Review of the Book *Minimum Wage Regulation in the United States*

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Review of the Book *Minimum Wage Regulation in the United States*

Abstract
[Excerpt] Why yet another book on minimum wages in the United States, especially one that follows so closely on the heels of the 1981 *Report of the Minimum Wage Study Commission* and parallel studies (including another one by Fleisher) sponsored by the American Enterprise Institute? The author’s goal here is to evaluate minimum-wage regulation in light of its benefits and costs as an antipoverty device; and most of his book is based on his interpretation and evaluation of the existing literature, including the large body of recent research. The book is written in a nontechnical fashion for nonspecialists (frustrated econometricians will search in vain for an equation or even a Greek symbol), and the author succeeds quite well in keeping the writing lively and in presenting a well-reasoned argument. One would have expected no less from the co-author of a well-written textbook in labor economics.

Keywords
minimum wage, regulation, poverty, United States

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ATTRIBUTABLE TO THE ENTHUSIASM OF THE AUTHORS AND THEIR DESIRE TO GAIN CONVERTS. THUS, THEY CRITICIZE MANY OF THE STATISTICS USED BY THOSE WHOSE VIEWS THEY OPPOSE, CITING SOME OF THE WELL-KNOWN PROBLEMS WITH SUCH BASIC DATA AS THE UNEMPLOYMENT RATE AND THE GROSS NATIONAL PRODUCT. BUT THEIR OWN ANALYSIS AND USE OF DATA ALSO PRESENT MANY PROBLEMS AND INCONSISTENCIES. FOR EXAMPLE, THEIR ANALYSIS OF THE EMPLOYMENT EFFECTS OF VARIOUS HEALTH AND SAFETY IMPROVEMENTS IS EXTREMELY SIMPLISTIC, BASED ON AN IMPLICIT PARTIAL-EQUILIBRIUM MODEL. ON THE ONE OCCASION WHERE THEY ENGAGE IN A MORE GENERAL ANALYSIS, THEY SEEM TO CONTRADICT THEMSELVES. THEY ARGUE THAT THE CANCELLATION OF A GIVEN PROJECT DOES NOT NECESSARILY COST JOBS BECAUSE THE MONEY SAVED CAN BE SPENT ELSEWHERE, BUT THEY SEEM UNAWARE THAT THE SAME LOGIC SAYS THAT ENVIRONMENTAL REGULATION MAY NOT CREATE JOBS BECAUSE THE MONEY USED TO PROTECT THE ENVIRONMENT MIGHT HAVE BEEN SPENT ELSEWHERE.


IN MANY WAYS, THE LOGIC OF THIS BOOK IS MORE SUITABLE AS AN OVERALL CRITIQUE OF MATURE CAPITALISM THAN AS A TREATISE ON ENVIRONMENTAL ISSUES. ANOTHER CRITIQUE OF MODERN CAPITALISM, FEAR AT WORK MAKES A POWERFUL, SOPHISTICATED, AND COMPPELLING CASE THAT CORPORATE CONTROL OVER JOBS IS INIMICAL TO "DEMOCRATIC CONTROL" OF THE ECONOMY. THE PROBLEM HERE IS THE ANALYSIS HERE IS MARXIAN IN THE VERY BEST SENSE OF THAT TERM.

THERE IS LITTLE HERE IN THE CRITIQUE OF CORPORATE AND GOVERNMENT BEHAVIOR WITH WHICH A MODERN MARXIST WOULD FEEL UNCOMFORTABLE. THE NOTIONS THAT HISTORY IS WRITTEN FROM THE PERSPECTIVE OF THE POWERFUL, THAT GOVERNMENT SERVES THE INTERESTS OF CORPORATE FINANCE, AND THAT EMPLOYERS OPPOSE ENVIRONMENTAL, HEALTH, AND SAFETY REGULATION AND UNIONIZATION AS WELL) BECAUSE THEY PERCEIVE A THREAT TO THEIR UNILATERAL CONTROL OVER THE WORKPLACE ARE ALL PART AND PARCEL OF THE BEST AND MOST INSIGHTFUL OF CONTEMPORARY RADICAL ANALYSIS.

IN FACT, THE THING WHICH IS ULTIMATELY UNSATISFYING ABOUT THIS BOOK IS THAT IT STOPS HALFWAY. HAVING MADE A FAIRLY COMPELLING BUT THOROUGHLY RADICAL CRITIQUE OF MATURE CAPITALISM, THE AUTHORS PROPOSE A NONRADICAL, COMMONPLACE SOLUTION: WORKERS AND ENVIRONMENTALISTS JOINING TOGETHER TO SEEK FULL EMPLOYMENT AND ENVIRONMENTAL PROTECTION VIA LEGISLATION AND LOCAL ACTION. CERTAINLY THERE ARE EXAMPLES OF SUCH COALITIONS THAT HAVE BEEN SUCCESSFUL; BUT AS MARX AND LENIN PREDICTED, UNDER CAPITALISM WORKERS WILL HAVE SMALL, SPORADIC VICTORIES. THE REAL QUESTION IS WHETHER "DEMOCRATIC CONTROL" OF ECONOMIC LIFE CAN BE MADE TO COEXIST WITH PRIVATE ENTERPRISE. KAZIS AND GROSSMAN SEEM TO THINK IT CAN, BUT A MORE LOGICAL DEDUCTION FROM THEIR ANALYSIS OF CORPORATE AND GOVERNMENT BEHAVIOR MAY WELL BE THAT IT CANNOT.

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MINIMUM WAGE REGULATION IN THE UNITED STATES.

