

Minimum Wage Laws Still Cause Unemployment

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Abstract

I analyze the empirical literature and theoretical arguments pertaining to minimum wage laws to show that the laws still reduce employment. My unique contribution consists in showing where the arguments that claim that such laws do not reduce employment or reduce it only minimally go wrong. I show that the empirical evidence overwhelmingly supports the idea that the minimum wage reduces employment, and I integrate the empirical evidence with the theoretical evidence to demonstrate definitively that minimum wage laws reduce employment.

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I. Introduction

Many articles have been written on minimum wage laws, especially since David Card and Alan Krueger's work on the subject in the 1990s (see, for example, Card and Krueger 1995). Before Card and Krueger's research, it was generally accepted that minimum wage laws reduce employment (or cause unemployment). This viewpoint was embraced by economists and even by the *New York Times* (1987) in an article that argued that the minimum wage should be \$0.00 (see the landmark survey by Brown, Gilroy, and Kohen 1982, p. 524 regarding the evidence on the effects of the minimum wage until the early 1980s). Many economists now believe and provide evidence to show that minimum wage laws no longer reduce employment or reduce it only minimally (see, for example, Clemens 2021, p. 68; Doucouliagos and Stanley 2009, p. 415). However, when one looks at the overall evidence, both theoretical and empirical, one cannot help but conclude that minimum wage laws still reduce employment.¹ The theoretical arguments pertaining

¹ I generally refer to minimum wage laws reducing employment, including reducing the hours worked per worker or reducing the number of workers employed (or

to minimum wage laws, based on the law of demand, clearly show that minimum wage laws reduce employment, despite the claims by some economists that there are mitigating factors that lead minimum wage laws to either not reduce employment or reduce it only minimally. I show that while some of the mitigating factors may reduce the amount of unemployment caused by minimum wage laws, they do not deny that minimum wage laws reduce employment. Some of the arguments economists make regarding the mitigating factors are plagued with problems of logical consistency, which undermines the case that minimum wage laws do not reduce employment. This is true, for instance, of the efficiency wage argument.

The empirical case that minimum wage laws reduce employment is less definitive. However, the overwhelming evidence shows that minimum wage laws do lead to less employment. This can be seen in both statistical analyses and case studies on raising the minimum wage in various cities (see, for example, Neumark and Shirley 2022; Jardim et al. 2018). While some studies, including both statistical analyses and case studies, undercut the argument that minimum wage laws reduce employment (see, for example, Dube, Naidu, and Reich 2007; Doucouliagos and Stanley 2009), a large majority support it (Neumark and Shirley 2022). So, overall, the empirical evidence strongly supports the claim that minimum wage laws reduce employment. Hence, by the end of this paper, one will see that we can conclude that minimum wage laws still reduce employment and, as a result, they should be rejected because they are economically harmful.

II. The Empirical Case Against Minimum Wage Laws

Empirical work on the minimum wage has shown little consensus since the mid-1990s. The estimates of the reduced employment caused by minimum wage laws have decreased over time. Prior to 1994, estimates showed that the elasticity of employment with respect to the minimum wage was perhaps between -0.1 and -0.3 , meaning that for every 10 percent increase in the minimum wage, employment decreased by 1 to 3 percent. These values are for teenage employment. Reductions in employment in other categories are lower, such as for young adults, but generally a negative relationship is seen

both), but sometimes I refer to such laws as increasing unemployment. These are essentially the same effect.

(for the seminal study, see Brown, Gilroy, and Kohen 1982, pp. 505, 512, 524). Since the study by Card and Krueger in 1994, elasticity estimates for the minimum wage have been lower, with often no change or sometimes even a positive change in employment with an increase in the minimum wage (Card and Krueger 1994, pp. 772, 776). Card and Krueger's work led to a significant increase in the amount of empirical research on the minimum wage. A significant portion of the empirical work since their work shows similar results. That is, it shows reduced effects—and sometimes no effect or positive effects—of a change in the minimum wage on employment.

Nonetheless, the majority of empirical evidence clearly indicates that the minimum wage reduces employment, as one would expect from economic theory (discussed below). Neumark and Shirley (2022) demonstrate that there are far more empirical studies showing that the minimum wage reduces employment than empirical studies showing that it does not. Neumark and Shirley demonstrate that 79.2 percent of the estimates show a negative relationship between the minimum wage and employment and only 20.8 percent of the estimates show a positive relationship. In addition, 53.8 percent are negative and significant at the 10 percent level or less, while only 5.4 percent of the estimates are positive and significant at the 10 percent level or less (pp. 393, 396).

