



TRANSCRIPT

The Work Goes On

Guest Host: Michael Reich

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Michael Reich:

Minimum wage increases labor supply to low wage employers. They're able to fill their job vacancies faster and more of them. They have fewer quits, and so their workers are more experienced, and they save quite a bit on recruitment and retention costs. My kind of soundbite for this with journalists is the minimum wage doesn't kill jobs. It kills job vacancies.

Orley Ashenfelter:

Welcome to [The Work Goes On](#), a podcast from the [Industrial Relations Section at Princeton University](#). I'm your host, [Orley Ashenfelter](#), the Joseph Douglas Green 1895 Professor of Economics emeritus at [Princeton University](#). In this podcast series of conversations with leading thinkers and practitioners, we are creating an oral history of an entire generation of industrial relations experts and labor economists whose contributions to their fields have been absolutely extraordinary.

Our guest today is [Michael Reich](#), who is Professor of Economics at the [University of California at Berkeley](#) and chair of the [Center on Wage and Employment Dynamics](#) of the [Institute for Research on Labor and Employment](#) Research at Berkeley. He is renowned for his work in labor economics and especially for his research on labor market segmentation and minimum wages among a broad range of other topics. Michael, welcome to [The Work Goes On](#).

Michael Reich:

Thank you. It's an honor to be here.

Orley Ashenfelter:

Let's begin the discussion by talking about your background. Where did you grow up?

Michael Reich:

Well, I was born actually in Poland at the end of the war to Holocaust survivor parents. We moved to New York City. Well, I lived in a displaced persons camp in Stuttgart, Germany for three years, and then when the immigration law changed, we were able to come to the United States. I grew up in New York City.

Orley Ashenfelter:

So, do you remember any of your time in that post Holocaust period?

Michael Reich:

Not really. I mean, I have memories of the memories and lots of photos from that period.

Orley Ashenfelter:

Things your parents told you that maybe become memories.

Michael Reich:

It sounds awful, this displaced persons camp. In fact, we lived in an apartment of a German woman. I went to a nursery school, not so different from the one that my kids eventually went to in Berkeley and we had vacations. We went skiing and so forth.

Orley Ashenfelter:

That sounds, then we finally got as bad as it, not as bad as it sometimes made out, but I'm pretty sure it must've been traumatizing for your parents. So, you're growing up in New York. Where did you live?

Michael Reich:

We lived in Astoria in Queens. Not too far from Manhattan. Went to public school throughout high school, Stuyvesant High School in Manhattan.

Orley Ashenfelter:

Oh, so you got one of the good ones.

Michael Reich:

Yeah, it was a great education. It was a great time to grow up in New York. New York wasn't as crowded as it is now, and it was very safe. I had a subway pass for very little and I could wander wherever I wanted. For example, the Museum of Modern Art, I had a membership there for a dollar a year, and we would go to... My cousin and I would go to the second half after intermission of Carnegie Hall concerts with famous performers. Ice skating in Central Park was practically nothing, et cetera, et cetera.

Orley Ashenfelter:

Really fun. Now, I know you went to Swarthmore, and it seems like that's in a place that's quite a bit different from New York. How did that happen?

Michael Reich:

I was in the public library in Astoria, which I often went to because that was where the world was opening up to me as much as is at Stuyvesant, and the periodicals display had a magazine called *Harper's*. It might still be around, and the cover on it said among the cognoscenti there's some who say that Swarthmore is better than Harvard. So, this caught my eye. It was my early my senior year, and I looked at it and oh, you could combine being a scientist or engineer with being liberal arts, in their approach. And then of course I learned that it was a small college, unlike Stuyvesant High School, which was huge, and it was co-ed, and it was in a very pretty campus. We went to visit. I was really taken with

the place. I did get in with, but no scholarship. So, I took out a loan. I was one of the first people to take out a loan from what was called the New York State Higher Education Assistance Corporation, a very low interest loan with many years postponed before I had to repay it, and my parents contributed quite a bit. And I also had, of course, campus jobs. The second year I did get a scholarship from the college, and I worked during the summer.

