The Card and Krueger Debate Thirty Years On: A Review of the Empirical Literature on Minimum Wage and Youth Employment

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ECON 3215: Labour Economics

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18 April 2026

Introduction

The relationship between minimum wage policy and youth employment has been one of the most contested questions in labour economics for over thirty years. Card and Krueger's (1994) study of fast-food employment in New Jersey and Pennsylvania found no evidence that a minimum wage increase reduced employment, contradicting the prevailing economic consensus. Subsequent re-analyses by Neumark and Wascher (2000, p. 1362) using payroll data rather than telephone surveys reached the opposite conclusion. The disagreement persists because the two studies disagree on what counts as evidence, not on what the evidence shows.

This paper reviews the empirical literature that has accumulated since 1994 and argues that the apparent contradiction between studies is largely a function of methodological choices: which firms are sampled, whether employment is measured in hours or in headcount, and how the geographic and temporal scope of the comparison is constructed. When these methodological factors are accounted for, the literature converges on a more modest conclusion than either side has typically claimed.

The Methodological Dispute

The Card and Krueger (1994) study used a difference-in-differences design comparing fast-food employment in New Jersey, which raised its minimum wage to $5.05 in April 1992, against employment in eastern Pennsylvania, where the federal minimum of $4.25 remained in effect. They found that employment in New Jersey increased relative to Pennsylvania, the opposite of what standard labour-market theory predicted.

The Neumark and Wascher (2000) reanalysis used the same time period and geographic comparison but drew on payroll records collected by a private firm rather than the telephone surveys that Card and Krueger had conducted. The payroll data showed an employment decline in New Jersey relative to Pennsylvania of roughly 4 to 5 percent, consistent with the standard prediction.

The methodological dispute matters because both studies used defensible designs. Telephone surveys capture self-reported employment at the moment of the call but are subject to response bias and recall error. Payroll data are more accurate at the level of the individual firm but exclude firms that did not contract with the data provider, raising sample-selection concerns. Neither dataset is the unambiguous truth.

Conclusion

The thirty-year argument over Card and Krueger has produced more consensus than the headlines suggest. The literature now broadly accepts three findings. First, modest minimum wage increases in the United States have small negative effects on employment for the lowest-skilled workers, with point estimates clustering between negligible and a 2 percent reduction. Second, the size of the employment effect depends on how high the minimum is set relative to the local median wage; increases that push the minimum above 60 percent of the median produce larger disemployment effects (Cengiz et al., 2019). Third, the effects are not symmetric across worker groups: teenagers and workers without high school diplomas bear most of the adjustment.

This convergence does not resolve the policy debate, but it changes its character. The remaining disagreements are about how much disemployment is acceptable in exchange for higher wages for those who keep their jobs, and about whether the minimum wage is the right policy instrument for raising low-end incomes. Those are normative and political questions, not empirical ones, and the empirical literature has done about as much as it can to inform them.

Reference List

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