



The Minimum Wage Once Again: Critique of Sonn and Lathrop

Salário Mínimo Outra Vez: Uma crítica à Sonn e Lathrop

Salário Mínimo Otra Vez: Una crítica a Sonn y Lathrop

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Palavras-chave:

Salário Mínimo;
Desemprego;
Produtividade.

RESUMO

Na visão desses autores, a lei do salário mínimo é praticamente a melhor coisa que já foi inventada, pelo menos desde o pão de forma. Eles asseguram que essa legislação levou a um maior número de empregos, principalmente para os trabalhadores pouco qualificados, que poderiam ou ter perdido seus trabalhos, ou nem terem obtido qualquer um outro, pelo menos de acordo com a análise tradicional de tais leis. O presente estudo é uma tentativa de defender a visão de que essa legislação perniciososa cria desemprego para os pobres, que são os menos propensos a serem capazes de suportar aos seus efeitos deletérios.

Keywords:

Minimum Wage;
Unemployment;
Productivity.

ABSTRACT

In the view of these authors, the minimum-wage law is practically the best thing that has ever been invented, at least since sliced bread. They maintain that this legislation has led to greater, not less, employment, particularly for low-skilled workers, who might have been expected to lose their jobs, or not attain any in the first place, at least according to the traditional analysis of such laws. The present essay is an attempt to defend the view that this pernicious legislation creates unemployment for the poor, who are the least likely to be able to withstand its deleterious effects.

Palabras clave:

Salario Mínimo;
Desempleo;
Productividad.

RESUMEN

En la visión de estos autores, la ley del salario mínimo es prácticamente la mejor cosa que ya fue inventada, al menos desde el pan de forma. Ellos aseguran que esta legislación ha llevado a un mayor número de empleos, principalmente a los trabajadores poco cualificados, que podrían, o haber perdido sus trabajos, o no haber obtenido ningún otro, al menos de acuerdo con el análisis tradicional de tales leyes. El presente estudio es un intento de defender la visión de que esa legislación perniciososa crea desempleo para los pobres, que son los menos propensos a ser capaces de soportar a sus efectos deletéreos.

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INTRODUCTION

The present paper is a criticism of [Sonn and Lathrop \(2016^a\)](#). These authors contend that minimum-wage legislation is a boon to the lower-skilled workers, in that it raises their wages. He denies that there are any serious unemployment effects that this law brings in its train.

The underlying theoretical model on the basis of which I shall criticize [Sonn and Lathrop \(2016^b\)](#) is simply supply and demand analysis. When the price of anything rises, such as prices on beans, beer, baseball bats – and labor, too – less of it is purchased, since demand curves slope in a downward direction. Besides, when a minimum price of anything is established, whether it is for chairs, celery, cellos – and labor, too – a surplus is created. When applied to workers, this constitutes unemployment.

Section I summarizes the position of [Sonn and Lathrop \(2016^c\)](#) and offers some criticism thereof. The burden of section II is to delve into the arguments of the opponents of the minimum wage. In section III, we consider a case in point regarding this legislation. We conclude that [Sonn and Lathrop \(2016^d\)](#) engage in a logical contradiction on this issue.

1 SUMMARY

[Sonn and Lathrop \(2016, p.1\)](#) start off with a sharp attack on those who oppose the minimum-wage law. They state:

Since the passage of the Fair Labor Standards Act in 1938, business interests and conservative politicians have warned that raising the minimum wage would be ruinous. Even modest increases, they've asserted, will cause the U.S. economy to hemorrhage jobs, shutter businesses, reduce labor hours, and disproportionately cast young people, so-called low-skilled workers, and workers of color to the breadlines.

One difficulty with this opening is that the opponents of this legislation are, by no means, confined to “business interests and conservative politicians”. Numerous disinterested¹ economists have also weighed in on this matter, and they have been sharply critical of this legislation for, among them, precisely these reasons: unemployment of unskilled workers.

Another issue is that none of these “business interests and conservative politicians,” not one of them,² call for the entire elimination of this law, root and branch. At most, the more radical

¹ But not uninterested.

