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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

Disciplines

Labor Economics | Labor Relations

Comments

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Minimum Wage Regulation in the United States.
By Belton M. Fleisher. Washington, D.C.:
National Chamber Foundation, 1983. x,
85 pp. N.p.

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.

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 pol-

icy 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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Safety at Work and the Unions. By P. B. Beaumont. London: Croom Helm, 1983. 193 pp. \$25.25.

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,

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