Editor’s Introduction to the Review Symposium on the Book *Myth and Measurement: The New Economics of the Minimum Wage*

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Editor’s Introduction to the Review Symposium on the Book Myth and Measurement: The New Economics of the Minimum Wage

Abstract
[Excerpt] Why has Myth and Measurement engendered so much controversy? In part, because it deals with the minimum wage. The minimum wage was the first piece of protective labor legislation adopted at the national level, and proposals to increase the minimum wage invariably lead to heated debate between labor and business interests. When a book co-authored by the then chief economist in the Clinton Labor Department purports to show that, contrary to received wisdom, minimum wage increases do not appear to have any diverse effects on employment, it is predictable that conservative critics will attack its findings.

Keywords
minimum wage, employment, unemployment, economic theory

Disciplines
Economic Policy | Labor Economics | Labor Relations

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REVIEW SYMPOSIUM

Myth and Measurement: The New Economics of the Minimum Wage*

Editor’s Introduction by Ronald G. Ehrenberg†


Why has Myth and Measurement engendered so much controversy? In part, because it deals with the minimum wage. The minimum wage was the first piece of protective labor legislation adopted at the national level, and proposals to increase the minimum wage invariably lead to heated debate between labor and business interests. When a book co-authored by the then chief economist in the Clinton Labor Department purports to show that, contrary to received wisdom, minimum wage increases do not appear to have any adverse effects on employment, it is predictable that conservative critics will attack its findings.

The controversy also stems, however, from the fact that Myth and Measurement is much more than an analysis of the minimum wage. If the authors’ analyses are correct, they have, perhaps unintentionally, presented a devastating critique both of economic theory and of empirical research methods in economics. Taken at face value, their findings suggest that simple competitive demand and supply models do not provide an adequate description of low-wage labor markets, the very markets in which one might expect these models to “work the best.” Taken at face value, their findings also cast considerable doubt on the empirical research methods used by generations of labor economists. Labor economists have prided themselves on the care they have taken in conducting empirical research; if the empirical basis of their findings is so weak, what about the methods used by the rest of the economics profession?

These issues are so profound that, right or wrong, Myth and Measurement may well be the most important labor economics monograph of the 1990s. Such a book’s findings deserve to be evaluated in one place by economists with a wide variety of perspectives. When I suggested the idea of a review symposium to the editors of the ILR Review,

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they quickly agreed, arranged for pre-publication copies of Myth and Measurement to be sent to Charles Brown (Michigan), Richard Freeman (Harvard), Daniel Hamermesh (Texas A&M), Paul Osterman (MIT), and Finis Welch (Texas A&M), and asked each to provide us with five- or six-page reactions in time for this issue of the Review. All agreed, and their reviews follow.

Comment by Charles Brown*

Economists' function in society is to point out unintended consequences. Our habitual refrain is that simple policy fixes may have more fizz than fix and may do unanticipated collateral damage. Our cheerful side—the "invisible hand" demonstration that greed has unintended benefits—goes unappreciated, and so our dismal side dominates public perception.

The minimum wage debate, in which we have warned that attempts to raise poorly paid workers' wages will cost some of them their jobs, is a good example of our dismal side. Moreover, that theoretical argument has been supported by respectable empirical evidence. The most often cited evidence comes from time series studies of teenage employment. My own reading of that evidence is that 10% increases in the minimum wage reduced teenage employment by about 1%.

Over the past two decades, the evidence has gradually gotten more tenuous. In particular, extending the time series studies has produced weaker evidence of non-zero minimum wage effects.

David Card and Alan Krueger's (CK's) Myth and Measurement: The New Economics of the Minimum Wage provides both a comprehensive look at earlier work and important new contributions. Their bottom line is that there is little evidence in either their own work or their analysis of others' that minimum wage increases reduce employment. Moreover, they argue that this lack of support for a central prediction of the textbook model should lead us to actively consider alternative models, and they present several alternatives that base monopsony power on informational imperfections (rather than a lack of competition among employers, as in the "company town" rendition). They also argue that the minimum wage has had a significant equalizing effect on the wage distribution and a modest equalizing effect on the distribution of income, and find some evidence that increases in the minimum wage reduce the stock-market value of low-wage firms. I will focus on their analyses of the effect on employment in the United States.

In Chapters 2–4, CK focus on a variety of cross-sectional comparisons. In New Jersey, where the state minimum wage was increased in 1992, fast-food employment rose slightly, while in neighboring Pennsylvania, where there was no minimum-wage increase, it fell slightly. In New Jersey, employment rose in the restaurants required by the law to increase their wages while it fell in those that initially paid more than the new minimum. Teenage employment rose in California after that state increased its minimum wage in 1988, while teen employment in comparison states with no minimum wage increase, it fell slightly. In New Jersey, employment rose in the restaurants required by the law to increase their wages while it fell in those that initially paid more than the new minimum. Teenage employment rose in California after that state increased its minimum wage in 1988, while teen employment in comparison states with no minimum wage increase was flat; restaurant employment rose a bit less in California than elsewhere. Finally, teen employment and restaurant employment increased faster in states where the 1990 and 1991 federal minimum wage increases had the largest effects on the wage distribution. One can find individual coefficients consistent with the traditional view that the minimum wage reduces employment. But unless (and, perhaps, even if) one focuses on the negative boundary of each confidence

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