Letter from America — Minimum wage *redux*

The recent death of Alan Krueger prompts Angus Deaton to reflect on the reception accorded to the suggestion, more than twenty years ago, that a minimum wage can sometimes increase *the level of employment.*

My first letter from America, in 1996, was about the minimum wage, a topic that has lost none of its freshness, relevance or capacity to divide and upset. I wrote about the work by my then colleagues David Card and Alan Krueger, who used evidence from a number of natural experiments to argue that modest increases in the minimum wage did not, as the textbooks asserted, lead to decreases in employment, but might actually do the reverse, causing both employment and wages to rise.

Can a minimum wage *increase* employment?

The work — then and now — polarizes both economists and politicians. An apt quote is from Jason Furman who wrote that their results 'changed the mind of half of the profession'. In 1996, I wrote that, at the time, Princeton economists who defended the results were treated as if they had been defending child molestation. Both Card and Krueger were abused in the press — 'camp following whores' — long before Twitter and Facebook made such horrors seem almost polite.

I have been thinking back to this because Alan Krueger died on March 16. Over his sadly shortened career, he made lasting contributions to economics over a range of fields. He also had a high-level career in policy, in the Department of Labor, in the Treasury, and as President Obama's Head of the Council of Economic Advisors, then a cabinet level position. David Card, his coauthor on the minimum wage studies, now at UC Berkeley, continues a career of extraordinary productivity, less often in the public eye than Krueger's, with the notable exception last year when he testified on behalf of Harvard University in the (still undecided) lawsuit alleging that its admissions policies discriminate against Asian-Americans. Their work, together with that of others, particularly Joshua Angrist, who was a graduate student at Princeton around the same time, changed empirical economics, away from the theory-based structural modelling that was the standard at the time, and towards a reliance on natural experiments — which they showed were much more common than many of us had supposed — and from there to a general reliance on methods that created two arguably identical groups that were treated differently and, ultimately, to randomized controlled trials.

The evidence suggests so

When it comes to assessing the ultimate impact of the empirical revolution of which Krueger was then part, as Zhou Enlai said in 1972 about the French Revolution, it is too early to tell. Yet there is no doubting the impact of the work on the minimum wage. Although the Federal minimum wage of $7.25 an hour has not been increased since July 2009, there have been many increases by the states. Twenty-nine states have higher rates, ranging from $8.25 in Illinois to $12 in Washington (state), and the cities of Seattle and San Francisco have minimum wage levels of $15 an hour. Using the local changes as natural experiments, methods akin to Card and Krueger's have by now been used in many studies. My reading is that these replicate Card and Krueger more often than not, but not always so, and the defenders of textbook orthodoxy have certainly not given up. About seven out of ten Americans think the Federal minimum should be raised, and the failure of Congress to pass such legislation is a testament to the power of lobbying in Washington, particularly the fast-food lobby. Which also continues to commission studies that buttress the conservative position that trying to help people this way can only hurt them.

My friend Anthony Appiah, a philosopher who thinks about and comments on public policy, recently asked me, with some irritation, why economists had *still* not managed to settle what seemed like a straightforward question. Rather in the same tone that I imagine the Queen used when asking why the profession had failed to predict the Great Recession. But perhaps Appiah's question is ill-posed and has no general answer? Why do we economists — as well as non-economists — suppose that the effect of a treatment should always be the same, or at least always act in the same direction?

Monopsony may be the key

Recent work has gone back to theory, and asked about the theoretical circumstances under which increasing the minimum will or will not decrease employment. The conditions were analyzed in Card and Krueger's book *Myth and Measurement*; if the employer has market power, and can influence the wage by hiring or dismissing workers, then an increase in the minimum may, depending on the circumstances, increase the demand for labor. If those circumstances hold, a higher minimum wage not only makes workers better off, but does so at the expense of the monopsony profits of the employer. In the 1990s, monopsony in the labor market, particularly the fast food industry, was generally dismissed; I remember defending the original results using a monopsony story and being told that 'no one believes *that*.' But recently, there has been a real revival of interest in monopsony, particularly in places where population density is low and where there are relatively few employers-a few fast food places, a chicken processing plant, or a state prison. Geographical mobility has fallen in America, in part because of the high cost of housing in successful cities, and people may find it difficult to move as a family when several family members are working. So that it does not seem unlikely that fast food restaurants would use their market power to lower wages, in at least some places, behavior that is consistent with other practices like their widespread use of non-compete clauses and no-poaching agreements.

A charge frequently leveled against Card and Krueger's original work was its neglect of theory, a charge that might well be sustained for a good deal of the subsequent empirical work using natural or actual experiments, but not for *Myth and Measurement*. There is real vindication today when, not only the results, but the theory, are being taken seriously as part of the current reevaluation of the role of market power in the American economy, and particularly its role in holding down wages.

Economics Network

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Gender Bias in the Economics Profession

For International Women's Day, just a reminder that we have an ongoing micro-blog about gender bias in the economics profession with some key readings, videos and links. Visit the blog and please get in touch if you have an recommendations of articles or resources we can include.

New case study

We have a new teaching case study from Professor Steve Cook (Swansea University) which focuses on 'Forecast Evaluation using Theil's Inequality Coefficients' — visit our Ideas Bank to find out more.

https://www.economicsnetwork.ac.uk/

MORE from CORE

Can CORE help economics get over its gender problem? A call for proposals.

CORE is inviting teachers, students and others to propose ways to explore whether our introductory courses *The Economy* and *Economy, Society, and Economic Policy* may help to correct the gender imbalances in those studying and teaching economics, or in the economy and society at large.

Proposed projects should indicate the research question(s) to be answered, how a causal impact of exposure to CORE could be identified, the student population and research design that will be implemented, and the likely dates of the implementation. Feel free to contact Antonio Cabrales, Eileen Tipoe or Homa Zarghameeto discuss your ideas. Final proposals (2-4 pp in length) should be sent to Eileen before **1 June 2019**.

If the proposals that we receive are sufficiently promising, we will schedule a session to discuss them at our upcoming CORE Royal Economic Society Nuffield Foundation workshop at Warwick University in late June 2019.

Further information: https://www.core-econ.org/core-call-for-research-proposals-economics-gender-problem/

Introducing CORE labs

There is a new feature on the CORE website — CORE Labs, a platform for teachers using CORE where they can ask questions, start discussions and find additional resources.

CORE Labs works both as a discussion forum and a library of resources created by teachers that have been using CORE in instruction. Over 7,600 teachers that have registered on the CORE website have access to it.

Using CORE Labs, teachers can:

• Create their own group, either private or public, and invite others to join. Use it to start a group discussion or to collaborate.

• Search a database of resources created by other teachers – assessment materials, lecture slides, exercises, or syllabi of their CORE courses.

• Have a question? Ask other CORE teachers if they can help.

https://labs.core-econ.org/login/

The CORE project is supported by the Royal Economic Society