that literature upside down. David Card and Alan B. Krueger's *Myth and Measurement: The New Economics of the Minimum Wage* (Princeton: Princeton University Press, 1995) was such an iconoclastic book. It blasted apart the decades-old consensus view, best articulated by Charles Brown, Curtis Gilroy and Andrew I. Kohen *(Journal of Economic Literature*, 1982), that job markets for low-skilled adults and teenagers were competitive and that in such markets, minimum-wage legislation will increase wages at the cost of modest but significant reductions in employment (demand elasticities in the range of –0.2).

Card and Krueger weighed the actual empirical evidence for this consensus view and found it wanting. In its place, using innovative difference-in-differences or natural experimental methods, which Card and a few others were then introducing into the more general applied econometric literature, they found no evidence of a negative minimum wage effect on employment—but they did find some evidence of a positive effect.

Over the past 15 years, a new generation of applied labor economists in the United States and elsewhere, inspired by *Myth and Measurement*, have followed their lead: a) in considering the labor market conditions in which low-skilled adults and teenagers find themselves; b) in performing replication studies; and, most especially c) in their use of natural experimental methods to look at the behavioral and distributional effects of minimum-wage legislation and many other public policies. Hence, along these dimensions, *Myth and Measurement* continues to have an important bearing on our profession.

But what has this new literature discovered with respect to the behavioral and distributional consequences of minimum-wage legislation? This is the central question that David Neumark and William L. Wascher answer in their outstanding new book, *Minimum Wages*. The book is divided into seven substantive chapters, together with introductory and concluding chapters. Chapter 2 provides a history of this legislation and summarizes the early debate and empirical evidence that led to the consensus view in the United States captured in Brown, Gilroy and Kohen.

Chapter 3 is an extension and a more accessible summary discussion of the new literature on the minimum wage's employment effects, beginning with the research described in *Myth and Measurement*, which is more exhaustively discussed by the authors in their 2007 monograph—*Minimum Wages and Employment* (Hanover, MA: Now Publishers, 2007). What it reveals is that Neumark and Wascher and most of the new minimum wage researchers, while fully embracing the econometric strategies in *Myth and Measurement*, have primarily found that minimum wage increases have small but significant negative employment effects—findings close to the previous consensus values. One explanation for these conclusions, nicely discussed in this chapter, is that data available for natural experiments in the United States are now richer. For instance, Joseph Sabia (*Industrial Relations*, 2009) used Card and Krueger's preferred specification in *Myth and Measurement*; he extended their analysis, however, over the period 1979–2004, a time that includes the long period over which the federal minimum wage remained at $5.25 per hour while many additional states had raised their minimum above the federal minimum. In doing so, Sabia found significant and negative employment outcomes, controlling for state and time effects, where Card and Krueger had found none. Greater variation in the state-level data led to a more precise estimate of the result. Unfortunately, these serendipitous area-specific effects are not available in other countries, making it more difficult to establish reasonable criteria for a difference-in-differences experiment.

Though the employment chapter is the heart of *Minimum Wages*, subsequent chapters provide excellent reviews of the current literature on other economic aspects of the minimum wage and assess the strength of the empirical evidence. Chapter 4, for example, investigates the minimum wage's effect on the overall distribution of wages; Chapter 6 focuses on its effect on skills; Chapter 7 centers on prices and profits; and Chapter 8 analyzes the political economy of the minimum wage.

For the majority of readers specifically interested in the evidence on the effectiveness of the minimum wage in achieving its stated purpose, Chapter 5 provides the most valuable companion piece to the employment chapter (Chapter 3). It answers the questions posed by George Stigler in the epigraph—does minimum-wage legislation reduce poverty and are there more efficient ways of doing so? Neumark and Wascher begin by pointing out that even Card and Krueger find no evidence that minimum wage increases reduce poverty and then effectively demonstrate why this is the case. Using difference-in-difference methods, they show that movements onto the poverty rolls by the families of workers whose employment is negatively affected by minimum wage increases more than offsets the movement out of poverty by the families of workers whose wage earnings are positively affected by an increase in the minimum wage. Neumark and Wascher then provide evidence that the Earned Income Tax Credit (EITC) is a far more efficient policy mechanism for reducing poverty among working Americans. Unlike the minimum wage, which raises the wages of all affected workers, including the majority who are second or third earners in non-poor families, the EITC only subsidizes the wages of low-income families and does so via the tax system, hence avoiding the negative employment effects of minimum wage increases.

