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# PERCSPECTIVES ON RESEARCH



## Jonathan Meer

Jonathan Meer is the Mary Julia and George R. Jordan, Jr. Professor of Public Policy at Texas A&M University. He received his Ph.D. in Economics from Stanford University and his undergraduate degree

from Princeton University. A former Visiting Fellow at the Hoover Institution, Dr. Meer is currently a Research Associate with the National Bureau of Economic Research. His recent work examines whether fundraising creates new giving, how Teach for America teachers impact college-going among low-income students, and the interaction between the gender of teachers and student performance. In 2020, he was the recipient of the Jeff Edwardson Award for Outstanding Undergraduate Instructor in Economics and received the University Professorship for Undergraduate Teaching Excellence at Texas A&M University in 2021.

**You won two awards now for your work with undergrads and teaching in back-to-back years, last year and in 2021. What strategies do you use interacting with and teaching undergraduate students?**

I think it's really important to put yourself in their shoes. Very few of them are sort of proto-professors and the idea that, especially for a large introductory class, we have, however, many hundreds of budding PhD economists [there], is a recipe for disaster. You [need to] take a step back and ask, who are these students and what are their goals? For an introductory class and for the vast majority of students, this will be the only economics course they take. So, what do I want them to come away with from this class? What do I actually expect them to remember even 30 minutes after the final exam? How does that shape what I teach them and how I teach them?

For students who are doing undergraduate

research, some of them may be proto-professors, but a lot of them are just trying to figure out what they're interested in and also realizing that they don't necessarily know what they want. They certainly don't have the experience that it takes to navigate the craft of research. That makes it important for me to take a step back and say, how do I put this student in a position to succeed? What are the tools I need to equip them with and what do I expect from them as opposed to, "Here's my project, let's work on it." That's sort of this medieval guild apprenticeship model, if you will: if you sit next to me for long enough, you'll also learn how to make barrels or shoe horses. And that's a good way to learn some things. I don't know that it's a good way to learn something like economic research.

**In your online Principles of Economics course, what is the one takeaway or one main point that you want them to remember past the last exam?**

Honestly, if I had to pick only one thing, it would be an understanding of opportunity cost. What I found gratifying this past semester and not just gratifying, but helped me to refocus the course, was when they were asked "What was what the most useful thing that you learned?" Eighty percent of them said 'opportunity cost' - this idea that the costs go beyond the visible price tag and into things that one is giving up by doing this and it's so important for policy, it's so important for personal life. Ignoring opportunity cost is sort of at the heart of almost everything politicians say: "This program is practically free. This money comes from nowhere. We're not crowding out some [other] use of these resources, whatever that may be." But also [in] their personal lives: am I going to stand in line for 45 minutes for a free taco? What am I giving up by going to this party the night before the exam? Giving things a name, I think, is helpful and it is such an important concept that they are actually able to grasp pretty quickly, but then I think that they are surprised by the number of applications it has.



**Do you have any advice for people who are deciding to focus on going through the undergraduate economics program?**

Again, the vast majority of them are not going to be get a PhD, but fortunately the skill set that one requires preparing for a PhD is really transferable to so many other things. That's the upside of this, that even if through this process you've decided that it's not what you want to do, you haven't wasted your time. And that process of self-discovery is a big part of why you're here and why you're doing this. That sounds like a motivational poster, but it's actually true. They don't know anything and they're here to figure it out and they're not wasting their time if they discover, "Hey, this isn't the thing for me." But you know, in terms of nuts and bolts, I just tell them to acquire as many quantitative skills as they can. I say acquire skills; I didn't say take classes because there are some things where it really matters whether you take the class or not.

**Moving on to your research on the minimum wage, you've studied how the minimum wage affects job skills, employment dynamics, and benefits, and more. What first drew your interest to study the minimum wage?**

Honestly, it was an accident. I was working on something with our former PhD student, Jeremy West, who was a PERC affiliate when he was here. Jeremy and I were actually working on health insurance mandates. This is around the time of the Affordable Care Act, and we were using this employment dynamics data set that was newly available. Then Jeremy comes to me and says "I've been throwing the minimum wage in as a control variable" and I thought "That makes sense to use as a control variable and it's always negative and statistically significant." I really didn't know anything about it and so we went into a deep dive. The cool part of this job is you can find the answers to the questions you want to find the answers to. This was a five-year long process.