The empirical evidence that the minimum wage reduces employment includes case studies in specific cities, states, and countries. For example, a number of restaurants in Seattle closed their doors in response to the minimum wage increase at the beginning of 2025 (Zilber 2025). These closures, of course, will have a negative impact on employment.

There is also the case of the increase in the minimum wage in California, starting on April 1, 2024, from \$16 to \$20 per hour for workers at many fast-food restaurants. According to an Employment Policies Institute (2024) report, the increase resulted in a reduction in fast-food employment of 4,400 jobs. The fast-food industry in California also lost jobs relative to the full-service restaurant industry, which is not subject to the \$20 minimum wage. In addition, while California's fast-food industry lost jobs, two neighboring states, Oregon and Nevada (the only West Coast neighbors with fast-food-industry data), experienced a net increase in fast-food jobs over the same period (pp. 3–4).

Not all researchers claim that the \$20 fast-food minimum wage reduced employment. Reich and Sosinsky (2024, pp. 4–5, 11–12) of

the Institute for Research on Labor and Employment at the University of California at Berkeley claim that the increase had no adverse effects on employment in California's fast-food industry. However, the Employment Policies Institute (2024, p. 4) report claims that the problem with the Institute for Research on Labor and Employment's study is that it uses non-seasonally-adjusted employment data. The former study uses seasonally adjusted data from the Bureau of Labor Statistics.

Another study on the California fast-food minimum wage increase, by Clemens, Edwards, and Meer (2025, pp. 7–9, 11), shows that the increased minimum wage reduced employment by between 2.3 and 3.9 percent. It also states that Reich and Sosinsky (2024) rely on preliminary Current Employment Statistics from the Bureau of Labor Statistics, which are subject to sampling error and revisions. It also states that revised Current Employment Statistics data are more strongly suggestive of the negative effects on employment (Clemens, Edwards, and Meer, p. 2).

Finally, Hanke (2014) shows that countries with minimum wage laws in the European Union have higher unemployment than countries in the European Union without them. Hanke shows that the average unemployment rate in European Union countries without minimum wage laws—seven at the time of his study—was 7.9 percent, while the average unemployment rate in European Union countries with minimum wage laws—twenty-one at the time of his study—was 11.8 percent. Among workers younger than twenty-five years old, the unemployment rate in minimum wage European Union countries was 27.7 percent, while in non-minimum wage European Union countries it was only 19.5 percent.

While the empirical evidence strongly suggests the minimum wage reduces employment, the empirical evidence is not definitive. That is why the theory on the minimum wage must be brought to bear. The combined theoretical and empirical evidence definitively argues against imposing minimum wage laws.

One must also understand the problems with relying on empirical evidence alone to support one's position. For example, it is well known that statistical studies do not identify causal relationships between variables. They merely identify when there is a correlation between variables. But correlation is not causation. To understand causal relationships, one must understand the nature of the things being analyzed and show *how* one factor influences another.

In the case of small changes in the minimum wage, such changes could be more than offset by changes in other factors that cause changes in the level of employment. This is especially true of the natural experiments performed by Card and Krueger and others; however, it can be true of more sophisticated statistical studies as well. Even though the more sophisticated statistical studies attempt to hold other factors constant, it can be difficult to do so with the large number of factors that can affect employment, the large fluctuations in job creation and destruction that normally take place (especially for minimum wage workers, such as teenagers), and the random variations that exist with regard to such fluctuations.

There are other problems with attempting to use empirical evidence alone to support or deny the effect of changes in the minimum wage on employment. I discuss the above problems in more detail and additional problems with empirical studies on the minimum wage in Simpson (2014b, pp. 64–66).

Another issue pertaining to the empirical studies of the minimum wage is that virtually all of the empirical studies I have seen focus on the wrong changes to determine whether the minimum wage reduces employment. The proper case to focus on is *not* whether a small increase in the minimum wage causes less employment. The small changes involved make it more difficult to see what changes in employment will result from the increase. The proper case to focus on is whether *abolishing* minimum wage laws would lead to increases in employment. This would provide much larger changes in the wage and thus lead to potentially much larger changes in employment. Changing the legally required minimum wage from, perhaps, \$10 to \$11 per hour will have much less of an effect on employment than changing the legally required minimum wage from \$10 to \$0 per hour (that is, abolishing minimum wage laws). Of course, given that some city- and state-imposed minimum wages are \$15 per hour or more, abolishing these wages would provide even more definitive evidence. I am willing to bet we would see much more significant changes in employment from these changes than from the small increases that are typically the focus of empirical studies by economists. Donald Boudreaux (2014) makes essentially the same point.

