

Government and the Economy

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Government Roles

- Focus on 2-3 Examples Today
- Politics and Economics of Distributing Funds
- Regulation
 - Minimum Wage

Distribution of Funds

- All Politics is Local
- Congressional Earmarks on Legislation
- Pick a Locale, Find a Project
- What Factors Determine It
- Simulation Illustrates Many Key Issues

Region	Your Choice	Normal Per Capita Income Relative to National Average	Percent Unemployed Relative to National Average	Normal % Voting for Your Party for President	% Voting for Your Boss Minus the Normal Percent for Your Party	Key Leaders in Congress
1		1.30	1.34	32.4	11.8	
2		1.25	1.35	35.1	7.9	
3		1.03	1.28	37.1	18.1	
4		1.02	0.59	37.2	25.0	
5		0.56	0.59	63.6	15.8	
6		0.52	0.49	63.9	12.2	
7		0.87	0.82	63.9	23.2	House
8		1.09	1.24	43.4	16.6	Senate
9		1.35	1.30	35.5	25.1	

The Simulation is Based on an Actual Set of Events

- When Was It?
- Handout Shows
- The Actual Outcome
- Factors Influencing the Distribution

The New Deal

- Touchstone of Federal Policy in the 20th Century
- Established Basis for Large Share of Modern Policies
- All Politics Local
- Results I show you are for Counties
- Multitude of Opinions, Little Testing Until Now
- Data Available, Records Open

Factors Influencing

- Total Grants a mishmash of counter-active effects.
- Important to Look at Individual Programs
 - Politicians and Public Think in Terms of Programs
 - Government has too many roles
- Programs were Something for Everybody

The Actual Distribution

Name	Region	Per Capita Expend.	Normal Per Capita Income	Percent Unemployed	Normal % Voting for Your Party for President	% Voting for Your Boss Minus the Normal Percent for Your Party
New England	1	70	1.3	1.34	32.4	11.8
Mid-Atlantic	2	74	1.25	1.35	35.1	7.9
East North Central	3	89	1.03	1.28	37.1	18.1
West North Central	4	131	1.02	0.59	37.2	25
South Atlantic	5	55	0.56	0.59	63.6	15.8
East South Central	6	57	0.52	0.49	63.9	12.2
West South Central	7	93	0.87	0.82	63.9	23.2
Mountain	8	214	1.09	1.24	43.4	16.6
Pacific	9	116	1.35	1.3	35.5	25.1

Specifics

- Relief (Welfare)
 - Spent More where areas were
 - Fewer Rich folks
 - More unemployment
 - Downturn greater
- AAA (modern Farm programs)
 - Big Farms
- Housing Loans
 - Higher Average Incomes
 - More Rich folks
 - Urban

Significant Factor

- Politics
- Voter Turnout
- Swing Vote
- Democratic Loyalty
- Congressional Committee

What's Missing

- Powerful Private Constituents
- PACs
- Ideological Foundations
- Corruption
- Attitudes of Local and State Governments
 - Actually Hidden from view but included in analysis (catchall method)

Incentives Matter

- Politicians Responding to Electoral Incentives
- Policies themselves influence Re-election Chances

Regulation of Markets

- Focus Today on Regulation of Labor Markets
- Major Local and National Issue
- Minimum Wage

Arizona Daily Star Article

- Facts
- Voter proposal to raise AZ minimum wage to \$6.75
- Federal Minimum \$5.15, set 1997
 - Equivalent to \$6.25 today
- 13 states raising minimum this year
 - Wisconsin 14 percent (from 5.70 to \$6.50)
 - MA will have highest at \$8.25

Effects

- 5 % AZ workforce get raise
- Nationwide 3% of hourly work force earn \$5.15 or less
 - (BLS footnote, measurement error)
- Who?
 - 74% earning min wage are 20 and older
 - Less educated, less skilled

Predictions

- In Labor Market
 - Increase in measured wage
 - Decline in employment
 - Hidden changes that weaken the effect on employment
 - Demand for more skills
 - Potential for more discrimination
 - Job demands higher
 - Extra costs of obtaining jobs

Other Predictions

- Increase in Product Prices
 - Weakens Employment Effects
- Longer Term
 - Movement to other jurisdictions
 - Competition Among states and cities
- Longer-term adjustments in Technology and Other Factors

Beauty of Economics

- Predicts what happens
- You can make own decision on how much weight to give to each cost and benefit of the policy

