Proposed Cook County Minimum Wage

Joseph Persky

Professor, Economics

University of Illinois at Chicago

A standard presentation in Econ 101 shows supply and demand curves for labor with a wage floor above the equilibrium wage. The result is excess labor supply and unemployment.

But, the bulk of the empirical evidence contradicts this over simplistic demonstration. Starting with Richard Lester (1947), through Card and Krueger (1995) and up to Dube, (William) Lester and Reich (2010) the best empirical studies find no substantial fall in low-skill jobs or hours as the result of increases in the minimum wage.

A recent overview by Belman and Wolfson (2014) for the Upjohn Institute of Employment Research concluded "If negative effects on employment are present, they are too small to be statistically detectable. Such effects would be too modest to have meaningful consequences in the dynamically changing labor markets of the United States (176)."

The persistence of this presentation in the text books reflects ideology, not science.

How can higher minimum wages not cut employment? Serious economic theory suggests at least three possible explanations:

1. Bargaining power at the micro level, i.e. the wage is set between the workers' reserve price and the value of the marginal product. This idea dates back to Richard T. Ely, a principal founder of the American Economics Association.

2. Higher minimum wages raising the level of worker productivity and reducing turnover costs. This idea dates back to Adam Smith himself.

3. Multiplier effects at the macro level as better paid workers spend more in the local economy.

And higher minimum wages reduce inequality, strengthen wages of women and have positive effects on the near-poor. At the same time measured effects on prices and profits are marginal or zero.

Our empirical studies done here in Illinois support all these conclusions. Persky and Baiman (2010) looked at the 2003-2005 increase in the Illinois minimum wage from $5.15 to $6.50 an hour. Focused on fast food outlets on the Illinois-Indiana border. We found a statistically insignificant, virtually nil impact on employment. One version of the test comparing upstate and downstate outlets actually found a significant small positive effect.

In conclusion, a range of both old and new theoretical efforts raise fundamental questions about the standard Econ 101 treatment of minimum wages. All of these theories suggest that an enforced increase in minimum wages will not result in a reduction in low skill employment. Empirical evidence gathered throughout the country as well as here in Illinois supports the proposition that raising minimum wages increases incomes of low wage workers and their households without reducing employment.

Cook County owes its low wage workers a serious increase in their minimum wages.