In fact, Hanke's (2014) study of the European Union provides evidence that abolishing the minimum wage has a significantly larger effect on employment than merely changing it by a small amount. One can also compare the twenty US states (and Washington, DC) that have the highest minimum wages to the twenty states that have

the lowest minimum wages. The twenty states with the highest minimum wages have an average unemployment rate of 4.3 percent, while the twenty with the lowest minimum wages have an average unemployment rate of 3.7 percent. The twenty states with the lowest minimum wages have an average minimum wage of \$7.25 per hour (the federal minimum wage). The twenty states with the highest minimum wages have an average minimum wage of \$15.59 per hour. The large variation in the minimum wage produces large effects on the unemployment rate. These calculations are based on data on the minimum wage by state provided by the US Department of Labor (2026) and data on the unemployment rate by state provided by the US Bureau of Labor Statistics (2026).

Of course, if the minimum wage were abolished, that would not mean that wages for low-skilled workers would fall to zero. Evidence for this is provided by European Union countries without minimum wage laws, although these countries have pro-labor union legislation that forces minimum wages to higher levels than they would be at otherwise. The minimum wage that workers are paid would drop significantly without minimum wage laws. Just how far they would drop is difficult to determine. The best way to get a rough idea is by looking at the wages of undocumented workers. Undocumented workers are often paid under the table because they are illegal immigrants. Hence, they are often paid less than the minimum wage.

The wage for these workers would vary based on their location and type of work, but the lowest wage paid to undocumented workers that I have been able to find is \$5 per hour for Los Angeles garment workers (Garment Worker Center 2015, p. 3). In fact, the lowest wage paid might be lower than this because this is an average wage. In addition, given that the cost of living is higher in Los Angeles than many other locations, the lowest wage in areas in which the cost of living is lower might actually be lower. Another important factor to make note of is that this wage was reported in 2015. It is probably much higher today. Scaling the wage up from 2015 to 2025 using the consumer price index, I estimate that the equivalent wage today would be about \$6.75 per hour. Another factor to consider is that the wages of undocumented workers are probably lower than those for workers working legally in the US because illegal workers have fewer job options available to them due to their illegal status. Given the various factors that could push the estimate up or down of what the lowest wage would be without minimum wage laws, this wage is probably a reasonable estimate of

what the lowest wage would be. This implies that, at least for many states, you would see a significant drop in the lowest wages if minimum wage laws were abolished. The positive impact this would have on employment would be much greater than the negative impact a small increase in the minimum wage would have on employment.

My purpose in this article is not to focus in detail on the empirical debate on the minimum wage or to critique in detail the empirical methods used in that debate. That is not necessary to show definitively that the minimum wage reduces employment and is economically harmful. Nonetheless, despite the drawbacks to statistical studies, as I have shown, the empirical evidence shows that minimum wage laws reduce employment. Hence, this evidence supports the claim that such laws are economically harmful. The theoretical evidence provides even more significant support for the inverse relation between the minimum wage and employment.

III. The Theoretical Case Against Minimum Wage Laws

The theoretical economic case against minimum wage laws is well known. It is based on the law of demand. When the price of a good or service rises, the quantity demanded for that good or service falls. This is no less true when the services provided are the labor services of employees, especially at low wages like the minimum wage. Changes in the wage—namely, the price of labor—will cause inverse changes in the quantity of labor demanded.

Minimum wage laws exist under special circumstances with respect to the law of demand. They do not represent a situation in which the price of labor rises due to some change in the market conditions for labor. They are imposed by the government on the labor market through the initiation of physical force; that is, they are a form of minimum price controls. With minimum price controls, the price of the good or service is prevented from legally falling to the market-clearing or equilibrium price. Hence, the quantity demanded for the good or service is lower than it would have been if the price had been able to fall to the market-clearing price. At the same time, the quantity supplied of the good or service is greater than it would have been if the price had been able to fall to the market-clearing price, assuming an upward-sloping supply curve as one moves to the right on a supply and demand graph. The two together—a lower quantity demanded and a higher quantity supplied—create a surplus

of the good or service, where sellers attempt to sell more of the good or service than buyers are willing to buy.

