In the 1980 presidential debate, candidate Ronald Reagan, when questioned on urban policies, claimed that black youth unemployment was caused by minimum-wage legislation. Once in office, President Reagan acted on his convictions by introducing various proposals to make exceptions to the minimum-wage law. As part of the enterprise zone legislation he proposed an exemption from the minimum wage for firms in these zones, indicating that it was necessary to increase employment.

Reagan’s views on the minimum wage are supported by the vast majority of economics principles textbooks. For example, according to Baumol and Blinder (1979, pp. 510-11), “despite social and legislative pressures against race discrimination, efforts to improve the quality of education available to children in the ghettos, and many related programs, the data from recent years do not indicate any great improvement in the relative standing of young blacks.” They continued: “Economists are less surprised than others . . . . They maintain that despite all legislation . . . there is a law on the books which . . . is a crippling impediment to any attempt to improve job opportunities for blacks. As long as this law remains effective, the young, the inexperienced, and those with educational disadvantages will continue to find themselves handicapped . . . [with] little chance of success. What is this law? None other than the minimum-wage law?”

This article will demonstrate that these conclusions are generally the result of faulty analysis and reliance on certain unproven stereotypes. The first section develops a method of assessing the impact of minimum-wage
legislation on low-wage workers as a group, and the second section focuses on a subgroup of low-wage workers—black youth. Both of these sections will also compare the analysis found in textbooks to the methods developed in this study. It will be shown that the majority of 28 principles and 10 labor textbook presentations surveyed do not meet even minimal standards of analysis. The third section will indicate why there is no justifiable defense for these inadequate and even inaccurate presentations. The concluding section will discuss some explanation for this unfortunate state of affairs.

THE MINIMUM WAGE AND LOW-WAGE WORKERS

Social versus Group Welfare

When noncompetitive characteristics are present, intervention can improve economic efficiency and increase social welfare. John Kenneth Galbraith argued that whenever one side of a market has monopoly power the other side develops countervailing power to neutralize the market power it faces. The outcome will be quite similar to what would have occurred if neither side of the market had exhibited power; i.e. if the market had been competitive. Similarly, the minimum wage can neutralize the market power of a monopsonist in the labor market. In the absence of noncompetitive aspects (and externalities) we could still justify minimum-wage legislation if improvement in the welfare of certain groups outweighs efficiency losses. Arthur Okun proposed income transfers through the federal tax system to reduce income inequality. He realized that there would not be one dollar transferred to the poor for every dollar lost by the rich (the "leaky bucket") because of reductions in efficiency. However, he felt that the efficiency reductions would be slight compared to the social gains from a more equal income distribution.

If we accept the leaky-bucket framework, we must still determine whether or not low-wage workers as a group benefit from minimum-wage legislation. Even if they do benefit, certain subgroups of low-wage workers do not. While it is certainly important to determine the effects on subgroups, economic analysis should first assess its impact on the group as a whole. The measure of employment, the group welfare objective, and the time frame chosen will all influence this assessment.