The most important thing we found in that paper was not necessarily the result itself, but rather that the sorts of models that had been used in the literature for the previous 25 years were ill-suited to actually finding the effects of the minimum wage if those effects were at all dynamic, if they took time

to show up, which just common sense suggests that they should and so does economic theory. Just showing that those models were ill-suited to pick up those effects has actually led a bunch of people who are much better at econometrics than Jeremy and I to kind of dive into when is it actually appropriate to use these workforce models and refine the approaches that economists use in general to try to answer these sorts of questions.

**Some have argued that the minimum wage hasn't kept up with the living wage and it needs to be raised. What would you be your response?**

They are skipping over a whole bunch of steps in between. They're assuming that the minimum wage is going to help low-income people when in fact, it will probably help some low-income people and it will hurt others. It will end up mostly helping the teenage children of middle class and upper middle class families. It is just very badly targeted as anti-poverty policy and it has these negative unintended consequences that are most likely to fall on the most marginalized people.

More to the point, [look at] what we've seen in the last six months of just skyrocketing wages in some sectors. I took a picture in Moab, Utah, where the McDonald's and the Wendy's were offering \$18 an hour and they were clearly desperate for staff. There's really weird stuff going on in the labor market right now on the supply side in particular, but also on the demand side. The upshot is [that] nobody made that McDonald's offer \$18 an hour. The minimum wage in Utah is not \$18 an hour. It's not even fifteen dollars an hour. The wages are set by supply and demand and everything else is pretty much noise and you can mess with those prices, but the consequences may not be the ones you intend and they're probably not going to be the ones you want.

**What would be a better targeting mechanism to help low-income workers?**

We have anti-poverty policy that's targeted at low-income households and there are better ways to deliver that. I mean, there are pros and cons of this new monthly child credit. We clearly can send people checks monthly and instead, there are people in this country who get almost a third of their income in one



check, one time a year at the same time as everyone else and that's nuts. If you're a single mother of three who works and earns some, but not much and has the Child Tax Credit and the Earned Income Tax Credit and is getting a refund, you may be getting a check for eight or nine thousand dollars when you file your taxes and it's just idiotic. Many of these people do things like let [a tax preparer] take 10% in order to give it to them a month early, which is nuts. I understand the choice they're making, when you are hard up, it's really hard to say, "No. I'll wait a month and have an extra nine hundred dollars" because you need money for groceries now but that's the government's fault for giving it all at once. We can and should expand the EITC especially for childless people who right now basically get nothing and we can and should deliver it monthly or through employers in a more meaningful way. I think that a lot of people would be much, much better off and it would be a more targeted solution.

But there's a couple of appeals of the minimum wage. One [group] is pretty small but are people who are benefiting from the minimum wage in the sense that it is driving competitors out of the market. For example, when Walmart says, "We're happy with a \$15 an hour minimum wage," it's because Walmart can much more easily absorb a \$15 minimum wage than Joe's Hardware can. Joe's Hardware has two employees and Joe's Hardware does not have the profit margin to be able to withstand [a] 30%, 40%, 50% increase in the cost of labor. Walmart can say, "We used to have 55 associates working here and now we have 51." And so, it takes you a little bit longer to check out, but you're not really going to notice that it takes an extra three or four minutes on average.

Then there are people who really just like the way this sounds - it's "Fight for \$15" and it sounds easy. You know, "People don't make enough money, tell employers to pay them more!" Among politicians, they like it because it's an easy sell to their constituents and it doesn't cost the government anything. It's not on-budget, whereas the Earned Income Tax Credit is on-budget. So, who's paying for it? Well, it's a combination of workers through reduced employment opportunities and employers through higher labor costs.

Some of those employers may be single establishment, family-owned restaurants. That's not the plutocrats that we're trying to stick it to. Frankly,

some of it is nonprofits and city governments. The City of Austin likes to brag that they don't pay anyone less than \$15 an hour, then they outsource all their low paying jobs.

Then, there's consumers. Consumers might pay some of it - maybe passed through to higher prices. Unless you believe that the people who purchase services from minimum wage-type workers are all super rich, then all you've done is shuffle money around the lower and lower middle classes. And often [the money is shuffled] from the single mother of three who doesn't have the time or energy for anything other than the McDonald's drive-thru to the 17-year-old kid of an upper middle class family who's working the drive-thru to earn money for something. And that may be the transfer that's going on. That's terrible public policy. That's bad anti-poverty policy.

