Twitter Thread by Per Bylund

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The problem with #politics is that it exaggerates and makes (empty) slogans out of what we know. This applies to the #minimumwage too, where proponents of increasing it claim it will raise people's wages and opponents claim it will kill jobs. Neither is very accurate or finds

support in economic theory. Let's look at what a minimum wage law does, and then at what we can expect from it. Because the former is rarely admitted and the latter goes both ways. So, first, a minimum wage law is not an increase in anybody's wage, it is only a prohibition of

paying employees less than a stated amount. Raising the minimum wage law does not mean whoever is making less gets an automatic raise. What it does mean, especially after a transition period, is that there will be no jobs that create less value than is necessary for employers to

afford paying that minimum amount (plus taxes, benefits, overhead, etc.). No business can afford employing people for jobs creating less value for the business than they cost. So, no: increasing the minimum wage does not raise wages. It weeds out jobs (and workers!) that are less

productive than the decreed wage level requires for breaking even. It raises the average and median wages because low-wage jobs become unaffordable. Increasing businesses' salary costs will mean some lay people off, others refrain from hiring, and yet others reorganize to either

cut overhead costs or to keep people on staff "for now" despite their burdening the bottom line. This means that unless those making less than the increased minimum wage magically increase their productivity and their employers thereby can afford paying them more, they will be

unemployed. Thus the standard case against the minimum wage: that it harms the most vulnerable first and most. This is true. But a minimum wage is also a barrier to entry, because incumbent firms with an established and reliable revenue stream have a much easier time to cover the

extra cost. Startups, which are practically always cash-starved, and don't have access to credit etc. to cover negative cash-flow, will not be able to pay such salaries. So existing firms benefit because potential competitors are kept out. This explains why large corporations (such as Amazon, Walmart) can argue for increasing the minimum wage. They have a much easier time covering the extra cost (including replacing lowest-value workers with robots) than new startups that, had they been founded, could undermine the giant's business. So new jobs in new

firms, where people will be more productive and thus make higher wages, will not happen because the high minimum wage keep them out and protect incumbents. This keeps wages lower than they otherwise would be. Yes, you read that correctly: competition increases productivity and

therefore wages. Take a look at any industry: where employees create a lot of value for consumers, they also make more money. The most high-value jobs are created primarily in new firms, which the minimum wage may make impossible because startups almost never make money from day

one. But it is worse: the minimum wage keeps salaries down even for those creating more value. Because startups are kept out, there are fewer jobs than there otherwise would be and therefore less competition for workers. With the minimum wage law in place, employers will be

reluctant to raise wages for workers who would otherwise have seen small increases. Why? Because of uncertainty and fluctuations: it's hard to cut wages (they're 'sticky', as some put it). And the minimum level is fixed in law, which means any employer can point to the law as

decreeing what the wage should be. The result of some employers postponing increases and using the legal minimum wage as standard wage can make it a default salary in whole industries--thereby keeping market wages down to an artificially low level. This is an actual problem that

arises due to the lack of market as is a consequence of the state's imposing a minimum wage. But are there no upsides? Very few, but there are some. Raising an already existing minimum wage to the level of productivity would limit the problem of 'standard' wages kept at the legal

level. (Of course, this problem was caused by the minimum wage, so an increase is not a solution; it's only partial alleviation of a symptom.) Increasing the minimum wage can also, as noted, 'force' companies to reorganize to increase productivity and, as a result, keep employees

despite their not creating sufficient value in their previous employment. It will also mean businesses turn to automation (robots, machines) to replace workers carrying out the simplest tasks. This creates high-salaried jobs 'upstream' as businesses demand machines produced by

engineers to replace workers with lower productivity (typically with less education or experience). Products and services will also be changed to avoid the additional cost. This is why we typically do not have elevator or fuel pump attendants anymore. Consumers do the work

instead of the business, because the business figured consumers were unwilling to pay the higher price for that service. We fill up our own cars and clear the windshield because that labor is too costly: we're unwilling to pay more for it, so we instead do the work ourselves (for free). The progression toward higher-productivity jobs would happen anyway, but would happen first in sectors where consumers benefit most from it and/or where there are qualified employees. The minimum wage forces such shifts prematurely, i.e. before consumers demand it, by

pricing out the workers with lower productivity, therefore causing/contributing to people losing their jobs and finding themselves unemployable. The best way to raise wages is to not decree what wages must be paid, but let them be determined by parties in the labor market.