

The Minimum Wage Controversy

Minimum wage is intended to allow unskilled workers to earn enough so their families can escape poverty.

Criticism:

1. The minimum wage causes unemployment of unskilled workers.
2. Main impact of the minimum wage is on employment of teenagers, many of which are from well-off families.

Defense of Minimum Wage:

1. After a minimum wage increase, firms will use low skilled workers more efficiently, increasing labor productivity, the demand for labor, and preventing unemployment.

Empirical Evidence:

1. Evidence in the 1980s found that minimum wage increases reduced employment of 16-19 old workers. A 10% increase in the minimum wage would reduce teenage employment by 1 to 3%.
2. Minimum wage increases in 1991, 1996, and 1997 resulted in almost zero impact on teenage employment.