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'Minimum wages do not hurt jobs'

The Nobel Prize for Economics has been awarded to research debunking decades of misguided theory on wage growth. Evelyn Astor on its significance

The original research on minimum wages for which the Nobel prize was awarded is 30 years old. Why is it significant today?

Indeed, this research was conducted 30 years ago, but despite these very important findings – and other relevant empirical studies that have come afterwards, also showing that wage increases do not cost jobs – over the last decades a misguided theory that labour costs directly lead to job loss has continued to persist. This is a theory that has been largely promoted by classical economic theorists, major business organisations such as the American Chamber of Commerce, and some international organisations such as the IMF.

This prize is therefore significant because it gives greater visibility to David Card and others' research findings. It represents a validation of this evidence at the highest international level and represents an international rejection of the now debunked economic narrative that wage increases are bad for workers and the economy.

The prize also comes at a crucial time as governments are now in the midst of recovery plans from the pandemic. Unions have been insisting that the global economic recovery needs to be inclusive of all workers. We know that low wage workers have been hit hardest from this pandemic – they have had less savings, their jobs are less secure – so giving high prominence to this research is helpful in demonstrating to governments that it is possible to devise an economic recovery that is job rich, and also supportive of decent wages and decent work.

Economists as well as politicians have used a supply-demand logic to resist minimum wages and increases of the minimum wage, considered almost common sense nowadays. Have you seen this resistance waning as a result of the empirical research, at international organisations, think tanks, and so on?

As I mentioned, there are certainly some interest groups, conservative

economists, and international organisations that continue to promote the now disputed theory that by raising wages you cost workers jobs. However, the discourse does seem to be slowly shifting in view of mounting evidence of the contrary. The research awarded by the Nobel Prize focussed on the impacts of minimum wage increases in New Jersey; but there have been subsequently other empirical studies conducted on the impact of minimum wage introductions or increases in other states in the US, as well as Indonesia, Brazil, South Africa and even Germany – which reaffirm that minimum wages do not hurt jobs.

We have accordingly seen a shift within some international organisations, and within multilateral processes. For example, in 2012 the World Bank seemed to shift its position on minimum wages when publishing the report Balancing Regulation to Create Jobs – which highlighted some of the evidence that minimum wage increases can have positive economic effects.

Moreover, G20 governments have been increasingly looking at the negative social and economic impacts of stagnating wages, and the link to rising inequalities. This increased attention from G20 governments on wages follows a strong, concerted push from trade unions through the L20 for governments to consider the case for wage-led growth. Notably in 2018, G20 labour and employment ministers recognised the need to address the declining labour income share.

A very significant shift also took in 2019 – when the ILO, in its Centenary Declaration on the Future of Work – affirmed the need for all workers to receive an adequate minimum wage. This represents a tripartite agreement between governments, workers, and employers on the fundamental importance of this objective – and we must now work to ensure that governments remain accountable to this commitment.

The research does not show that minimum wage increases are per se unharmful to employment. How can the labour movement still use it politically?

The labour movement has long been citing the evidence from David Card and colleagues, among other bodies of empirical research, on the benefits of wage increases to underpin their demands for higher wages within campaigns and negotiations. But the validation of this research through this Nobel Prize now bolsters and reaffirms the evidence base that unions have been using. It is moreover helpful in responding to the attacks from employer representatives within national wage councils that increasing minimum wages will cost jobs.

What about its significance for the debate on living wages?

This research certainly reinforces the global labour movement's call for ensuring minimum living wages – both through statutory processes and collective bargaining. This is important first and foremost to ensure a dignified livelihood for workers and their families – but it should also be seen as a bigger benefit for workers' communities and the wider economy – as raising wages reduces poverty, stimulates consumption and therefore aggregate demand, supports productivity and increased tax revenue, and is conducive to overall economic growth. The findings of David Card and others help to show that there is no trade-off between workers' wellbeing and economic progress.

In what other ways does the ITUC support the struggle for minimum wages and living wages? Is the debate useful for collective bargaining?

The ITUC has been working with regional trade union organisations – including ITUC Asia-Pacific, ITUC Africa, the European Trade Union Confederation and the Trade Union Confederation of the Americas – over the last years in a global campaign for minimum living wages. The intention of this campaign has been to provide strengthened support to our affiliates in their campaigns and negotiations for establishing and increasing statutory minimum wages, as well as enhancing the coverage of collective bargaining on wages.

This campaign has sought to combine research, advocacy, and capacity-building support to unions. We aim to promote exchanges and mutual learning between unions on their respective minimum wage negotiation strategies, as well as provide targeted technical assistance to some unions to help build up the evidence base to inform their wage demands (for instance in developing and publishing cost-of-living data). We have published research reports and campaigning materials to support unions in their work. And of course, this campaign has also consisted of targeted lobbying work at the national, regional, and international levels.

Could the kind of 'natural experiments' that Card and Krueger conducted be useful in other areas?

The 'experiments' that Card and Krueger conducted have contributed to debunking the classical theory that wage increases cost jobs. However, another theory continues to be promoted by a number of conservative economists that employer social security contributions represent a barrier to hiring workers because they increase labour costs.

This theory has for some reason grown in popularity over recent years, thanks to recent promotion within a World Bank publication – and a number of governments have recently started to shift the burden of employer contributions to workers, while some employer organisations are calling for doing away with contributory social security altogether.

The trend towards reducing employers' contributions to social security seriously risks undermining the financing base for social protection and the adequacy of workers' social security – despite the fact that this theory has not been demonstrated through any kind of empirical research. I would place my bets that research looking at the effects, in practice, of putting in place employer social security contributions could yield interesting, and similar results to those by Card and Krueger – and would greatly welcome further work in this area.

This interview was conducted by Thomas Greven.



Evelyn Astor

Evelyn Astor is an Economic and Social Policy Advisor at the International Trade Union Confederation (ITUC). She is a member of the Governing Body of the Ethical Trading Initiative and the Tripartite Advisory Committee of the Global Flagship Programme for Social Protection Floors of the International Labour Organization (ILO).