Minimum price controls and surpluses have existed in agriculture in the US, where the federal government has imposed minimum prices at which farmers can sell their crops for certain agricultural commodities. These have been achieved in a slightly different manner than having the government simply set a minimum price. In some cases, when the price has fallen below what the government considers to be acceptable, it has purchased the commodities at the desired price. This has led farmers to produce far more of these commodities than people in the market are willing to buy, and the government has had to purchase the surplus.

With regard to minimum wage laws, the minimum legal wage must be set above the lowest market-clearing wage for the minimum wage law to be binding on the market. When this happens, a surplus of labor is created in the unskilled labor market. The surplus manifests itself in the form of unemployment (or reduced employment) because the buyers of labor (employers) purchase less labor than the suppliers of labor (workers) provide.

Of course, whether the amount of employment is actually reduced in the economy is dependent on other factors that have an effect on employment. If other factors change, such as whether an economy is moving into an inflationary expansion, it can mask the reduced employment created by a minimum wage law. This explains why the effects of minimum wage laws might not be seen empirically in the economy.

The effect of minimum wage laws might be especially hard to see if the change in the minimum wage is small. Such a change may only have a small effect on employment. Hence, it will be easier for other changing factors that affect employment to mask the effect of a small change in the minimum wage. In fact, the effect of small changes in the minimum wage may be hard to see even in times when other factors that affect employment are not changing significantly. The effects of such changes in the minimum wage might be too small to discern even without significant changes in other factors. It is easy for small changes in employment to be offset by the many other changing factors in the economy that have an effect on employment.

One factor that advocates of minimum wage laws say will counteract the effect of minimum wage laws on employment, and will possibly eliminate the effect of minimum wage laws on employment, is efficiency wages (Doucouliagos and Stanley 2009, p. 422; Leonard,

Stanley, and Doucouliagos 2014, p. 513). Efficiency wages are higher wages paid to workers by employers in order to get workers to be more productive or to gain greater loyalty from workers to reduce worker turnover at a business. The idea is that because the wage paid is higher than wages in competing jobs, workers will work harder and be more productive. Or since they are being paid more, they will not want to give up the job and it will thus reduce worker turnover. Keynesian economists argue that efficiency wages provide one explanation for why unemployment exists in a free market and why wages do not adjust downward (or do not adjust very quickly) to eliminate unemployment as an economy moves out of a recession. The claim is that the efficiency wage keeps the wage above the market-clearing wage. I have shown elsewhere (Simpson 2014b, pp. 54–55) that efficiency wages do not increase unemployment or slow the adjustment of wages when unemployment exists because, among other reasons, if efficiency wages lead to greater productivity, the higher productivity reduces costs and thus offsets the higher cost of the efficiency wage. In fact, businesses would not pay the higher wage if the added productivity did not at least offset the higher cost due to the efficiency wage. Hence, the efficiency wage *is* the market-clearing wage. Doucouliagos and Stanley (2009, p. 422) mention a similar phenomenon in connection with efficiency wages.

The same is true with regard to reducing worker turnover. Reduced turnover reduces the cost of hiring workers by reducing the frequency at which employers will need to replace workers and hire new workers. Since there is a cost associated with hiring new workers, the efficiency wage is offset by these lower costs. Again, businesses would not pay the higher wage to reduce turnover if the higher wage was not at least offset by lower costs associated with searching for, hiring, and training new workers.

It is important to highlight that the use of efficiency wage theory to justify minimum wages by Keynesian and other economists contradicts other arguments they make in connection with unemployment. For example, Keynesian economists use the efficiency wage argument to claim that wages in a free market will generally be too high to achieve full employment (or that wages will not adjust downward rapidly enough in a free market to eliminate unemployment). Hence, efficiency wages, according to Keynesians, cause higher unemployment. However, when arguing for minimum wage laws, some economists claim that efficiency wages will help to reduce the unemployment that minimum wage laws cause (or

completely eliminate it). They claim that the higher minimum wage, based on efficiency wage theory, will increase worker productivity or reduce worker turnover and thus create reductions in costs that offset the higher cost represented by the higher minimum wage (Doucouliagos and Stanley 2009, p. 422).