² There are no exceptions that I know of. I would be happy to be disabused of this ignorance of mine.

of them are against raises in its level. The moderates call for smaller increases than those proposed by the progressives.³

Then, there is the fact, contrary to their claim, that the unemployment rates of young, black and “low-skilled workers”⁴ are indeed much higher than those of people without those characteristics.⁵

However, these are not the main concerns of [Sonn and Lathrop \(2016, p.1\)](#). Actually, they are as follows:

As recently as this year, the same claims have been repeated, nearly *verbatim*. Raise wages, lose jobs, the refrain seems to go. If the claims of minimum wage opponents are akin to saying ‘the sky is falling,’ this report is an effort to check whether the sky did fall. In this report, we examine the historical data relating to the 22 increases in the federal minimum wage between 1938 and 2009 to determine whether or not these claims—that if you raise wages, you will lose jobs — can be substantiated. We examine employment trends before and after minimum wage increases, looking both at the overall labor market and at key indicator sectors that are most affected by minimum wage increases. Rather than an academic study that seeks to measure causal effects using techniques such as regression analysis, this report assesses opponents’ claims about raising the minimum wage on their own terms by examining simple indicators and job trends. The results were clear: these basic economic indicators show no correlation between federal minimum wage increases and lower employment levels, even in the industries that are most impacted by higher minimum wages. On the contrary, in the substantial majority of instances (68 percent) overall employment increased after a federal minimum wage increase.

2 OPPONENTS OF THE MINIMUM WAGE

That is not precisely the claim that opponents of the minimum-wage law make whatsoever. Instead, in equilibrium, a minimum wage of \$x will create unemployment for anyone whose marginal revenue product is less than \$x. Filling in the blanks, if a person can add \$10 per hour to the bottom line of his employer,⁶ and the law requires that such an employee must be paid \$15, then this person will be rendered unemployable. Why? That is due to the fact that the firm will lose profits of \$5 per hour for every minute that man is on the payroll. It would not be a paying proposition to give such an individual a job.

³ None call for the imprisonment of those responsible for his evil law. For an exception, see Block, forth coming.

⁴ What’s with the “so-called?” Do these authors doubt that some people are more skilled than others? Surely, that cannot be the explanation. Inquiring minds want to know all about this.

⁵ See on this: <https://www.bls.gov/web/empsit/cpsee_e16.htm>. In some cases, this reaches quadruple and even quintuple and, amazingly, sextuple levels.

⁶ That is his productivity level is \$10.

It is entirely possible, compatible with the analysis of opponents of this law, that a raise in the minimum-wage level will be accompanied by an increase in employment. How come? Other things also change when the minimum wage rises. For example, new and better technology, more capital equipment, etc. But, still, even if the increases in the minimum wage result in more jobs, not fewer, it will still be true that those workers with productivity levels below the minimum wage will be unemployable, in equilibrium. Thus, assuming, *arguendo*, that their facts are correct, this still does not undermine the case of those⁷ who maintain that elevating wages above productivity levels will result in more unemployment, especially on the part of the youth, blacks, and others who are disproportionately unskilled. More employment may also accompany this process, for reasons unrelated to this law, but there will also be more joblessness, as the statistics so amply bear out. The point is, these scholars are studying the wrong variable. It matters very little that “these basic economic indicators show no correlation between federal minimum wage increases and lower employment levels.” The key, rather, is unemployment, not employment.

All through their essay, one finds the word “employment.” There is “employment,” “employment,” “employment” once again, “employment,” and then, more and more “employment.” One searches in vain for the simple word “unemployment.” No, wait, that is not quite accurate. The word “unemployment” does appear, and it can be seen twice. A total of two times. However, in each case, it is not a word employed⁸ not by them, themselves, but rather by targets of theirs, who they are attempting to discredit. To wit: “The minimum wage has caused more misery and unemployment than anything since the Great Depression.”⁹ And again: “Any temporary advantage to our two-million employees would be more than offset by immediate unemployment within our industry. [A] national minimum wage within our industry is impractical and dangerous.”¹⁰

Yet, other targets of their fails to explicitly mention unemployment, but it does so in a slightly different language:

“High hourly wages mean nothing to a worker if he has no job”¹¹.

