Twitter Thread by Goldy

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1/ To add a little texture to @NickHanauer's thread, it's important to recognize that there's a good reason why orthodox economists (& economic cosplayers) so vehemently oppose a $15 min wage:

The min wage is a wedge that threatens to undermine all of orthodox economic theory.

> 1/4 Most people, especially academic economists, think that the controversy over the minimum wage is a contest over facts. It's not. It's a contest over power, status, and wealth. It is just like the contest over racial and gender justice.
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> — Nick Hanauer (@NickHanauer) January 17, 2021

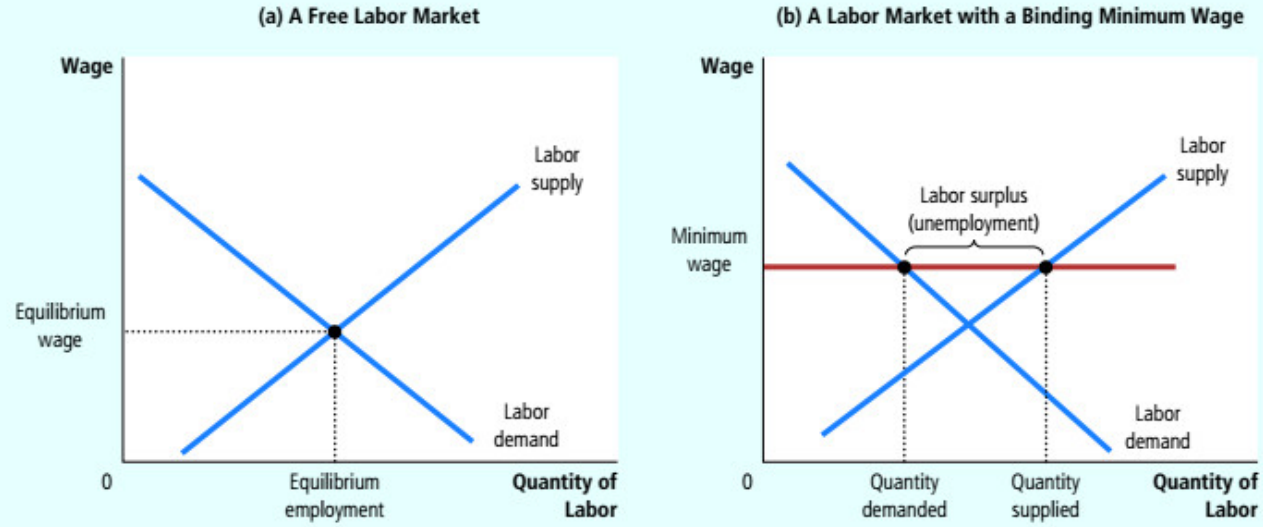
2/ Orthodox economics is grounded in two fundamental models: a systems model that describes the market as a closed equilibrium system, and a behavioral model that describes humans as rational, self-interested utility-maximizers. The modern min wage debate undermines both models.

3/ The assertion that a min wage kills jobs is so central to orthodox economics that it is often used as the textbook example of the Supply/Demand curve. Raise the cost of labor and businesses will buy less of it. It's literally Econ 101!

FIGURE 5

How the Minimum Wage Affects the Labor Market

Panel (a) shows a labor market in which the wage adjusts to balance labor supply and labor demand. Panel (b) shows the impact of a binding minimum wage. Because the minimum wage is a price floor, it causes a surplus: The quantity of labor supplied exceeds the quantity demanded. The result is unemployment.