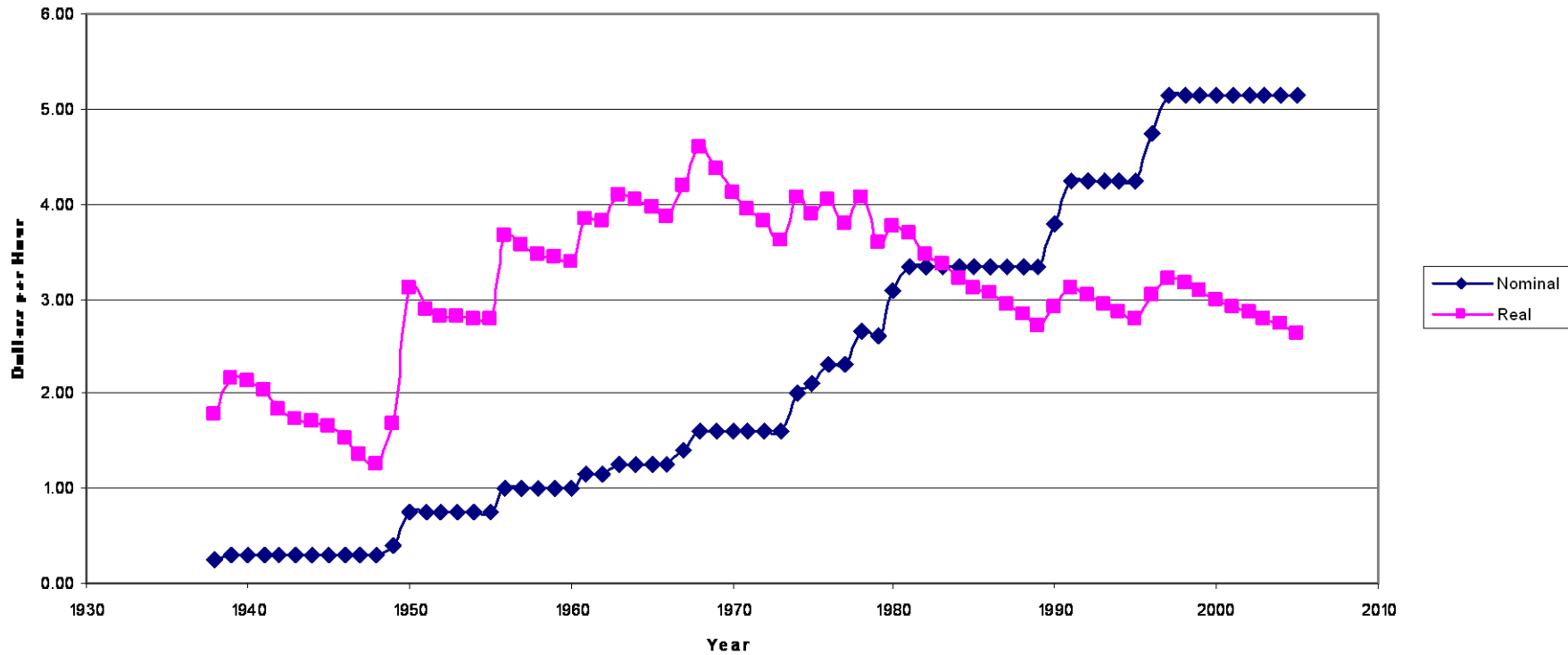
Political Economy

- Supporters on Economic Grounds
- Workers who keep jobs and get pay raise
 - ACORN (Association of Community Organizations for Reform Now)
- Higher wage workers worried that firms can replace them with higher wage workers
 - AFL-CIO
- Firms looking to make it more difficult for smaller, less capital intensive firms to compete with them
- Laws pass when get right political coalition

Historical Pattern

- 1938 Fair Labor Standards Act
- Coalition of Unions, Employers outside south (particularly NE textile firms)
- Minimum only affected southern wages
- Long-term pattern
- Inflation erodes the minimum wage to very low level in real terms
- Congress passes new law to catch up to old

History of Minimum Wage in Current Dollars and in 1982-1984 Dollars



Measuring Impact of the Minimum Wage

People Throw Figures Around All of the Time
Lies, Damn Lies, and Statistics
Is it easy to Lie with Statistics?

A Guide to Examining the Studies

Here's a Fact

- Between 1999 and 2001 the number of small business establishments grew twice as fast in states with minimum wages as they did in states without them (3.1 to 1.5 percent).
- How useful is it?

What to Look For?

- Do they Do Robustness Tests?
- How Simple is the Comparison?
- Are there controls in the study?
- Many things are going on simultaneously, and the policy analyst has to control for other factors.
- What Might They Be?

Controls

- Economic Expansions in Some States Relative to Others
- Different Legal Regimes in some states
- Different Industries in States
- Different educational policies in States

Focus

- Are the data focused on the people most likely to be affected?
- On whom should they focus?