“[The minimum wage] hurts exactly those workers it intends to help — the poor, the unskilled, and the young. Everyone wants to see income growth boost the economic well-being of the working poor, but throwing many of them out of work is not the solution.”¹²

“I think the minimum wage systematically hurts the most vulnerable...I think it’s a bad policy.”¹³

⁷ Virtually all of them economists.

⁸ Pardon the pun, I could not resist.

⁹ Gov. Ronald Reagan, candidate for President of the United States in 1980.

¹⁰ George R. Le Sauvage, National Restaurant Association in 1949.

¹¹ C.C. Shephard, spokesman for Southern States Industrial Council, 1938.

¹² Rep. Jim Saxton (R-NJ), 1996.

“No job,” “out of work” and “hurts the most vulnerable” will do quite nicely in illustrating the actual concerns of the critics of this law.

Now, this is more than just passing curious. [Sonn and Lathrop \(2016\)](#) are acquainted with this concept of unemployment. They quote Reagan and LeSavage to that effect. They are, presumably, doing that in order to counteract the people who think the sky is indeed “falling.” But, rather than showing why Reagan and LeSavage are in error in their concerns, they ignore these concerns, unemployment, and, instead, it entirely changes the subject, and focus on employment. It is as if someone were troubled with divorce, and the critic started discussing marriage; to be sure, the two are not entirely unrelated, but, surely, there is a distinction to be drawn between them.

3 A CASE IN POINT

Consider the following case. The minimum-wage level rises from \$10 to \$15 per hour. All of those whose productivity lies between these two levels are fired.¹⁴ Who takes their places? Higher-skilled workers, who can produce at the rate greater than \$15 per hour. It posits that there are more of these, who enter the industry, than that have been summarily fired. How can this be? Perhaps because there is now, an increased demand for the products of this trade, for example, restaurants.¹⁵ [Sonn and Lathrop \(2016\)](#), presumably, welcome this state of affairs, since there is now more employment. Opponents of this law do not give two figs about that result. They are concerned solely and only with the fact that thousands of unskilled workers have now been added to the unemployment rolls.

The very title of their essay gives away the game: “Raise Wages, Kill Jobs? Seven Decades of Historical Data Find No Correlation Between Minimum Wage Increases and Employment Levels.” Just because there is “no correlation between minimum wage increases and employment levels” does not mean there is no “killing” of jobs. In fact, the two are not logically inconsistent. Some jobs are “killed”; those occupied by the unskilled. Other employment slots are increased; the one taken up by the skilled.

¹³ Sen. Ted Cruz, 2016.

¹⁴ Those with productivity levels below \$10 are already jobless; hiring them is a losing proposition for the company.

¹⁵ An econometric analysis might have been able to shed some light on whether this was indeed occurring in any of the industries studied by our authors. However, they explicitly eschew that method for precluding such an eventuality: “Rather than an academic study that seeks to measure causal effects using techniques such as regression analysis, this report assesses opponents’ claims about raising the minimum wage on their own terms by examining simple indicators and job trends.” ([SOON and LATHROP, 2016, p.1](#)). However, for studies that find fault with econometrics, see the following: [Bagus \(2011\)](#); [Herbener 1996](#); [Murphy et al. \(2010\)](#); [Rizzo \(1979\)](#); [Shostak \(2002\)](#).

[Sonn and Lathrop \(2016\)](#) take an unduly macroeconomic look at the statistics under discussion. All jobs are on the table for them; the ones filled by the skilled as well as the unskilled. Had they undertaken a microeconomic analysis of these facts, they would have distinguished between these two very different categories of workers. Then, presumably, they would not be at all as welcoming of this wicked legislation.

Here are their “key findings”:

“The federal minimum wage has been raised a total of 22 times since its enactment in 1938. The simplest way to assess the claim that raising the minimum wage costs jobs is to treat each minimum wage increase as a distinct event, and look and see what happened to employment or other indicators one year later” ([SONN and LATHROP, 2016, p.5](#)).