Like Card and Krueger, Neumark and Wascher are outstanding empirical economists who have made substantive additions to the minimum wage literature and have now produced a book that is decidedly greater than the sum of their research in this literature. It is an appropriate companion piece to *Myth and Measurement.* Additionally, for those who are interested in the history of economic thought, it is a continuation of a fundamental economic dispute going back to the first modern policy evaluations of minimum wage legislation published in the *American Economic Review* in 1946 by Stigler and Richard A. Lester. Stigler, basing his argument on marginalist theory (Hickian-derived demand for labor equations) and weak empirical evidence, asserted that further increases in the federal minimum wage would increase the wages of some low-skilled workers at the cost of other low-skilled workers' employment. In its place, he recommended the implementation of a negative income tax to reduce poverty. Lester was much more skeptical of the value of marginalist theory in explaining real-world economic events. He demonstrated his point using equally weak empirical evidence from a case study of the employment effects of federal minimum-wage increases on cotton plantation workers in the South which, he argued, led to an increase in their wages with no effect on their employment.

Over the next fifty years, the economics profession increasingly sided with Stigler on the value of marginalist economic theory in predicting the unintended consequences of government intervention into markets in general and for minimum-wage legislation in particular. Card and Krueger, who dedicated their iconoclastic book to their Princeton University colleague Richard Lester, not coincidentally chose the topic of minimum-wage legislation as their vehicle for demonstrating their innovative empirical methods. In doing so, they forced the economics profession not only to reevaluate conventional wisdom on the consequences of minimum wage increases, but also, more generally, to reevaluate the way that we come to our empirically based judgments on the behavioral and distributional consequences of public policies.

In *Minimum Wages*, Neumark and Wascher provide a definitive review of the empirical evidence on the behavioral and distributional consequences of minimum wage legislation since the publication of *Myth and Measurement*, much of it using these same methods. Even though it is distressing that potential readers will be able to guess the answers that Neumark and Wascher provide to the two questions posed by Stigler, it is not the authors' personal answers that matter but the empirical evidence on which they rest.

Richard V. Burkhauser
Sarah Gibson Blanding Professor of Policy Analysis
Cornell University

Labor and Employment Law

Regoverning the Workplace: From Self-Regulation to Co-Regulation. By Cynthia Estlund. New Haven, CT: Yale University Press, 2010. 320 pp. ISBN 978-0-3001-2450-7. $50 (cloth).

Cynthia Estlund may be best known to labor and employment law academics and practitioners as the scholar who most completely and aptly described the current crisis in American labor law in *The Ossification of American Labor Law* (*Columbia Law Review,* 2002). In that piece, she described vividly, starkly, and I believe accurately, the anachronistic nature of the National Labor Relations Act (NLRA) (see 29 U.S.C. §§ 151–169), due to the political stalemate that has left the law basically unchanged in its current form for more than fifty years (since the passage of the Taft-Hartley Amendments in 1947), despite the fact that the labor, capital, and products markets have changed dramatically.

It is therefore not surprising, with the lack of any labor law reform in the ensuing period, that Estlund begins her new book, *Regoverning the Workplace* (RTW), with a description of the continuing inadequacies of American labor and employment law to protect the interests and rights of the average worker. Not only is traditional labor failing workers in providing adequate voice in the workplace through union representation, but also its *de facto* replacement, employment law, is a multi-headed hydra made up of a confusing array of minimum labor standards and workplace rights. Additionally, private litigation in the area has been substantially diminished by a U.S. Supreme Court seemingly set on an anti-litigation agenda in the civil rights context.

What is at first surprising, and then more expected upon further reflection, is Estlund's embrace of "regulated self-regulation" in the workplace, or "co-regulation." This New Governance theory has been extolled before by other labor and employment law scholars, most notably by Orly Lobel in the Occupational Safety and Health Act (OSHA) context. New Governance theory, according to Estlund, has "two interlocking themes: the idea of 'decentering the state' and elevating the regulatory role of other nongovernmental actors, including regulated entities themselves; and the idea of 'reflexivity' in law—of replacing direct regulatory commands with efforts to shape self-regulation