Focus

- Focus on the people likely to be affected.
 - If most of the workers in the study are earning \$16.83 an hour, seems irrelevant
- Lower wage workers
- Less educated and less skilled
- Teenagers
- Find the sectors of employment where the wages are lowest

Comparisons Important

- Ideal is the Counterfactual
- What would have happened with no minimum wage in same state?
- Impossible unless in videogame, comic book, or science fiction
- Next best thing
- Find State same in all other ways but no minimum wage

More policy comparisons are better

- Longer Time Periods with more Minimum Wage changes?
- Why?
- There are outliers in the data.
- More “experiments”, more opportunities for testing.
- Want to know what is common.
- Caveat, a major structural change.

Controlling for unmeasurables

- Panel Data
 - Multiple locations with observations for each on several years.
 - Az 1980, 1981...2005, Wi 1980, 1981...2005
- Fixed Effects
 - State effects things that don't change over time but do vary for each state.
 - Ex: Individual's gender stays same over time but different people have different genders
 - Time Effects. Changes common to all places but change over time
 - Ex: Change in federal income tax rate

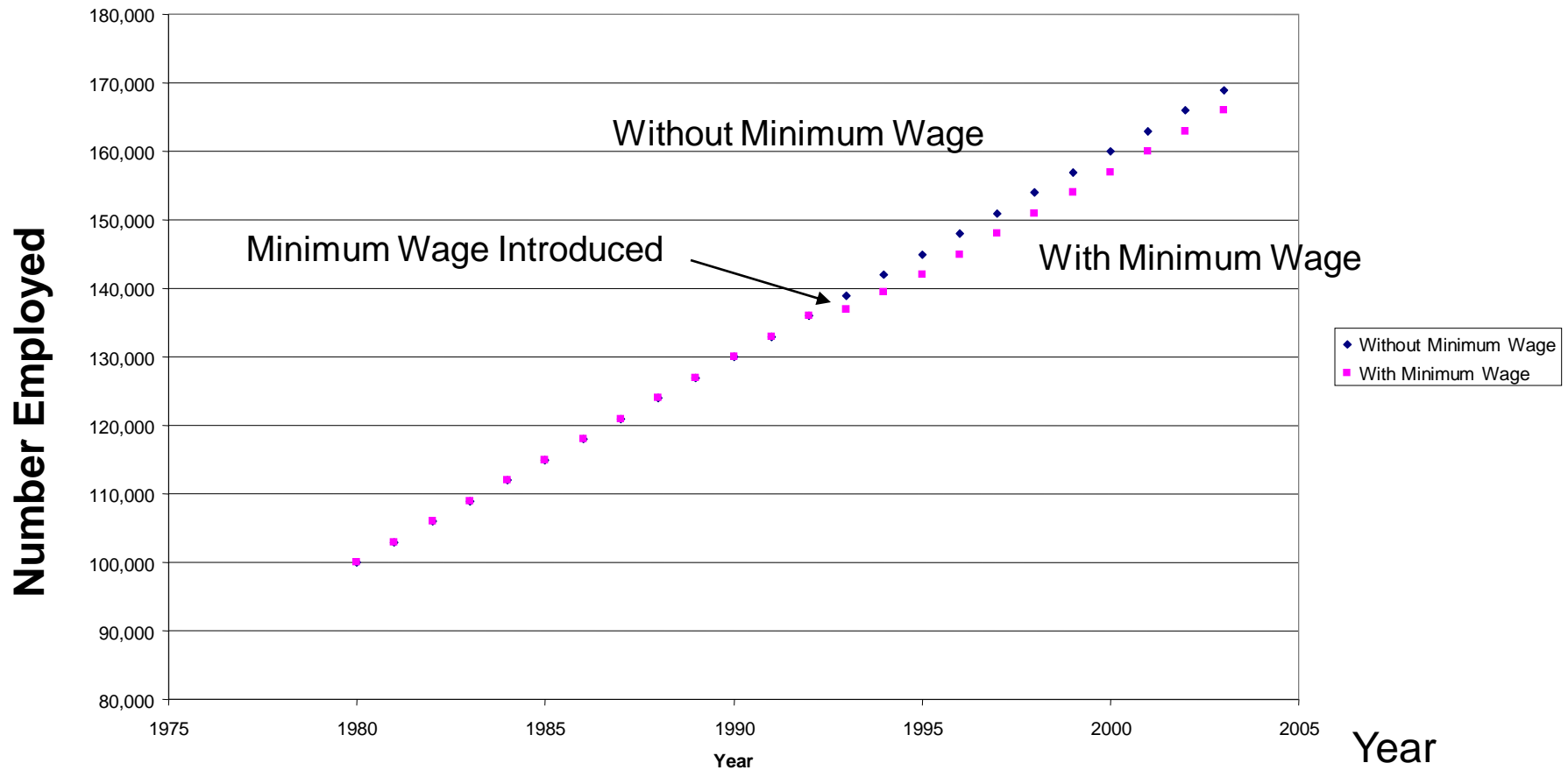
Worrying about Feedbacks

- “Endogeneity” typically Political Economy
- People in high-wage states willing to adopt higher minimum wages.
- Attempts to control for this problem.