But they cannot have it both ways. Keynesian and any other economists who accept these arguments cannot claim that efficiency wages *increase unemployment* when they want to argue that a free market is incapable of achieving full employment or that wages do not adjust downward (or adjust quickly enough) to eliminate unemployment in a free market during an economy's recovery from a recession and then turn around and claim that efficiency wages help to *reduce unemployment* when they want to argue for minimum wage laws. The common thread in this contradiction is the government interference for which Keynesian and other economists often argue. They want government interference in the form of so-called stimulus packages during recessions. Hence, they argue, in these cases (at least in part), that efficiency wages create unemployment and that stimulus packages are needed to reduce unemployment. In addition, they want government interference in the form of minimum wage laws at all times, not just during the recovery from a recession. As a result, in these cases they argue that efficiency wages will help to reduce the unemployment caused by minimum wage laws.

Nevertheless, both forms of government interference are economically harmful because, as I am arguing here, minimum wage laws cause unemployment. Furthermore, as I and other economists have argued (for example, see Simpson 2014a, pp. 133–37, 167–68; Reisman 2009), government stimulus packages prolong recessions, undermine recovery from recessions, lead to further rounds of the boom-bust business cycle, create other distortions of price and profit signals in the economy, undermine capital accumulation, and thus ultimately reduce the rate of economic progress and standard of living.

The resolution to this contradiction that some economists, at least implicitly, embrace is to first understand that, for the reason I mentioned above, the efficiency wage is the market-clearing wage and thus does not cause unemployment. Furthermore, to the extent that employers are paying efficiency wages to increase the productivity of labor or reduce worker turnover, the cost-reducing effects of efficiency wages have already been exhausted. Hence, any increase in wages due to minimum wage laws will merely add to the costs of

employers without any gains in productivity or reductions in worker turnover. This means that minimum wage laws will reduce employment, as the standard theory predicts.

At this point, economists who subscribe to these contradictory arguments might claim that businesses might not be paying efficiency wages. This might especially be true for jobs to which the minimum wage applies because these are low-skill, low-paying jobs. If this is the case, a higher minimum wage might have the effect of the efficiency wage that some economists claim it has.

The question to ask here is: Assuming there is such a thing as an efficiency wage, why wouldn't businesses take advantage of this wage to increase worker productivity or lower worker turnover? Paying such a wage would be a way for businesses to gain a competitive advantage over their rivals. They could obtain more skilled and productive workers or retain workers longer and not raise their overall costs. Once businesses figure this out, all of them will have to pay such a wage just to remain competitive in the labor market. Otherwise, the wage they offer will be too low to attract workers (or, at least, good workers). Hence, businesses do not need to be forced by the government to pay a higher wage. They will do it on their own because it is in their self-interest. So now we are right back at the point at which we started: When the government forces businesses to pay a higher wage through minimum wage laws, it reduces employment. In fact, it appears that there is a strong connection between a higher wage paid and increased productivity (Krassoi-Peach and Stanley 2009). This confirms my argument that firms are already taking advantage of the gains to productivity of paying a higher wage.

The contradictory position mentioned above applies more generally to Keynesian arguments regarding changes in wages and changes in employment. That is, Keynesians generally argue that wages are "sticky" in the downward direction and thus cannot move (or move quickly enough) to achieve full employment during the recovery from a recession. Keynesians give many reasons for why wages are allegedly inflexible, including the above-mentioned efficiency wage argument. Businesses will allegedly not lower wages, based on efficiency wage theory, because it will reduce the efficiencies that such wages help to achieve. Hence, wages and unemployment will allegedly remain high.

Elsewhere I discuss other reasons why Keynesians claim that wages are allegedly inflexible in the downward direction (Simpson

2014b, pp. 48–50). The point to understand here is not that Keynesians claim that wages are inflexible in the downward direction. The point to understand here is that they claim that if only wages could fall (or fall more quickly), it would reduce unemployment (or reduce it more quickly). The implication is that a fall in wages could, in fact, reduce unemployment. Wages just will not fall.

And if falling wages will reduce unemployment, this implies that rising wages will increase unemployment. Yet advocates of minimum wage laws, including Keynesians, do not acknowledge that minimum wage laws will cause unemployment (or they believe it will cause only very little unemployment). Again, Keynesians—and any economists who embrace these arguments—cannot have it both ways. They cannot claim that a fall in wages will reduce unemployment (if only the fall in wages would occur) and then turn around and claim that a rise in wages will not cause unemployment. A fall in wages reducing unemployment implies that when wages move in the other direction, it will increase unemployment (Caplan 2017).