4/ Econ 101 insists that markets automatically set an efficient "equilibrium price" for labor & everything else. Mess with this price and bad things happen. Yet decades of empirical research has persuaded a majority of economists that this just isn't true.
https://t.co/SjPUBEzedr

5/ How can this be? Well, either the market is not a closed equilibrium system in which if you raise the price of labor employers automatically purchase less of it... OR the market is not automatically setting an efficient and fair equilibrium wage. Or maybe both. #FAIL

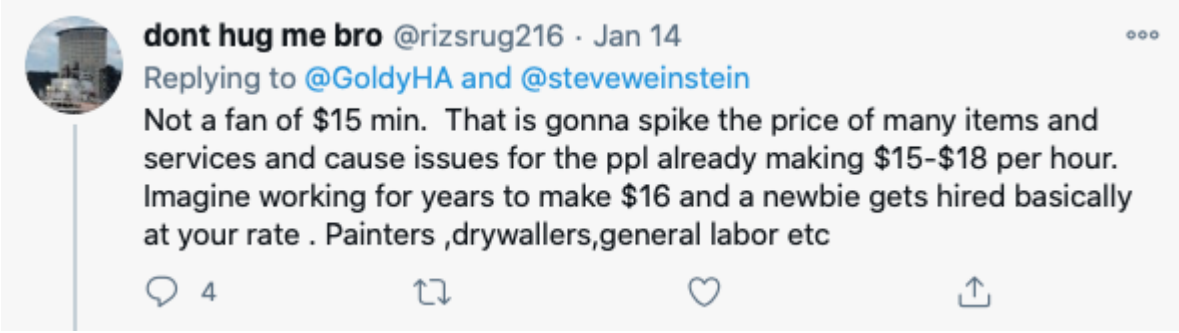
6/ Further undermining the equilibrium model is the stubborn failure of $15 min to result in substantial increases in consumer prices. If wages go up while employment and prices remain stable, where'd the money for those higher wages magically come from?
https://t.co/5VQ70XuX5Q

7/ But if, as @NickHanauer has asserted for years, "when workers have more money businesses have more customers and hire more workers," then the answer is the punchline to an old Catskills joke: "Volume!" (Also, increased productivity and lower turnover & training costs.)

8/ Whatever. The point is, as neat and mathematically predictable as those equilibrium models are, they're just not predictive of a real world in which the market is actually a positive-sum, complex-adaptive non-equilibrium system, Econ 101 textbooks be damned.

9/ As for the behavioral model, well that is undermined by the min wage debate itself. Lacking empirical evidence to support their equilibrium assertions, some $15 opponents have been reduced to arguing that it is unfair... to those earning just above $15.

e.g. tweets like this:



10/ Is the resentment expressed in this argument widespread and real? Absolutely. I've seen it for years. But is it rational, self-interested, and utility maximizing? Hell no!

Thought experiment: imagine you've spent years working your way up to $15/hour...

11/ What would you prefer?

a) Continue to earn $15 while the newbies get $7.25? or
b) Get a bump up $16 while the newbies earn $15?

The orthodox behavioral model says b) every time! It's just not in your self-interest to turn down an extra $1/hour. That's $2,080 a year!

12/ And yet, anybody who knows a real human being can understand why somebody might reject this. We can be resentful. We're simply not the rational, self-interested, utility-maximizing automatons that orthodox economics imagines.

Fortunately, that example is just a hypothetical.

13/ In reality, while substantial min wage hikes do result in some wage compression, those previously earning at or just above the new minimum typically receive substantial wage hikes too, because good businesspeople understand that resentful workers are not good for business.

14/ Altogether, this helps explains why so many orthodox econ thinkers (especially those steeped in Econ 101 and little more) find the $15 minimum wage so threatening: If orthodox economics is wrong about something as fundamental as supply & demand, WHAT ELSE IS IT WRONG ABOUT?

15/ The $15 minimum wage is more than just good policy and good politics. It is a wedge issue that threatens to topple 40 years of neoliberal dominance by undermining the orthodox economic narrative on which it was built.

16/ The triumph of the $15 minimum wage helps open EVERYTHING in economics to serious debate: taxes, deficits, regulations, trade, the nature of money itself. And that's a scary prospect to those steeped in the old religion, let alone those whose careers depend on it.
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