Orley Ashenfelter:

There are several economists I know who went to Swarthmore.

Michael Reich:

Quite a few in my kind of immediate cohorts. We could go through the names, but I don't know if that's...

Orley Ashenfelter:

There are a lot. Even more recently, there are people that I know that went to Swarthmore. I guess the case that small colleges, well, for one thing, they make you... I went to one too, but in California. They make you realize that it's a kind of a collegial place and you can get along with people.

Michael Reich:

You get along with people. You can ask questions. You feel that professors are accessible but also provided me with a model of what an academic life was like, which I had no idea at all. But here I am working at a big teaching research university.

Orley Ashenfelter:

A different thing altogether. Well, I know that you moved from Swarthmore to Harvard, so how did that come about?

Michael Reich:

Well, I had been actually a physics major and I was getting more interested in social issues and less interested in doing physics as opposed to studying it. So, I switched to economics between my junior and senior year. One of my favorite professors... I was in the honors program. We'd have major and two minors. My minor was in economics at the time, and one of my favorite...

Orley Ashenfelter:

So, you were doing physics and economics?

Michael Reich:

Yeah.

Orley Ashenfelter:

Yeah. That's actually a very typical combination too, by the way.

Michael Reich:

Yeah, I've seen quite a few people go through that trajectory. Well, I don't know if you've ever heard of Frank Pierson. He was a New Deal kind of labor and social economist, and he taught the labor and social economics seminar and maybe the macroeconomics seminar. Anyway, he was just a wonderful person, and he encouraged me to apply to graduate school. And so, I took the GREs and I guess I did well. I got an NSF fellowship. I only applied to MIT and Harvard, and I picked Harvard because it seemed more policy oriented. There had been so much publicity about how many New Frontier people under Kennedy were from Harvard. So, my entering class at Harvard was twice as big as it had been in prior years, almost 60 people. Only one woman, Fran Lau, in that whole cohort.

Orley Ashenfelter:

Fran Lau was in your... Is that right? She was in your class. Oh, great. There weren't very many women that were going into graduate schools.

Michael Reich:

So, at Harvard I fell in with different types of people, [unintelligible] faculty. I got hired by John Dunlop and Peter Doeringer and Michael Piore after the end of my first year of grad school to work on a study of anti-poverty programs in Boston and how to improve economic opportunity. It was funded by the Department of Labor, maybe by the program you were assistant secretary for.

Orley Ashenfelter:

I may have been involved. We had Michael on; there is a podcast with him. Very interesting one.

Michael Reich:

He's fascinating person. Yeah, very, very broad and bright. And so, the other person I worked with was David Gordon, who was the son of two economists and the brother Robert Gordon, et cetera.

Orley Ashenfelter:

A nice person. And sadly, died way too young.

Michael Reich:

Yeah, he was my closest friend and co-author on many books and roommate. And we went around to these different employment centers all over poor parts of Boston and interviewed the employment counselors and we also were able to access the employment records of people who were using the centers. It turned out that they had all this backward job history. So, as soon as I found that out, I brought some what was then called graph paper and started coding, coding these work histories and then putting them through the ...on punch cards and so on, and coming to the realization that even though employment was very high – unemployment was four percent, I think, in the late '60s. It was the case that most of these workers were cycling through jobs one after another. They weren't going on a long job ladder upward, and so they were experiencing high turnover. They could get another job. There was no reward really to try to advance themselves. And out of that came the insights that David and I and also Rick Edwards and of course also Peter Doeringer and Michael Piore used for our studies of labor market segmentation.

Orley Ashenfelter:

I didn't realize... Michael explained about that, and I had gone back to the book. He has a revised version of that book with Doeringer, but I didn't realize that it all came from this field work that was connected to...