Another argument that is used in an attempt to claim that a higher minimum wage will not reduce employment is that the monopsony power of employers enables them to pay wages that are artificially low. A monopsonist allegedly has the power to keep wages low because it is the only purchaser of labor in its region (or, perhaps, the only purchaser of low-skilled labor that is affected by the minimum wage). Hence, it has a lot of market power that it can use to keep wages low. At the same time, individual workers have no market power under this scenario since there are many of them with few skills. In addition, it is claimed that because of the market power the monopsonist has, it can restrict the number of workers it hires. Hence, you will have fewer workers hired at a low wage.

Based on the above conditions, it is claimed that when a minimum wage is imposed, the monopsonist firm will be able to afford to pay a higher wage without reducing the number of workers it hires. That is, because the monopsonist is claimed to hire an artificially reduced number of workers at an artificially low wage, it can allegedly afford to pay the same number of workers (or even a larger number of workers) at a higher wage. So the minimum wage law is said to help overcome the monopsonist's ability to pay a lower wage in the market without reducing employment (Schmitt 2013, p. 13).

There are a number of problems with this argument. First, and most fundamentally, we must question the validity of the monopsony

theory that is used to categorize competition or a lack thereof in the market. Such a theory is based on “perfect competition” and says that competition (on the buyer’s side) is “imperfect.” But the theory of perfect competition says that, for instance, an employer should lose all of its workers if it reduces its wages by even one cent (Manning 2003, pp. 3, 13, 56–57). Because of this and other problems with perfect competition, such as the idea that “perfect information” (that is, omniscience) must exist in a market for competition to exist and that all products (or, in this case, workers) must be homogenous (that is, identical) for competition to exist, this theory does not provide a valid standard of comparison for what occurs in the marketplace. As F. A. Hayek ([1948] 1980, pp. 92–106) has shown and as I have greatly expanded upon (Simpson 2005, pp. 31–57), perfect competition is not a valid theory of competition, and the theory of monopoly (or monopsony) that is based on it is not valid either. In fact, perfect competition has nothing to do with competition, whether on the side of buyers or sellers. Hence, it or the theories of monopsony, oligopsony, and monopsonistic competition that are based on it cannot be legitimately used as a standard of comparison or to explain what is happening in the economy.

A valid theory of competition sees competition as a continuous process of engaging in production and voluntary trade in the marketplace, whether for sellers of goods or sellers of labor. Such a theory implies that monopoly (or monopsony) is created in the market only when the government initiates physical force to restrict competition in the market, whether in the labor market or other markets. For example, government interference restricts competition in the labor market by restricting the mobility of labor through zoning laws and building code regulations that make housing artificially expensive and thus make it harder to move where the higher-paying jobs are located. Occupational licensing laws also make it harder for workers to enter industries and compete for jobs in which pay is higher. Pro-labor union legislation also makes it harder for workers to enter industries where pay might be higher. Hence, the ability of large employers to pay artificially low wages (if it happens at all) may be the effect of restrictions on competition in the labor market created by the government. So any ability of minimum wage laws to increase wages without reducing employment in these cases, to the extent that it might exist, might be due to government interference that restricts competition in the labor market, not due to the minimum wage laws themselves.

There are further problems with the monopsony argument. One must remember that minimum wage workers are the lowest-skilled workers. That is why they receive such a low wage. Hence, it is much easier for these workers to find work elsewhere that is more acceptable to them, especially if the government does not restrict competition in the labor market as discussed above. These workers tend to have few or no skills that are specific to an industry because they have very few skills at all. Therefore, even if one employer *in a particular region* is large and dominates the hiring of low-skilled workers in that region (such as an employer in a company town), over time low-skilled workers could leave this region and move to other regions where wages are higher. Large employers of minimum wage workers might not face competition in their region, but they face competition for workers from large employers in other regions of the economy. So it is relatively easy for workers to leave their low-paying employer for a higher-paying, competing employer in another region given that they have few skills that are specific to any industry. Again, this is made even easier if the government does not restrict competition in the labor market. Likewise, new workers entering this industry also tend not to move to the region where the wages are lower. This prevents the low-paying monopsonist from attracting the workers it needs to run its business. This, over time (and probably fairly quickly), requires the large employer to raise its wages to obtain (and retain) the workers it needs.

