

scandals or the recent collapse of some major financial firms.

In one judgment however, Macey does not make a convincing case: he concludes that insider trading and short selling strengthen corporate governance, but that whistle-blowing does not. From my perspective, this seems inconsistent with the difficulty of determining who is doing the insider trading and short selling, and why. Macey is more convincing in concluding, "Whistle-blowing and insider

trading are complements, not substitutes."

The most disturbing conclusion that I draw from Macey's book is that most of the publicly championed measures that supposedly improve corporate governance actually work — whether by accident or design — to strengthen the incumbent management and corporate board at the expense of the shareholders. For me and many readers of this book, the remaining question is whether to read it and weep or to read it and try to do something about it. **B**

The Best Anti-Poverty Program We Have?

Reviewed by *Walter E. Williams*

MINIMUM WAGES

By David Neumark and William L. Wascher
377 pages; MIT Press, 2008

In their new book *Minimum Wages*, David Neumark (University of California, Irvine) and William Wascher (Federal Reserve) offer an extensive review and analysis of the academic literature on minimum wages, including their own research. Starting with a history, they set out to answer several important questions that drive the controversy about minimum wages, such as what is the employment effect of minimum wages and what impact do minimum wages have on the distribution of wages and income, human capital formation, profits, and prices of final goods.

HISTORY In most developed nations, minimum wage laws in some form have existed for more than a century, starting with New Zealand in 1894 and Australia in 1896. In the United States, Massachusetts enacted the first minimum wage law in 1912. By 1923, 15 other states, the District of Columbia, and Puerto Rico had minimum wage laws on their books. By 1930, seven of the 17 minimum wage laws were declared unconstitutional, five others were repealed or not enforced, and

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the remainder were rendered ineffective by adjustments in contemplation of legal challenges.

It was not until 1936, when President Franklin Roosevelt threatened to pack the U.S. Supreme Court that had previously ruled against much of his New Deal legislation, that the Court upheld the State of Washington's minimum wage law. Justice Owen Roberts, who had previously sided with justices who held that minimum wage laws were unconstitutional, changed his vote, an episode in Court history known as the "switch in time that saved nine."

The 1936 ruling paved the way for Congress to enact the Fair Labor Standards Act of 1938 (FLSA) establishing an initial federal minimum wage of 25 cents per hour, with an increase to 30 cents the next year, and 40 cents by 1945. The federal minimum wage has increased many times since then, and is slated to become \$7.25 an hour on July 24, 2009. Many states have enacted state minimum wages that are higher than the federal minimum.

Initially, minimum wage coverage was not as widespread as it is today. During the early 1940s, only 20 percent of the workforce — about 300,000 workers — were covered by the FLSA. Today, about 90 percent of the workforce is covered.

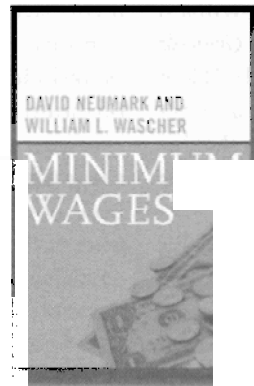
ECONOMICS AND POLITICS There should not be much academic debate about the effects of minimum wage laws. Early economists such as John Bates Clark argued that the effect of minimum wages was to produce unemployment for some workers. But there were progressives such as Sidney Webb and John Commons who thought that workers were paid according to their subsistence needs and that higher minimum wages would encourage an increase in work effort. Most economists then and now believe that the first fundamental law of demand applies to labor markets as well as other resource markets and markets for final goods — that is, when the price of something rises, buyers buy less of it. Thus, the only debatable issue is about the magnitude of the effects of the minimum wage, not the direction of those effects.

However, in 1997 two Princeton University economists, David Card and Alan Krueger, published *Myth and Measurement: The New Economics of the Minimum Wage*, challenging the standard findings about the effects of minimum wages. They concluded that increases in the minimum wage led to increases in employment. The book was a godsend for advocates of high-

er minimum wages. Further research by other economists demonstrated that Card and Krueger's statistical techniques were seriously flawed. When their study was repeated using correct statistical techniques, the results were opposite to their findings, suggesting that higher minimum wages led to higher unemployment.

So what is the consensus of economists on the minimum wage? One way to measure consensus is to review what introductory and intermediate economics textbooks say on the subject. There one finds broad agreement that the minimum wage causes unemployment among low-skilled workers.