Michael Reich:

We did get mentioned as co-authors on a Harvard Institute of Economic Research discussion paper.

Orley Ashenfelter:

I always have to ask you this. I asked Michael this too. John Dunlop, I met him a few times. I always thought he was kind of a formidable guy. What did you think?

Michael Reich:

He was quite formidable, but on the other hand, I have this very dear memory when I went to see him at his call on a Saturday morning in Littauer, the Economics Department building, and he was reading a book called "Tally's Corner," which was basically an anthropological field work.

Orley Ashenfelter:

Yeah, I know the book. "Tally's Corner." It's about hanging out on a corner...

Michael Reich:

When they're unemployed and how do they get jobs and so on. And I was very impressed. I mean, that was not something I expected from someone of his stature, but I think it showed that he really wanted to know what was going on.

Orley Ashenfelter:

Saturday..I think Dick Freeman, I asked him about Dunlop too, and I think he even mentioned the same, some kind of a meeting with him on a Saturday morning. It sounds like he was a pretty hard worker.

Michael Reich:

Yeah, well, we all worked. We had classes six days a week and people I got to know, well, like Sam Bowles, were always in on Saturdays maybe for a half day.

Orley Ashenfelter:

One of the things you're various closely associated with, and it's a period that I haven't really been able to get anybody, and I think hope it'll be you, to talk much about. And that's when the, I think it's called Union, Union of Radical Political Economists got started. I think you were pretty instrumental in that. This was a very, it's hard to think, to explain to younger people was a very special period in American history where Vietnam War was going on, the economy was raging, there were all kinds of things that everybody was concerned about. Civil Rights Act just got passed. Can you give us a sense of how that came to happen?

Michael Reich:

It came to happen because the economics that we were being taught, you were probably taught too, it's basically a competitive general equilibrium models. So, an advance, so partial equilibrium models, but one in which there were no institutions, there was no asymmetry between labor and capital for

example, and any initial set of initial endowments, and markets were all competitive. And so, you learn the second welfare theorem. And then there was another article, I think called "The Bliss Point" from that period, and so when I did a book called "[The Capitalist System](#)," a kind of an anthology, I and some other people commissioned some cartoons for the cover and one of them said, "this is the best of all possible worlds," which is what I feel like we were being taught, and we knew it wasn't because they were the riots, the black unemployment, underemployment, the protests against the Vietnam War, and just the big generational conflicts.

So, the people with whom I formed that organization were mainly graduate students from all over the country. We got together in 1968 right after the Democratic Convention in Chicago, and we kind of thought about how could we move economics or have an economics that was more about power and conflict and more empirically like what the world around us seemed to have, which is a lot of imperfections. And because it was such an unusual period, we used the word radical to distinguish ourselves from liberals and conservatives. I had at that time a pretty unitary view of neoclassical economics, and it's only after I got to Berkeley actually when I was challenged on it that I came to realize how much of economics was actually a debate between conservatives and liberals. But the conservatives like the market approach and the liberals tend to see market failure and government interventions as called for, and that goes all the way back to Pigou in the 1920s. And so, it had been around for a long time and that really helped me. I also was doing more research. I mean, I kind of left the organization when it became more captured by so many other organizations that appeared then, by the kind of far-left groups that I had never had any sympathy with. But then I also developed a more nuanced view of capitalist economies and how they change over time and that there are varieties of capitalism.

Orley Ashenfelter:

Do you have a connection with, I guess people call it URPE. Do you still have a connection that still goes on?

Michael Reich:

It still goes on, but I don't have any connection to them, and I have no interest. When I see whatever they are doing, I say, well, this is not me. In fact, I wrote an article for the review in, I'm going to say in the 1980s, explaining what I thought we were trying to do, which was more liberal reform than revolution, and I still hold to that view. I think Marx, in many ways, was a social democrat in his actual political work.