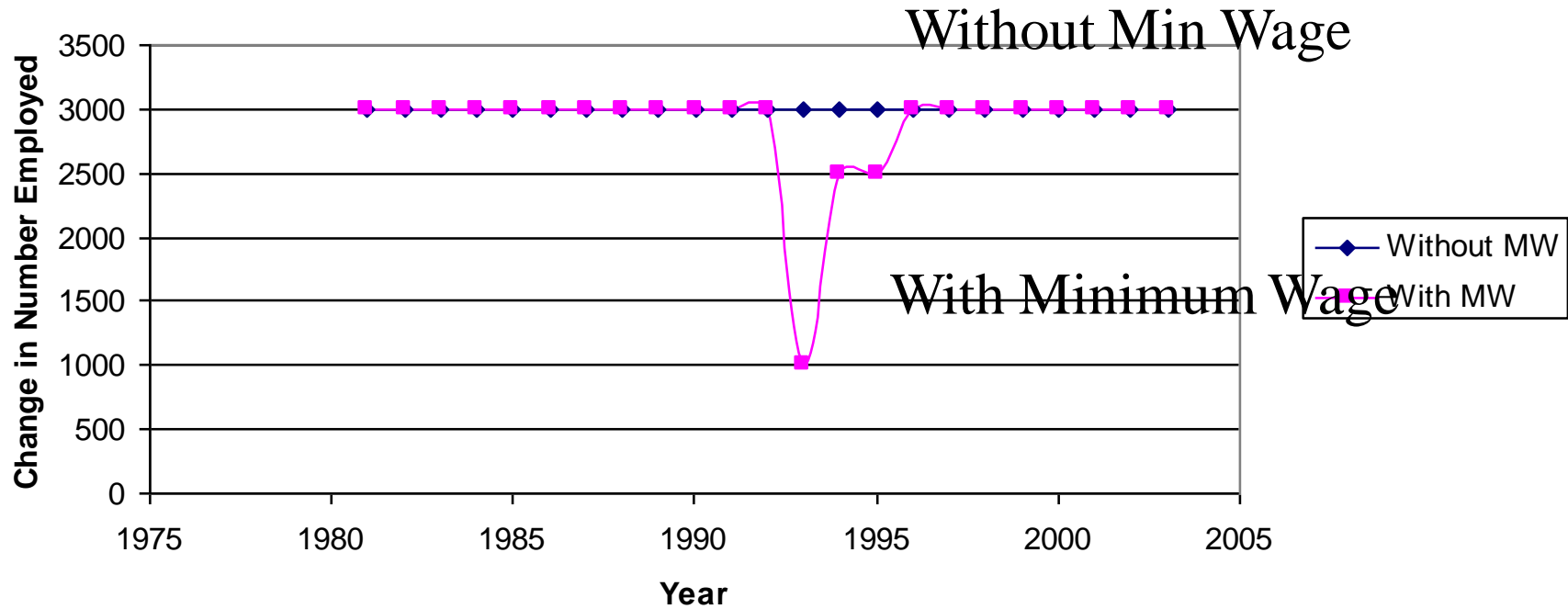
Time Trends

- On average, employment is rising in most states from year to year.
- Minimum wage effect might look more like the following.
- See Next Picture

Trend in Total Employment with and without Minimum Wage



Change in Number Employed From Year to Year with and without Minimum Wage



How is Employment Measured?

- Card and Krueger “Myth and Measurement: New Economics of Minimum Wage.”
- Neumark and Co-Authors
- Major Debate about Employment Effects of Minimum Wage
- Different Results using all techniques above
- Difference was **THE MEASURE OF EMPLOYMENT**

Employed vs. Hours

- Card and Krueger
 - Number of full-time and part-time workers
 - Assumed 35 hours for full, 20 for part.
 - Survey and unemployment insurance stats.
- Neumark and Waschler
 - Payroll records showing number of hours actually worked
- Which data would you rather have?

Final Comments

- Standard Economics Works Well in these contexts
- Check Robustness of the New Results
- Pay Close Attention to the Quality of the Study. How hard did they try to test the robustness of findings?

Nice Study as a Starting Point

- Becky Pollack cites a study by the Employment Policy Institute
- Readable and also has some of the statistics he used and citations to major researchers in field
- Joseph Sabia, “The Effect of Minimum Wage Increases on Retail and Small Business Employment.”
- http://www.epionline.org/study_detail.cfm?sid=98
 - Accessed June 20, 2006.