But politicians' view of the minimum wage is different. In 1998, following the increase of the minimum wage to \$5.15 the previous fall, President Bill Clinton said the increase will "raise the living standards of 12 million hardworking Americans." Sen. Edward Kennedy (D-Mass.) said "the



minimum wage was one of the first — and is still one of the best — anti-poverty programs we have.” While the minimum wage is often pushed as an anti-poverty tool, there is no compelling evidence that the minimum wage on balance helps poor families, though some poor families might be better off at the expense of others. The minimum wage as an anti-poverty tool does not quite pass the smell test because, were it so, poverty could be erased from the globe simply by having countries enact minimum wage laws.

After an extensive survey of the literature, in addition to their own research, Neumark and Wascher make several important conclusions. First, the preponderance of evidence shows that increases in the minimum wage have unemployment effects, particularly for low-skilled workers. They suggest that some studies might miss the unemployment effect because they do not give enough weight to what might be considered the second fundamental law of demand, that demand curves are more elastic in the long run. Applied to the minimum wage, this means that employers will have a greater response to an increase in labor price over the long run.

In terms of skills training and schooling, the authors conclude that most evidence suggests that the minimum wage has either no effects or negative effects. In terms of the minimum wage’s effects on the prices of goods and services produced by low-skilled labor, it is unambiguously positive but has no appreciable effect on inflation, primarily because the output of people who work at or near the minimum constitute a relatively small portion of the U.S. economy. Moreover, though the authors did not say it, inflation for the most part is a monetary phenomenon.

Appearing near the end of their book, Neumark and Wascher have a chapter titled “The Political Economy of Minimum Wages” that gets to the heart of what they see as the reason for considerable political support for minimum wages. They say that the public might have a more positive view of the minimum wage than is warranted by the evidence because the impact of the minimum wage on the national economy is relatively small. For that reason, any unemployment effects

are likely to go unnoticed by the public. Also, the beneficiaries of increases in the minimum wage are visible — at least, those who keep their jobs are visible. They are likely to be more numerous than the losers — those who lose their jobs or who do not become employed in the first place.

I think there is another reason, not discussed by the authors, for why well-intended people, with no self-interested hidden agenda, give support to higher minimum wages. It is their vision, though implicit, of

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how the world works. If it is one’s vision that employers require a certain number of workers to perform a given task, then he will advocate increases in the minimum wage because it simply means a higher wage for all workers and lower profits for the employer. Another person, with the vision that employers can substitute capital for labor, employ productive techniques that use less labor, or relocate to another jurisdiction or country, can share the identical concern for the low-skilled, low-wage worker but advocate against increases in the minimum wage because he sees it as making some workers less well off.

HIDDEN AGENDAS The authors do discuss the hidden agenda of some minimum wage advocates. Unions have long supported the minimum wage because it shifts demand toward higher-skilled unionized workers. That is, for many activities, high-skilled labor can be a substitute for low-skilled labor. If one is able to use government to price low-skilled labor out of the market, higher-skilled labor benefits. Businesses can also have a hidden agenda that would compel them to support higher minimum wages. The northern U.S. textile industry supported minimum wages in their attempt to reduce competition from low-wage southern states. American manufacturers sought minimum wages for Puerto Rico as protection from competitors who benefitted from low wages there.

In this chapter, I would criticize the

authors for completely ignoring another important reason why some people support minimum wage laws: the laws lower the cost of preference indulgence. This can be seen in the following two statements from the 1975 book *The Black Worker of South Africa*:

■ “There is no job reservation left in the building industry, and in the circumstances I support the rate for the job [minimum wages] as the second best way of protecting our white artisans.”

■ “A year later he stated that he would be prepared to allow black artisans into the industry provided that minimum wages were

raised from Rand 1,40 to at least Rand 2,00 per hour and if the rate-for-the-job was strictly enforced.”

The quotation in the first bullet is from Gert Beetge, the secretary of South Africa’s apartheid-era, avowedly racist Building Workers Union. The second bullet shows the “enlightened” policy that Beetge later embraced. As quoted in the 1961 book *The Industrial Colour Bar in South Africa*, members of South Africa’s Wage Board stated, “While definite exclusion of the Natives from the more remunerative fields of employment by law has not been urged upon us, the same result would follow a certain use of the powers of the Wage Board under the Wage Act of 1925, or of other wage-fixing legislation. The method would be to fix a minimum rate for an occupation or craft so high that no Native would be likely to be employed.”

While no one would argue that racial discrimination is the primary motivation for today’s level of support for minimum wages, the unemployment patterns associated with minimum wages do have a racial component. That is, black workers, especially younger workers, are disproportionately represented among the low-skilled, less preferred workers. Moreover, the effects of a policy or law are independent of its stated intentions.

All in all, Neumark and Wascher have done a yeoman’s job in writing the most comprehensive and thorough review, analysis, and discussion of the minimum wage that one is likely to come across. **R**