WHY YET ANOTHER BOOK ON MINIMUM WAGES IN THE UNITED STATES, ESPECIALLY ONE THAT FOLLOWS SO CLOSELY ON THE HEELS OF THE 1981 REPORT OF THE MINIMUM WAGE STUDY COMMISSION AND PARALLEL STUDIES (INCLUDING ANOTHER ONE BY FLEISHER) SPONSORED BY THE AMERICAN ENTERPRISE INSTITUTE? THE AUTHOR'S GOAL HERE IS TO EVALUATE MINIMUM-WAGE REGULATION IN LIGHT OF ITS BENEFITS AND COSTS AS AN ANTIPROVIDER DEVICE; AND MOST OF HIS BOOK IS BASED ON HIS INTERPRETATION AND EVALUATION OF THE EXISTING LITERATURE, INCLUDING THE LARGE BODY OF RECENT RESEARCH. THE BOOK IS WRITTEN IN A NONTECHNICAL FASHION FOR NONSPECIALISTS (FRUSTRATED ECONOMETRICIANS WILL SEARCH IN VAIN FOR AN EQUATION OR EVEN A GREEK SYMBOL), AND THE AUTHOR SUCCCEEDS QUITE WELL IN KEEPING THE WRITING LIVELY AND IN PRESENTING A WELL-REASONED ARGUMENT. ONE WOULD HAVE EXPECTED NO LESS FROM THE CO-AUTHOR OF A WELL-WRITTEN TEXTBOOK IN LABOR ECONOMICS.

AFTER AN INTRODUCTORY DISCUSSION OF THE POLITICS OF WHO SUPPORTS MINIMUM-WAGE LEGISLATION, THE MAJOR CHAPTER IN THE BOOK EXAMINES THE THEORY AND EMPIRICAL EVIDENCE REGARDING THE POSSIBLE ADVERSE EFFECTS OF MINIMUM-WAGE LAWS. DISCUSSED HERE ARE EFFECTS ON EMPLOYMENT (IN THE AGGREGATE AND FOR PARTICULAR DEMOGRAPHIC GROUPS), ON SCHOOLING AND ON-THE-JOB TRAINING, AND ON FRINGE BENEFITS AND WORKING CONDITIONS. FLEISHER ALSO CONSIDERS THE EXTENT OF NONCOM-
pliance with the law. Over half of the empirical discussion centers on effects in retail trade and the restaurant industry, reflecting, obviously, the interests of the sponsor of the study.

Shorter chapters analyze evidence of minimum-wage effects on unemployment and inflation, and on poverty. Regarding poverty, the author concludes that increases in the minimum wage do not substantially affect the number of low-income families, primarily because the correlation between being a low-wage worker and being in a low-income family is not very high. (It is, however, much higher for nonwhites, a fact the author neglects to mention.)

Since Fleisher views a reduction in poverty as the major potential benefit of the legislation, one might wonder why the discussion on this topic is so brief. The answer is that economists in general have historically done little research on the income-distribution effects of minimum-wage laws, focusing their attention instead on the laws' unintended consequences. After over 40 years of research, the time probably has come for the profession to redirect its attention to measuring the potential positive effects of the laws, as well as its negative ones.

Fleisher's analysis of the evidence leads him to conclude that the nominal minimum wage should be held constant, so its real value will erode over time; the minimum wage should not be indexed to the price level; it should include no youth differential; and full credit for employees' tip income should be given to restaurant employers in imputing the wage payments they are required to make under the minimum-wage law. The first two conclusions follow directly from the author's belief that minimum wages reduce employment opportunities and do not significantly reduce poverty. The third, which so upset the sponsors of the book that they wrote a disclaimer (p. 4), was drawn from his concern that employers might react to a youth differential by substituting youth employment for adult employment, thereby worsening the employment prospects of low-wage adult workers. The final conclusion, which is justified in detail in the book, probably would be supported by more people if they were sure that employers' reports of workers' tip income were actually equal to what the workers received. Unfortunately, Fleisher does not consider the possibility that this proposal increases employers' incentives to exaggerate tip income.

Save for its empirical emphasis on the restaurant and retail trade industries, this excellent paperback could be logically viewed as an updating of Sar Levitan and Richard Belous's More Than Subsistence: Minimum Wages for the Working Poor (1979), which summarized the policy conclusions that could be derived from minimum-wage research as of the late 1970s. Strikingly, the two books come to quite different conclusions about the usefulness of minimum-wage laws. In part, this contradiction reflects the improved information made available by researchers during the past five years. It also reflects, however, the diversity of some of the research findings; indeed, as Fleisher himself notes, "Others have found it possible to draw conclusions opposite to those in the report from some of the results of this research" (p. 77). I suspect that the contradictory findings are also a result of differences between the underlying philosophical approaches to the analysis of labor markets represented in these two books.

Read this short book; it's well worth the effort. But be aware that what we know about the effects of various social programs and legislation, including minimum-wage laws, is often not totally unambiguous and is subject to differing interpretations.

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Unions have exhibited a healthy skepticism about the efficacy of market forces in safety and health matters. The union rhetoric preaches the sanctity of human life and limb and how these should not be evaluated in economic terms. Yet the labor movement exhibits some ambivalence about this subject. If a dedicated market theorist sat down with union leaders to explain why neither government intervention nor workers' compensation legislation is necessary, they would be incredulous. When it comes to practical applications at the workplace, however, economic considerations are never far removed from the mind of a union leader. Differentials are negotiated for especially hazardous work, while there may be differential enforcement of safety codes depending on the individual firm's economic prospects. Increased risk may be tolerated by unions if the alternative is a plant shutdown. In quite opposite situations, union leaders may grossly exaggerate the dangers of a job process to increase staffing, shorten hours,