**Your latest paper, "Generosity Across the Income and Wealth Distributions," takes a closer look at whether the rich really live up to the stingy stereotype. What made you decide to look into how the wealthy give?**

Everything that I saw [that was] written about it was by people who were clearly using it with an ideological ax to grind or were misinterpreting evidence. There was a piece in the *Atlantic* some years ago that was basically all about how the rich are super stingy and the problem with it, and without knowing whether it was true or not, [the findings] did not follow from the argument that the author was making. The biggest workhorse on this was from The Chronicle of Philanthropy, which basically used a bunch of aggregated IRS data to say what the gradient of income and giving is. First, you're leaving aside wealth, which is really important in this because a retiree who has a low income because they're not working anymore but they're sitting on millions of dollars in assets might give a lot of money out of those assets. Maybe you have \$30 thousand in interest income a year. You live very, very well because you have five million dollars in retirement savings and every year you give \$15,000 dollars to charity. It looks like you give fifty percent of your income but you're not actually giving 50% - it's very, very misleading. We're not even counting social security income, none of that other stuff.

There are also people who have transitorily low incomes. [For example,] you're a business owner



and your business has a bad year, but you know that it's moving up and you have your charitable giving obligation. So, this year it looks like you gave 15% of your income, but really on average you give three or four percent of your income in good years and bad years. But the Chronicle of Philanthropy was using IRS data and the IRS only has data from people who itemize their taxes, which is a smaller and smaller portion and people. After the Tax Cut and Jobs Act, it's down to about 8% of people. The thing is, they don't even use data for people who are making less than \$50,000 in adjusted gross income, which is less than their actual income would be because almost none of those people itemize and the ones who do are [outliers]. So, it's definitionally true that the sorts of lower-income people who itemize are the sorts of people who have a lot of itemized deductions. What is one of those itemized deductions? Charitable giving.

It is essentially baked in that you're going to see lower income people giving a higher percentage of their income. Now that may be accurate, but it might not. So, then [Benjamin] Priddy and I kind of dived into the data to see if we can answer this question better with what we have. Can we actually use wealth and control for it? Say these two people both have \$30,000 dollars in income but one of them is actually in their peak earnings years and they're just a low-wage person and this other person is a wealthy retiree who does not have a lot of dollars and cashflow income but is in fact donating a lot. What we found was yes, but also these very, very high percentages of giving for lower income brackets were due to a very small number of outlier observations. Once we properly accounted for those, or once we reduce their ability to really skew the data, we did not find this alleged finding that higher income people are super stingy. It's just not true and it's not necessarily true that they're super generous, though at actually higher levels of income, you do see this.

Also we took a philosophical turn in this paper, which is what is generosity? Is generosity, whether or not you give? For people in the lower part of the income distribution, only about 30% of them even make a charitable donation, whereas past \$100,000, it's over 90% of people. So do you give it all? Is it the number of dollars you give? Well, that obviously stacks the deck towards higher income people. If I gave [a person] a thousand dollars, how much of it would she donate? Does it matter if it's a windfall or

whether it's a permanent increase? How do people think about this? And a lot of this is normative. This is about values and what you think. We're not going to take a stand on it, we're just laying out these issues because economists have no special claim to these questions of values and morals and normative judgments. We really don't. We tiptoe to the line, but we're very upfront about what we do and what we find and I think it's an important point.

### What's next on the research horizon for you?

Hedieh Tajali, one of our graduate students, and I have some papers looking at how charitable giving to educational causes is affected by educational budgets. So, this is sort of a classic question in public economics of what is the trade-off between government spending and voluntary contributions? We use data from donorschoose.org, which is an online platform that allows you to donate to teachers. Teachers post projects, and then people donate to them. We match that with high quality data from the Department of Education. The really important findings from an economics perspective is if you just look for evidence of 'crowd out,' that contributions are reduced when budgets go up, then you find it, but it appears to be driven by the behavior of the teachers themselves. That is, teachers post less when their budgets are higher. Again, we're not taking the stand on [whether this is a] good thing or a bad thing. In fact, all of the change in donations can be explained by the change in the teachers' behavior, which has really different implications for human behavior and how we think about altruism.

