

## Letter from America: The Minimum Wage

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On August 20th, President Clinton signed into law a two-stage increase in the minimum wage, the first such increase passed since 1989. In Congress, the measure attracted bipartisan support, as had previous minimum wage hikes. In the Senate, the bill was so popular that Republican Majority Leader Trent Lott held the measure back as a reward for his colleagues if they completed other measures before the summer recess. But the enthusiasm of the voters, 80 percent of whom favored an increase, and of a majority of Republican law-makers (although not all: House Majority Leader Dick Armey of Texas had sworn to “fight it with every fiber of my being”) is not echoed by the majority of the American economics profession. Although many support an increase in the minimum, 90 percent believe that increases in the minimum wage will increase unemployment. But there are dissenters, including most notably my Princeton colleagues David Card and Alan Krueger (CK), whose empirical work—cited by Labor Secretary Robert Reich (for whom Krueger was chief economic advisor), by Senator Edward Kennedy, and (without naming it) by President Clinton—became the intellectual battleground. The substance of CK’s work is well summarized in their 1995 *Myth and Measurement*. They examine a number of episodes when the minimum wage changed and, through careful analysis of both primary and secondary data, build up a consistent picture that modest increases in the minimum have little or no effect on the employment of low wage workers. The results have been intensively debated on both sides of the Atlantic. But the nature and rhetoric of the debate over the past year provide fascinating insights into the American economics profession, into the way in which empirical evidence is received when it challenges conventional beliefs, and into the relationship between research, research methodology, and policy.

Economics has recently been revolutionized by the widespread availability of amounts of data that were previously unimaginable. Research is more empirical and needs less theory. At its best—and Card and Krueger are among the very best practitioners—the results are convincing and straightforward, so much so that their import is clear to policy makers and to the media. Many of us, who are delighted by these developments, had assumed that our views were shared by the profession and have been disquieted by the level of public and private vituperation that has greeted CK’s evidence. The reception accorded to Princeton faculty by their colleagues in other institutions is what might be expected by the friends and defenders of child-molesters, and the public outcry has been no less extreme. The prize for nastiness goes to Paul Craig Roberts, a leading supply-sider who used his regular column in *Business Week* to lambast the American Economic Association for awarding its John Bates Clark Medal—its most prestigious award—to Card, “an economist who does not believe in the law of demand, the cornerstone of economic science.” Roberts impugned the review process at the AER, claiming that both it and the selection for the medal had been contaminated by political correctness, and asking whether the honoring of Card was “because the laughable findings have friends in high places like the Oval Office?” Roberts’ maligning of the AEA and of Card were repeated by Thomas Sowell in *Forbes*, who likened CK’s results to “cold fusion.” CK’s study of fast food restaurants was also attacked by the Employment Policies Institute, who supplied to economists David Neumark and William Wascher payroll data that showed that the increased minimum reduced employment. Judging from media reports and conversations with other economists, the EPI’s attack—reiterated by *Business Week*, *Forbes*, and *The Wall Street Journal*—has been extraordinarily successful in discrediting the quality of CK’s data. Rarely mentioned, however, is that the EPI is funded by business groups, that its director is a lobbyist against the minimum wage, that the data, which are not available to other researchers, are not comparable to CK’s, come from different establishments, and that new data collected by Neumark and Wascher themselves do not contradict CK’s findings. Among the leaders of the attack is Finis Welch, a distinguished empirical labor economist at Texas A. & M. Welch is source of some telling quotes, including “The Clinton administration used sloppy statistical studies to support its argument and the so-called evidence they’re citing has been killed big-time,” (*Nation’s Restaurant News*) and “Alan (Krueger) ought to consider the old saw: If you drop an apple and it rises, question your experiment before concluding that the laws of gravity have been repealed.” (*Time*). In a similar vein, June O’Neill, currently Director of the Congressional Budget Office, the agency charged with credibly assessing the effects of government policies, reminded the audience at an American Enterprise Institute meeting that theory is also evidence. Welch’s review of the CK book (in the *Industrial and Labor Relations Review*) is largely an attempt to discredit their data, using arguments most

of which would apply to government (and perhaps all?) data, and it ends with the recommendation that economists should not attempt to collect data.

Perhaps what is at stake is less the political correctness of the AEA than the theoretical incorrectness of the evidence. That evidence may have to be discarded in favor of "science" could hardly be better argued than in Nobel Laureate James Buchanan's words in The Wall Street Journal: "no self-respecting economist would claim that increases in the minimum wage increase employment. Such a claim, if seriously advanced, becomes equivalent to a denial that there is even minimum scientific content in economics, and that, in consequence, economists can do nothing but write as advocates for ideological interests. Fortunately, only a handful of economists are willing to throw over the teaching of two centuries; we have not yet become a bevy of camp-following whores."

*Angus Deaton's Letter from America appears every six months in the Royal Economic Society's Newsletter. For more information, visit <http://www.res.org.uk/society/newsletters.asp>.*

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