“While opponents often broadly charge that raising the minimum wage ‘will cause job losses,’ such increases disproportionately affect a select few employment sectors. The bulk of workers receiving raises as the result of minimum wage increases are concentrated in a group of service industries — the two largest being restaurants and retail. For that reason, we examine employment trends, both overall and with a special focus on these indicator industries in which any adverse impact resulting from a higher minimum wage would most likely be evident” ([SONN and LATHROP, 2016, p.5](#)).

“Our findings are quite clear: in the nearly two dozen instances when the federal minimum wage has been increased, employment the following year has increased in the substantial majority of instances” ([SONN and LATHROP, 2016, p.5](#)).

Note, at least they are consistent. There is no mention of unemployment whatsoever. We only learn the effects of employment. They exult at the fact that in the majority of the cases they examine, the “charge that raising the minimum wage ‘will cause job losses,’” ([SONN and LATHROP, 2016, p.5](#)) cannot be sustained. Given their macroeconomic figures, this is true. However, this macroeconomic veneer hides a microeconomic reality of job disappearance of unskilled workers, coupled, at least in these cases,¹⁶ by more than offsetting employment gains on the part of the more skilled ones.

They conclude with the claim that “These employment trends after federal wage increases are not surprising, as they are in line with the findings of the substantial majority of modern minimum wage research.”

And what, pray tell, is this research? It is about “Such meta-analysis of the minimum-wage field shows that the overwhelming majority of rigorous studies find little to no impact on

¹⁶ They offer no justification for their decision to study employment one year after a change in the minimum wage level. Perhaps it should be shorter? Or longer? It all depends upon the elasticity of the demand curve for labor, which, as can be expected, varies over time and across industries and geographical areas.

employment when the minimum wage goes up.” Here, there are unduly microeconomic in orientation, when a macroeconomic approach would be valid. “When the minimum wage goes up” it usually increases by, but a small fraction of its total. For example, it would be an unusual large boost were it to rise from \$10 to \$15 per hour. A more usual surge might be from \$10 to \$11 per hour. But, then, we would only be studying the effects of that extra microeconomic growth of \$1 per hour. What about the other \$10? Is it to be confined to the memory hole? It should not be; it is the best explanation of the widely diverging unemployment rates based on skill sets.¹⁷

Missing from their analysis is any appreciation of basic supply and demand analysis. They give the back of their hands to this building block of economics as follows ([NELP, 2015, p.6](#)):

In January 2014, House of Representatives Speaker John Boehner made the following claim in explaining his opposition to raising the minimum wage: “When you raise the cost of something, you get less of it.” This idea seems intuitive to many who learned about supply and demand in an introductory economics class. However, in fact, both research and real life experiences show that, rather than automatically raising costs and forcing layoffs, higher wages can lead to significant savings for businesses, offsetting a large portion of the higher payroll costs. Among the leading factors explaining this seemingly counter-intuitive observation are two related concepts: employee turnover and productivity. Low wages are associated with high levels of employee turnover. Workers earning low wages tend to be less committed to their jobs than better paid workers and are less likely to stay at their jobs for long.

4 CONCLUSION

If this were true, if it were even remotely correct, it would undercut the entire case on behalf of minimum-wage laws. For, then, employers would have an incentive to raise wages without any legal compulsion whatsoever. There would be profits in them than hills from doing so. It would also set no upward bound on minimum-wage levels. Why only \$15 per hour? That is very niggardly. Why not \$150 per hour, \$1,500 per hour, \$15,000 per hour, \$150,000 per hour, \$1,500,000 per hour, or even \$150,000,000,000 per hour? Then, with higher productivity, less turnover, we would all be rich!

Let us return to what we “learned about supply and demand an introductory economics class.” Some scholars, who ought to know better, have forgotten all about this building block of the dismal science.

¹⁷ See again: [Sonn and Lathrop, 2016 \(2016, p. 6\)](#).

I cannot help, but I can end it in an ethical note. This malevolent law will put me in jail if I make the following offer to the authors of this paper: "Come work for me. I'll pay you \$3 per hour". Let us suppose they accept my gracious, generous proposal. Any piece of legislation that will incarcerate consenting adults engaging in freely chosen capitalist acts ([NOZICK, 1974, p. 163](#)) is an enactment that should be judged not only on its effects, but, also, intrinsically; it is a violation of (economic) freedom. It is an ethical abomination.

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