### If there were no constraints or limitations, what would you choose to study next?

I would want to study, and these data exist in the Census Research Data Center, really high-quality data on employer-employee matches connected to demographic data where available. I think you could answer a lifetime's worth of interesting questions about how people move in and out of employment and how people switch employers. How do the demographic characteristics of an employer or a company affect the sort of people who end up working there? What are the sort of amenities that they have? That would be my dream data set, plus an army of RAs to tackle it.



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## DROPOUTS NEED NOT APPLY? THE MINIMUM WAGE AND SKILL UPGRADING

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In the United States, politicians and the public alike have again sounded the call to raise the federal minimum wage, citing unlivable earnings and high consumer prices due to rising inflation, but would an increase actually benefit lower-skilled workers? In PERC working paper 2111, Jonathan Meer, the Mary Julia and George R. Jordan, Jr. Professor of Public Policy, along with coauthors Lisa Kahn and Jeffrey Clemens, explore whether minimum wage increases result in substitutions from lower-skilled to higher-skilled labor.

One important tactic firms may use to pivot in the face of minimum wage increases is through substitution towards higher-skilled labor. If the minimum wage exceeds the value of a worker's output, a firm can potentially find a replacement worker whose productivity meets or exceeds the floor. This phenomenon of "labor-labor substitution" may have important consequences, even when effects on employment as a whole are small. To the extent that jobs shift towards higher skilled workers, those workers who are replaced, or who no longer meet the job requirements, may be disproportionately from already disadvantaged groups. Such groups may include the young, less-educated, uncredentialed, and those living in low-income households.

Although research on the minimum wage and its effects have been ongoing for more than a century, early studies were limited by their inability to estimate labor-labor substitution accurately, since the data available at the time only included coarse demographic groupings, which does an imperfect job of tracking minimum wage workers. More recent research has explored the employment impacts of the minimum wage on multiple population subgroups and focuses on whether the losses of one group are offset by the gains of others by analyzing the number of available jobs. Beyond analyzing the stock of job vacancies, very little is known about how increases in the minimum wage affect firms and their hiring decisions, as well as how these decisions affect the bottom 10% of occupations.

This paper examines labor-labor substitution in response to minimum wage increases through two

analyses. First, using American Community Survey (ACS) data, the authors document employment shares of young adults and those without a high school degree in low-wage occupations after state-level minimum wage increases that occurred from 2014-2016. Using a difference-in-differences method and controlling for the timing of varying labor market conditions and occupations, the individuals who are more exposed to minimum wage increases are then categorized based on the pay distribution of their occupation based on pre-Great Recession wage distribution rankings.

Findings show that the effects of minimum wage increases are concentrated among individuals employed in low-wage occupations. Following recent statutory minimum wage increases, which averaged around \$1.70 over the course of the sample, individuals in these groups are, on average, a quarter of a year older and 4 to 5 percent less likely to be a young adult (age 16 to 21) or to lack a high school degree. No impacts were found on employment shares for other demographic groups, including those defined by race, gender, and country of birth.

In general, it is difficult to know whether changes in equilibrium employment stocks are driven by supply-side responses, the composition of firms, within-firm demand, or by changes in the nature of the jobs within each occupation. The authors use data from Burning Glass Technologies (BGT), which contain nearly all online job postings in the United States, in order to better understand the role that firms play in this "upskilling" process for the years 2011-2016. The analysis of this data set shows that the prevalence of requirements for a high school diploma increase following minimum wage hikes. The effect is concentrated among postings for low-wage occupations, where the diploma requirement increases by about 10 percent. No effects were found for higher levels of education, like college degrees, that should be unaffected by minimum wage increases. Minimum wage increases also had little impact on experience and other skill requirements.

If the goal of raising the minimum wage is to help the lowest-earning and less-educated workers in our society, then it is substantially missing the



mark. Post Great Recession, ACS data shows that recent minimum wage changes resulted in increases in the average age and education of the individuals employed in low-wage jobs. Data on job vacancy postings show that the prevalence of a high school diploma requirement increases at the same time. The shift in skill requirements begins within the first quarter of a minimum wage hike and results from both within-firm shifts in postings and across-firms shifts towards firms that sought more-skilled entry-

level workers. The combination of an immediate shift in stated requirements accompanied by a gradual increase in the skill level of employees suggests that we are indeed observing labor-labor substitution in response to minimum wage hikes. Given the poor labor market outcomes of individuals without high school diplomas, these findings have substantial policy relevance and a different policy mechanism should be considered.

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