Orley Ashenfelter:

I was going to ask you, some people call you a Marxist economist, so you just call yourself a Social Democrat?

Michael Reich:

Yeah. Well, if you look at the writings of say, Michael Walzer or Israeli political theorist Shlomo Avineri, and Michael Harrington also made the case through an examination of Marxist writings that he was really very involved in reform efforts. And in fact, I think one of his insights was that when Britain passed a law limiting the length of the working day, the ten-hour day, I think, that the whole logic of capitalist development changed because now it was about increasing productivity over those ten hours rather than sweating the workers.

Orley Ashenfelter:

Interesting. Marx, of course, I always admired him because you probably don't know this, he was a wine writer and his parents owned property in Trier.

Michael Reich:

I did not know that or if I knew that, I don't remember it, but I can see why you would.

Orley Ashenfelter:

Yes. I always admired that notion. I can't read anything he wrote of course, because it's all in German, but I still kind of like the idea. I have visited Trier and in fact his birthplace. This is kind of an interesting, interesting experience. It's a pretty town, actually. Very nice town.

Michael Reich:

Okay,

Orley Ashenfelter:

Well now I know you were in Boston. Was it Boston University for a while before after graduate school?

Michael Reich:

Yeah. I was on the job market first in 1971, quite a while ago, and I actually got an offer as an assistant professor at Princeton, but my then-wife didn't want to move and I had an offer from BU, so I stayed there. Then we split up anyway, and I got pretty depressed for a while and didn't quite finish my dissertation. But when I did, I was back on the job market.

Orley Ashenfelter:

And that's when you arrived at Berkeley, I suppose, when all the greats were there – Lloyd Ulman and others.

Michael Reich:

Lloyd and Gerard Debreau, Dan McFadden. The department was actually very split in that time between institutionalists like Lloyd Ulman or Gregory Grossman, and the theorists and econometricians and we were in different buildings. That whole divide has totally disappeared. Now there's a lot of people doing empirical work, which has become so much more important. We're all in one building.

Orley Ashenfelter:

It's true in economics generally, actually. It's hard to explain to people how much it's changed, and of course there's some people who aren't happy with it. But we should talk about you and your work too, because I think it's fair to say in the last maybe ten years you've been heavily involved in many, many different studies of the minimum wage and I guess things that are related to the minimum wage. Now I know there's no way we can, there's so many papers, we're not going to try to go through them, but I thought maybe I'd ask you to pick out three things that you might say about what you think you learned from doing that research. And they don't have to be about economics. They could be about something else too, but kind of a brief way to summarize what you think you've come up with.

Michael Reich:

Well, some of it's I came up with and my co-authors and some was there for me to discover from others. First of all, I love working on the minimum wage because the work applies the same scientific method that I learned in elementary school science lab and elsewhere about treatment and control. And there's all this proliferation of state and local minimum wages. So, there's a lot of variation. And now there are all these causal identification methods. So, just on the pure intellectual level, it's a lot of fun. It's also a big window into how low wage labor markets work. And as you're alluding to, it's not just the employment effects, but there's other outcomes like employee turnover, prices, effects on health that I've looked at, on parental labor supply, on racial inequality. The three biggest things I guess are that federal minimum wage, even at 15 dollars in 2019, which was then under discussion or the equivalent today would be about 17 or 18 dollars would still not be enough to be a living wage in the poorest, even the poorest low wage counties in the United States if you have children, and we should have a living wage, which allows you to bring up a family.

