



The Daily Dish

New Insights on the Minimum Wage

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The minimum wage debate - an annual event - is back, as many states have minimum wage hikes taking effect in January. This year, [21 states](#) are raising their minimum wage, with two-thirds due to inflation adjustments and another seven due to legislation or ballot initiatives. The increases range from \$0.18 in Alaska to \$1.75 in Delaware. In addition, the United States will soon have as vice president J.D. Vance, a Republican [supportive](#) of raising minimum wages. He recently sponsored legislation to raise the federal minimum wage from \$7.25 to \$11.00 over four years.

AAF has spilled [a lot of ink](#) over the minimum wage. But the basic story remains fairly simple. Raising the minimum wage does nothing to increase the resources available to *pay* the higher minimum wage. As a result, employers will have to respond to the mandate in ways that free up the resources to do so: reduce raises for existing workers, raise prices on consumers, and reduce hiring. The latter response is especially vexing because it is tantamount to redistributing from the out-of-work to the employed - a bit perverse, to say the least. All of this is topped off by the fact that the minimum wage is very poorly targeted and does little to alleviate poverty.

More recently, however, an even more nuanced - if not more favorable - view of minimum wage hikes has emerged. In new [research](#), the “labor-labor” substitution notion emerges as important:

When facing a minimum wage, fewer firms made a hire, but those workers they did hire were paid a higher wage. However, the reduction in hiring was not large, even at the highest minimum wage imposed. In contrast, minimum wages substantially reduced hours-worked, across cells. Firms facing a higher minimum wage also hired more productive workers, which can explain, in part, the reduction in hours-worked: with more productive workers, projects were simply completed in less time.

It's a more nuanced view of the employer response, but the minimum wage emerges, again, as a threat to those it is intended to help: the least-skilled workers.

More generally, the amount of labor and quality of labor are not the only things that matter to employment. As Jeffrey Clemens [points out](#):

Benefits, including employer-provided health insurance, account for around one-third of compensation costs. Working conditions, including safety measures and flexible schedules, can also have value to workers while generating costs to firms. Textbook labor market models also tend to treat output prices and production technologies as fixed. Yet for reasons detailed below, it would be natural for any number of these margins to shift in response to minimum wage changes.

Again, this shifts the character but not the direction of the response of a minimum wage increase: Keep your job but lose your benefits and the remodeled employee break room.

The minimum wage may experience a resurgence as a matter of policy focus. But the basic lesson is unchanged: Mandating a higher rate of pay does nothing to provide the resources to pay it.