

## 2-3 Why Economists Disagree

“If all economists were laid end to end, they would not reach a conclusion.” This quip from George Bernard Shaw is revealing. Economists as a group are often criticized for giving conflicting advice to policymakers. President Ronald Reagan once joked that if the game Trivial Pursuit were designed for economists, it would have 100 questions and 3,000 answers.

Why do economists so often appear to give conflicting advice to policymakers? There are two basic reasons:

- Economists may disagree about the validity of alternative positive theories of how the world works.
- Economists may have different values and therefore different normative views about what government policy should aim to accomplish.

Let’s discuss each of these reasons.

### 2-3a Differences in Scientific Judgments

Several centuries ago, astronomers debated whether the earth or the sun was at the center of the solar system. More recently, climatologists have debated whether the earth is experiencing **global warming** and, if so, why. Science is an ongoing search to understand the world around us. It is not surprising that as the search continues, scientists sometimes disagree about the direction in which truth lies.

Economists often disagree for the same reason. Economics is a young science, and there is still much to be learned. Economists sometimes disagree because they have different hunches about the validity of alternative theories or about the size of important parameters that measure how economic variables are related.

For example, economists disagree about whether the government should tax a household’s income or its consumption (spending). Advocates of a switch from the current income tax to a consumption tax believe that the change would encourage households to save more because income that is saved would not be taxed. Higher saving, in turn, would free resources for capital accumulation, leading to more rapid growth in productivity and living standards. Advocates of the current income tax system believe that household saving would not respond much to a change in the tax laws. These two groups of economists hold different normative views about the tax system because they have different positive views about saving’s responsiveness to tax incentives.

### 2-3b Differences in Values

Suppose that Peter and Paula both take the same amount of water from the town well. To pay for maintaining the well, the town taxes its residents. Peter has income of \$150,000 and is taxed \$15,000, or 10 percent of his income. Paula has income of \$30,000 and is taxed \$6,000, or 20 percent of her income.

Is this policy fair? If not, who pays too much and who pays too little? Does it matter whether Paula’s low income is due to a medical disability or to her decision to pursue an acting career? Does it matter whether Peter’s high income is due to a large inheritance or to his willingness to work long hours at a dreary job?

These are difficult questions about which people are likely to disagree. If the town hired two experts to study how it should tax its residents to pay for the well, we would not be surprised if they offered conflicting advice.

## IN THE NEWS

## Should the minimum wage be raised to \$15 an hour?

*An economist who studies the minimum wage says there are better ways to help the working poor.*

### Why Market Forces Will Overwhelm a Higher Minimum Wage

By David Neumark

The slogans are everywhere: Fight for 15; People Not Profits; One Job Should Be Enough. Worsening income inequality and the persistence of poverty have spurred a movement to raise the minimum wage, at both the national and state levels. Some West Coast cities have already voted to boost their minimum wage to \$15, or more than double the federal standard. And Los Angeles is now considering a similarly aggressive move.

The labor market problems that these higher minimum wages are intended to fix are very real. But would a higher wage floor address the underlying problems? A large body of research shows that the answer is almost certainly no, and that there are better solutions, although they are harder for policymakers to embrace.

There are several reasons why workers' wages are currently too low to provide what many view

as an acceptable standard of living. One big factor is that technological changes have increased the value of higher-skilled work and reduced the value of lower-skilled work. Globalization, meanwhile, has brought many lower-skilled American workers into greater competition with their counterparts in other countries.

Simply requiring employers to pay \$15 won't provide much ballast against these market forces. In fact, data indicate that minimum wages are ineffective at delivering benefits to poor or low-income families, and that many of the benefits flow to higher-income families. That's because minimum wages target low wages rather than low family incomes. And many minimum-wage workers are not poor or even in low-income families; nearly a quarter are teenagers who will eventually find better-paid jobs. Moreover, most poor families have no workers at all.

As a result, for every \$5 in higher wages that a higher minimum imposes on employers, only about \$1 goes to poor families, whereas roughly twice as much goes to families with incomes above the median.

Higher minimum wages also reduce employment for the least-skilled workers. Certainly not



every one of the hundreds of studies on the topic confirms this conclusion. **But there are also studies claiming that humans have not contributed to climate change, and that supply-side economics did not contribute to massive budget deficits.** The most comprehensive survey of minimum wage studies, which I conducted with William Wascher of the Federal Reserve System, found that two-thirds of studies point to negative employment effects, as do over 80% of the more credible studies.

Yet another reason to be wary of raising the minimum wage is that modest job loss overall may mask much steeper job loss among the least skilled. Economists use the phrase “labor-labor substitution” to describe employers responding to a higher minimum wage by replacing their lowest-skilled workers with higher-skilled workers, whom they are more willing to hire at the higher minimum.

Based on my research, I think it is likely that a \$15 minimum wage in Los Angeles will lead

hourly paid workers, about 4 percent reported wages at or below the prevailing federal minimum. Thus, the minimum wage directly affects about 2 percent of all workers.

- Minimum-wage workers are more likely to be female. Among hourly paid workers, 5 percent of women had wages at or below the minimum wage, compared with 3 percent of men.
- Minimum-wage workers tend to be young. Among employed teenagers (ages 16 to 19) paid by the hour, about 15 percent earned the minimum wage or less, compared with 3 percent of hourly paid workers age 25 and older.
- Minimum-wage workers tend to be less educated. Among hourly paid workers age 16 and older, about 7 percent of those without a high school diploma earned the minimum wage or less, compared with about 4 percent of those who completed a high school diploma (but did not attend college) and about 2 percent for those who had obtained a college degree.