That's kind of shocking, but it keeps me motivated. We do have, of course, not a one size fits all, but a very variegated system with 30 states that are above the federal minimum wage. And so, one thing I learned was that it's really important to have close comparisons that the type of econometric analysis that was done by someone like David Newmark in the 1990s used what we call a two-way fixed effects model, which assumes that the treatment is applied on a random basis among states. So, you're comparing, say Massachusetts and Mississippi in some kind of random fashion, and what that ignores, which we discovered in a 2010 paper and presented is that there are pre-trends, reasons why low wage employment was falling in the states that were more likely to institute minimum wages and falling before the minimum wages were instituted. So, it wasn't because of the minimum wage. And once you controlled for that by saying, looking at this as Alan Krueger and David Card did, by looking at border county pairs. They did it for New Jersey and Pennsylvania. We did it for all the states that had such discontinuities and over a longer period. Once you took those that used those controls, you found, we found there was no negative employment effects. It has one big...

Orley Ashenfelter:

Let me just interrupt for one second. We will come back to the other two points you wanted to make. I can shock people typically, or ask them the question, who was the last president who signed a federal wage increase? And of course it was George Bush, not anybody that anybody would ever expect. And of course it was phased. There were several notches in the increase, but the federal minimum wage has never been changed or the law anyway about it, the federal level's never been changed since then. Now, many states, as you point out, and some cities have increased minimum wages considerably. Why do you think the feds have never managed to change it?

Michael Reich:

I think because we're in a period of political polarization and one where ideology trumps, sorry to use that term, economic interest. I remember looking at the voting records in 2009, I guess it was when Nancy Pelosi got a minimum wage bill passed and got George Bush to sign it. And I found there were quite a few Republican senators from states that had higher minimum wages than the states that surrounded them, that bordered on them, which means that if the federal minimum wage were increased at that point just to 7.25, the businesses in those senator's states would be more competitive because they wouldn't be competing with a lower wage state next door. And they were all Republicans. Many of those people voted against a minimum wage increase. So, I'm kind of left with ideology as the explanation rather than economics, and politics of course. The National Restaurant Association is a very highly organized institution and so are the National Federation of Independent Business, and they lobby.

Basically one of the... I should add that there's also a rational reason that people think the minimum wage will have negative effects, which is they're working in a typical econ 101 model with perfectly competitive labor markets and where labor demand is downward sloping, so if you raise the wage, employers are going to buy less of it. And this really brings me to the second point I wanted to make, which is in a search and matching frictions environment, which you and so many other people have done, have shown is the right framework, not perfect competition, the constraint on employment has been on the supply side of labor, not the demand side. The demand side is irrelevant, and until you get to a competitive wage, what would be a competitive wage level. And so, the reason that we don't find negative effects of minimum wages, and this has been offered since Card and Kruger if not before and before certainly, is that minimum wage increases labor supply to low-wage employers. They're able to fill their job vacancies faster and more of them. They have fewer quits, and so their workers are more experienced, and they save quite a bit on recruitment and retention costs. And so, my kind of soundbite for this with journalists is the minimum wage doesn't kill jobs. It kills job vacancies. There's also, of course, some price... As you know, and we both looked at this, there's some price effects too, which complimentary with this...

Orley Ashenfelter:

Interesting. Gotcha. I like the journalistic phrase. Yeah, yeah. What's the third point you wanted to make?

Michael Reich:

It could be either the window, other effects like higher minimum wages lead to fewer suicides per year and allow mothers of young children to work in labor force, which they otherwise wouldn't. The one I'm kind of most interested in lately is to try to show that this labor supply mechanism is actually at work, and what that requires is to show that there is in fact more people who are coming to work or want to work for low wage employers than before the minimum wage. And that's hard to do because it requires job flow data, a pretty granular sort, and also wage data. I think I'm going to look at a lot of the data that comes from job posting sites where we know wages and we know how many job posts there are, and we know how many workers are visiting them, and I think we'll be able to actually find evidence that the labor supply has expanded and where it's coming from.

Orley Ashenfelter:

I'll give you, we can have another name, Pedro Portugal. Have you ever heard of Pedro?

Michael Reich:

Of course. Yeah, I know his work....