Furthermore, even if a large employer dominates a local labor market for low-skilled workers (that is, minimum wage workers), it is doubtful that it would have 100 percent of the market. Smaller employers in that market would, more than likely, compete against the larger employer and would have an easy time hiring low-skilled workers away from the large employer, given that it refuses to pay wages at the market-clearing level and that low-skilled workers, again, probably do not have any skills that are particular to it since they have few skills at all. Hence, very quickly the large employer would have to raise the minimum wage that it pays. Clemens (2019, p. 8) makes essentially the same point when he states that “one need only enter a mall, with its food court and retail outlets, to appreciate the large number of employers to which most low-wage workers can potentially apply.”

The type of situation that is being described pertaining to the monopsonist is a large employer attempting to impose a maximum price control on the market for unskilled labor. Keeping wages

artificially low would provide a motivation for the employer to hire more workers because labor is artificially inexpensive to purchase and therefore would provide an incentive to hire more to expand its business and profits. But to hire more workers, it will have to raise the wage that it pays because, at the same time that labor is artificially inexpensive to purchase, fewer low-skilled workers will want to work at the artificially low wage. Hence, the artificially low wage will tend to rise toward the market-clearing wage.

This is the nature of maximum price controls. They lead to shortages, where the quantity supplied is less than the quantity demanded. In the labor market, this means the number of workers looking for work at the “maximum” wage would be less than the number of workers that businesses want to hire. Without legal restrictions that prevent the wage from rising, the shortage will be eliminated. The only thing that can prevent a shortage, and the artificially low wage that causes it, from being eliminated is government force that is used to legally prevent the wage from being bid up.

There are a few other theoretical arguments for why a higher minimum wage allegedly does not reduce employment that I want to address. One reason why minimum wages reduce employment is because workers can, in some cases, be replaced with machines (that is, capital is substituted for labor). For instance, minimum wage workers at fast-food restaurants can be replaced with kiosks at which customers can place their orders. One argument that attempts to counter this, that those who want higher minimum wages make, is that it is not always possible for companies to replace workers with some type of machinery. Hence, businesses may have to keep their workers to perform the work that needs to be completed to produce and sell the goods to customers, despite the higher minimum wage (Kwak 2017).

First, it may be true that not every worker will be replaced with labor-saving devices due to a higher minimum wage and not every company will replace workers with such machines. But some workers will be replaced and some employers will replace workers with machines, and the higher the increase in the minimum wage, the greater the number of workers that will be replaced and the larger the number of employers who will replace workers with machines.

Moreover, even if no worker in the economy could be replaced by a machine, a higher minimum wage would still reduce employment, and, again, the higher the wage increase the larger the

reduction in employment will be. This follows from the fact that costs of production will be higher with the higher minimum wage and businesses will have to reduce employment to reduce costs. No new machinery may be employed, but fewer workers will be employed (or the same workers will work fewer hours) because businesses will not be able to afford to hire the same number of workers at the higher wage. Employers do not have a bottomless pit of money to use to hire the same number of workers at higher wages. Therefore, fewer workers will be employed and fewer goods will be produced.

This discussion alludes to the fact that the effects of the minimum wage can be nonlinear as the wage rises and can be greater over the long term. Nonlinear effects of the minimum wage mean that the harmful effects of the minimum wage can initially increase at a slower rate than the wage but then eventually increase at a higher rate than the wage (Gorry and Jackson 2017). So, for example, employers might substitute capital for labor at low rates with small increases in the wage but might do so at disproportionately high rates with larger increases. Likewise, as more time goes by after a minimum wage increase, employers might make more significant changes (Bellante and Picone 1999, pp. 467–69, 475–76). Hence, in the short run an employer might not replace workers with machines in response to an increase in the minimum wage. But as their capital equipment needs to be replaced over time, they might replace it with machines that reduce the number of workers they need so that they can reduce their labor costs.

It has also been claimed that businesses can merely raise prices and this will reduce the effect of the minimum wage on employment. While it might be true that prices will be raised, this does not mean there will be no effect on employment. To understand the effects of a minimum wage on employment, we have to consider the effects on employment *other things being equal*. All this argument says is that, as I have mentioned previously, other factors can be changed to offset the effects that minimum wage laws have. The fact that advocates of minimum wage laws provide examples of actions that can be taken to offset the effects of a higher minimum wage confirms the effects that minimum wage laws have. In this case, it confirms that a higher minimum wage increases costs to businesses and thus reduces their ability to hire workers. Raising prices can offset the higher costs imposed by a higher minimum wage, and this will, to some extent, offset the reduced employment caused by the higher minimum wage.

