

A Nobel prize for debunked research?

This week came the announcement that the [Bank of Sweden Prize in Economic Sciences](#) has been awarded to three American economists for their [work on natural experiments](#). There were two key areas that were recognised, with each area having two key people that contributed to it. However, one of the four key people has died so two of them shared half of the prize (25% each) and the third got a 50% share but called out his former colleague who helped with the work.

The area of natural experiments is a worthy prize winning advancement. Rather than using experiments that require substantial time and cost to setup, researchers can use two similar groups and monitor what happens after one has a change and the other remains the same. It's like a medical test where one group gets a new drug and the other gets a placebo, but you don't have to go through the pain of setting it all up. In this case, the economist who won a half share (David Card, who worked with his deceased colleague Alan Krueger) is most famous for using a change in minimum wages in New Jersey as a comparison with neighbouring Pennsylvania to test whether higher minimum wages led to job losses.

Their study found that the increase had minimal impact on employment. The research was ground breaking at the time as it broke from the classic demand and supply analysis that held that higher minimum wages would lead to fewer jobs and less hours worked. The study is one of the most famous in economics as it directly contradicts the orthodox view. It has been used by many people and organisations around the world to justify higher minimum wages. There's just one problem, the study [has been debunked](#) with the authors erring by calling employers and asking them how they responded to the higher minimum wage rather than looking at actual data. A [far less famous study looked at payroll data](#) and found that as expected, higher minimum wages did lead to reduced employment and hours. This aligns with [the vast majority of studies on minimum wages](#), which find that higher wages do lead to reduced employment.

For some recent evidence on minimum wage increases, a Californian local government raised minimum wages and then saw [a wave of restaurant closures](#) with those remaining opening eliminating table service. To cover the higher wage costs, restaurants raised prices, reduced service and subsequently lost customers. Old school economics continues to be right, even if an economics prize is awarded to those who say otherwise.

On a similar note, my recently published articles that recommend [limiting migration to high skill workers](#) and dealing with both the [demand and supply issues for affordable housing](#) have had a good run and received lots of positive comments. However, the AFR and the usual vested interests are getting behind a push to import a huge number of people, both low and high skill. The fact that this would make housing even more unaffordable and make climate change targets even harder to hit seems to be lost on many.

Written by Jonathan Rochford for Narrow Road Capital on 16 October 2021. Comments and criticisms are welcomed and can be sent to info@narrowroadcapital.com

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