



Does a higher minimum wage cost jobs?

A wage floor in the labor market: when it bites, when it adds jobs, and what New Jersey 1992 showed.

1

Problem · tool

price floor

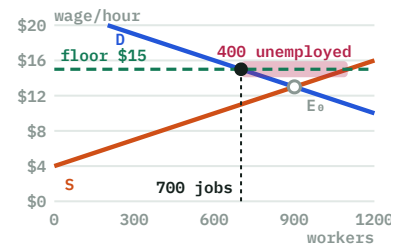
- **Problem** → some jobs pay very little · some employers hold wages down
- **Tool** → **minimum wage** = lowest hourly pay the law allows = **price floor on labor** · employer pays, not the state · US federal **\$7.25** since 2009
- Town model (workers in hundreds): demand = value of a worker $w = 22 - L$ · supply $w = 4 + L \Rightarrow$ market **\$13**, **900** workers

2

Many employers

binding floor

- Floor **above** market wage = **binding** $\Rightarrow$ firms want **FEWER** workers · more people want a job **MORE**
- \$15 $\rightarrow$ firms want **700** · **1,100** want a job $\Rightarrow$ **400 unemployed** (200 jobs lost + 200 new seekers)
- \$14 $\rightarrow$ **800** jobs · **1,000** seekers $\Rightarrow$ **200 unemployed** ·
unemployed = want a job - jobs
- Floor **below** market wage (e.g. \$10) = **non-binding** $\Rightarrow$ nothing changes · compare the floor with the **going wage**



3

Winners · losers

wage bill

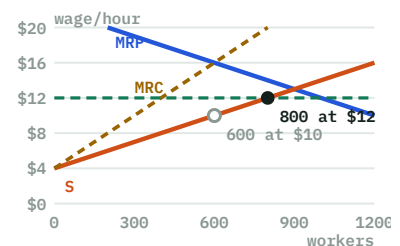
- wage bill = workers × wage · \$13: 900 × 13 = **\$11,700** an hour · \$15: 700 × 15 = **\$10,500** $\Rightarrow$ **-\$1,200**
- 700 keep a job: **+\$2** each = **+\$1,400** · 200 lose: **-\$13** each = **-\$2,600** (jobless earn 0)
- Worth it? $\Rightarrow$ **normative** (value), not data

4

One employer

monopsony

- **Monopsony** = one buyer of labor · hiring one more $\Rightarrow$ raise pay for **all** $\Rightarrow$ **MRC** (extra cost of a worker) $= 4 + 2L >$ wage
- Hires where **MRC = MRP**: **600** at **\$10** (competition: 900 at \$13) $\Rightarrow$ fewer jobs, lower pay
- Floor **\$10** $\rightarrow$ **\$13** $\Rightarrow$ jobs **up**: \$12 $\rightarrow$ **800** · \$13 $\rightarrow$ **900** · no unemployed
- Above \$13 $\Rightarrow$ jobs **down** again: \$16 $\rightarrow$ **600** · nobody sees the \$13 turning point $\Rightarrow$ bigger rise = bigger risk



5

Evidence

New Jersey 1992

- **Natural experiment** = real event hits one group, not a similar one · 1 Apr 1992 NJ **\$4.25** $\rightarrow$ **\$5.05** (+19%) · PA unchanged · 410 fast-food restaurants (Card & Krueger)
- Jobs per restaurant: NJ 20.4 $\rightarrow$ 21.0 (**+0.6**) · PA 23.3 $\rightarrow$ 21.2 (**-2.1**)
- **Difference in differences** = change treated – change comparison $\Rightarrow 0.6 - (-2.1) = +2.7 \Rightarrow$ no sign of job loss
- Practice: X -1, Y -4 $\Rightarrow -1 - (-4) = +3$ · other studies: small drop, debated · 138 state rises: low-wage jobs $\approx$ same · CBO 2019, \$15: **-1.3M** jobs (0 to -3.7M), **17M** paid more

6

Trade-off

policy card

- **FOR** low-paid earn more · where employers hold wages down jobs need not fall · **AGAINST** too high $\Rightarrow$ prices least experienced out · fewer hours, higher prices
- Positive: NJ jobs did not fall · Normative: “should be enough to live on”
- Policy card: problem **low pay** $\rightarrow$ tool **wage floor** $\rightarrow$ model **many firms: -jobs** · **one firm: +jobs** $\rightarrow$ evidence **NJ 1992** $\rightarrow$ trade-off **pay vs jobs if too high**