I say “to some extent” because raising prices has other effects that prevent it from completely offsetting the effect of a higher minimum wage. The main effect is that it will reduce the quantity demanded of the good in question. This will lead to less product being sold and fewer workers being needed to produce the product. So the combined effect of a higher minimum wage and a higher price for the products that minimum wage workers produce will still be reduced employment.

It has also been claimed that raising the prices of the products that minimum wage workers produce can shift the effects of the higher minimum wage to wealthy customers that purchase these products (Kwak 2017). However, it is doubtful that the customers of the businesses that employ large numbers of minimum wage workers are always wealthy. For example, the fast-food industry employs a large number of minimum wage workers. It is doubtful that wealthier individuals tend to patronize fast-food restaurants more frequently (Zagorsky and Smith 2017, pp. 16–18). Moreover, one must consider that a significant number of minimum wage workers are not the primary income earner in their household. For example, many minimum wage workers are teenagers who live in households whose parents are the primary income earners. Hence, the income level of the households in which minimum wage workers live might be quite high.

I have one final theoretical point to make. Some might believe that the added wages paid to minimum wage workers from the increase in the minimum wage could come solely at the expense of the profits of businesses. If this were the case, then profits could be reduced to the extent that wage costs were increased and the same number of workers could be employed at the higher minimum wage. This does not and cannot happen.

First, the fact that business owners who are forced to pay a higher minimum wage often close their business or make other changes to offset the higher wage costs contradicts this claim. Hence, anecdotal accounts belie the notion that wage increases come solely at the expense of profits. The reason business owners take action to offset higher wage costs or close their businesses altogether is that they need to earn what they consider an adequate return on their capital invested to make it worth remaining in the business. This return must make it worth their time working in the business and make it worth the risk of continuing to invest their time and capital in the business.

One can begin to see the significant influence that even a small increase in the minimum wage can have on a business by considering a hypothetical \$1 increase in the minimum wage on a business that employs twenty full-time minimum wage workers. Perhaps this business is a fast-food restaurant. Employing twenty full-time minimum wage workers is probably not that unlikely for a fast-food restaurant.

Assuming that a full-time job consists of forty hours per week and the restaurant is open year round, that implies that the annual wage costs for this business will increase by \$41,600 ($= 40 \text{ hours} \times 20 \text{ workers} \times 52 \text{ weeks}$). I submit that this increase in costs is a significant increase relative to the profits of a business this size. The before-tax profits for such a business might only be \$100,000 to \$200,000. Hence, profits might be reduced by about 20 to 40 percent. A business owner will not merely sit back and let his or her profits be reduced by such an amount. The owner will take action to offset the change in profits, including reducing the number of employees hired or reducing their hours. If the business is not particularly profitable, the owner could close the business altogether, as does happen. Seeing the quantitative increase in costs a business faces even from a small increase in the minimum wage helps to understand how significant the cost increase will be and why such an increase cannot come merely at the expense of profits but will come, at least in part, at the expense of the number of workers employed (or the hours that they work).

IV. Conclusion

The conclusion that follows is that the minimum wage is economically harmful. It is economically harmful, in part, because it raises costs and thus decreases efficiency, the productive capability, the rate of economic progress, and the standard of living.

A lower minimum wage—and its complete abolition—makes it possible for more low-skilled workers to obtain jobs in an easier fashion and thus begin to gain the skills that the marketplace demands. This enables them to begin to lift themselves out of poverty by increasing the wage that they can earn by expanding the skills they possess. One study shows that the wages of 64 percent of minimum wage workers increased above the minimum wage in their first twelve months of employment (Clemens and Strain 2023, p. 603). Having no minimum wage does not mean that the wage the lowest-skilled workers will be paid will be zero. Their work will be worth something to their employers. It just means that they will be paid less, at least

initially, than what advocates of minimum wage laws would like them to be paid.

Minimum wage laws force many people to live in poverty because it makes it harder or impossible for them to obtain their first job (or keep their first or possibly subsequent jobs). By abolishing minimum wage laws, we can lower overall costs in the economy, raise the productive capability, the rate of economic progress, and the standard of living. Hence, abolishing minimum wage laws is economically beneficial.

My next paper on the minimum wage will show that minimum wage laws are immoral. It will do this based on the moral theory of rational egoism or rational self-interest. It will show that employers have a moral right to their own life and the right to live it to pursue their own selfish happiness. Hence, they should pay workers only what is in their self-interest to pay them based on voluntary trade. This and my next paper on the minimum wage will provide an important integration of economic and moral theory to show that minimum wage laws should be abolished based on both economic and ethical considerations.

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