Orley Ashenfelter:

Of the Bank of Portugal. He has a paper that actually does pretty much what you're thinking of because the Portuguese had these data on turnover, and I think what he did find was that exactly what you're describing, which is that employment did not decrease because turnover rates fell, so you actually ended up with kind of a balancing... If you think about it – there's new hires, there's departures, and there's turnover, and yeah, that is hard to get that kind of data in the U.S.

Michael Reich:

Aaron Dubay and I used QWI data and published a paper in 2016 showing the turnover went down, but we knew already about the work in Portugal, and also there was a Canadian study by Brochu, Peter Brochu and Green that also found that, and then I found it more recently for \$15 minimum wages, again...

Orley Ashenfelter:

Yes, I've come to realize that we've done this work collecting data on, as you know, wage rates at McDonald's, and I've come to realize it's just the market is, it's a lot more complicated than the simple old supply demand forks that we used to talk about. And I'm not actually sure I still really understand how it works. Just every time you look at things, you'll see puzzles, and I'm even not sure that the puzzles stay the same over time. They may actually change over time.

Michael Reich:

Yeah.

Orley Ashenfelter:

We have to come toward the end of our podcast here. But I'd like to ask you about something that's pretty general and see, get your comments about it. I think you're associated with probably, more than most economists I can think of, with the idea of thinking of economics as a social science and as one that affects society so that in many ways, not just in, we talked about the minimum wage, but there are lots of other things too. And we're in a difficult time, I think, for people that think like you. I'm pretty sure. Do you have any prognosis for what you think will come out of all that's going on, radicalization of things in a different way than it used to be?

Michael Reich:

Well, I have studied transitions in the U.S. economy from one kind of what I call stage of capitalism to another in a couple of my books, including on historical sources of labor market segmentation. And so, we could discern a big change in 1890, in the 1896 election, for example, that ushers in a period of conservative policy, not just in tariffs but in other areas and profits went up quite a bit over the next 30 years, even under Teddy Roosevelt and Woodrow Wilson, which eventually led to a crash, The Great Depression. That system, the System of 96, as some of the political scientists call it, was replaced by the New Deal in the 1930s, which of course is a totally different model. And that model worked quite well until the 1970s when it was just too many pressures were on it from oil prices, from trade unions who had cost of living escalators, from people who wanted to get into the system who weren't, like women and minorities.

And so, there's a period of, usually when these models go into some kind of crisis, there's a period of contention, what's going to be the new model that's going to work, and not just economically, but politically, and that's a confusing period because you have these different currents, different alliances, and in my book with David Gordon and Rick Edwards, [“Segmented Work, Divided Workers,”](#) which came out in 1983, we had an afterwards saying that the 1980 election of Ronald Reagan was another of these turning points, a political realignment. It was also an electoral realignment, and of course it was toward deregulation and deunionization of course, as well, and greater inequality. But that system actually worked well, especially in the 1990s, but it had... The deregulation, of course, also led to excesses, which led to the great financial crisis in 2008 and '09, and then since then, we've been in a period of another period that's confusing with different currents, which you could call the Democrats versus Republicans or whatever you want to call it. What I fear is that the 2024 election might well be still another turning

point, a realignment not in a direction that I'm sympathetic with, but definitely one that's quite challenging for many of us, and which might take quite a while to unwind, unravel based on these three or four historical periods. I know it's a small n , but .it's all we've got.

Orley Ashenfelter:

Very interesting and I think a very nice way to close our podcast. I knew about your historical interest, but I had never heard it explained quite so concisely, so thank you for that.

Michael Reich:

Sure.

Orley Ashenfelter:

Our guest today has been [Michael Reich](#), professor of economics at the [University of California at Berkeley](#). Please join us again for the next episode of “[The Work Goes On: an Oral History of Industrial Relations and Labor Economics](#)” from the [Industrial Relations Section at Princeton University](#). I'm your host, Orley Ashenfelter. Thanks for listening.

Announcer:

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