The Unintended Consequences of Unpaid Internships and their Abolition upon Inequality and Business Behaviour

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Abstract

Unpaid internships present a number of problems to the students who take them including the financial opportunity cost and the inability of the poor, who lack the parental support necessary, to utilize them. Most in the private sector are in fact illegal under the Fair Labor Standards Act (FLSA), although the strict guidelines can be hard to follow. The ‘go to’ solution to this problem has been to enforce the FLSA more strictly on this issue and end most unpaid internships, as poor students could then take almost all of the full time internships. However, little literature exists on the effects on the market for internships because of this. How would employers respond? How would this affect who gets an internship? This paper suggests through studies on the effects of minimum wage and responses by both employers and potential interns that increasing numbers of the remaining internships will go to the children of the rich.
I. Introduction

The best intentioned ideas can sometimes lead to the worst possible results. Back when he supported free trade more, Paul Krugman uncovered the tragic impact of a law designed to end child labour in Bangladesh. In 1993, Senator Tom Harkin put forward a bill banning imports from countries using underage workers, which lead to Bangladeshi factories letting go of their child labourers. “But did the children go back to school? Did they return to happy homes? Not according to Oxfam, which found that the displaced child workers ended up in even worse jobs, or on the streets – and that a significant number were forced into prostitution” (Krugman). Mr Harkin’s good intentions actually made these children’s plight worse. Economists call this the Law of Unintended Consequences.

The Law of Unintended Consequences dominates the mind of many an economist. It’s all very well looking at the simple ideal of a policy, but the differences between the intentions of a policy and its result are vast, as demonstrated above. That is not to say that all unintended consequences are bad, rather they are the unforeseen effects, either good or bad, of a decision. The market for labour witnesses the effects of many of these sorts of decisions and their impact on the market directly affects the lives of millions upon millions of people. This global market for labour contains child workers, poor workers, overworked workers, and workers who aren’t even paid. Unpaid interns make up a share of the workforce and just like the children of Bangladesh, people want to make their lives better. But if such people were successful in their aims, what unintended consequences would they have on the labour market and the very people they want to help?
II. Aims and Objectives

This paper concerns the effects abolishing most unpaid internships would have on the demographic wealth distribution of who would get those internship. Through a series of interviews, economic models, and research this paper will show that:

1. The increase in the wage offered for most internships will increase unemployment in the market due to fewer internships being available.

2. The resulting rise in unemployment among those seeking internships will allow firms to become more selective about whom they hire and that selectivity will directly and indirectly aid the children of the rich rather than the poor that such laws are designed to aid.

The following sections of this paper examine several aspects of the topic in question. Section III looks at the market for college internships in its present form as well as the legality of such internships under the Fair Labor Standards Act (FLSA) according to both law reviews and court cases. Section IV then dives into some literature concerning how to figure out the unemployment rate and reveals their conclusions cannot be applied to this paper’s problem because traditional methods are inadequate due to the size of the change. Rather, for this problem, a general model will be necessary which feeds into Section V, adapting the model for unemployment created by MIT economist Christopher Flinn. Section VI reveals the results and the likelihood of this outcome given the parameters of the limited data available. Section VII examines the implications of the expected outcome regarding potentially unexpected outcomes, particularly with regard to inequality. If the unemployment rate becomes large enough, people will have to find other ways to compete for internships, some firms and interns may operate outside the law, and some firms may employ favouritism. Finally, concluding remarks on the matter and the campaign against unpaid internships are made in Section VIII.
Legitimate arguments against unpaid internships exist. They do increase inequality because not everyone can afford to work for nothing. No one disputes this fact; rather this paper suggests that removing unpaid internships will make matters worse, let alone better.

III. The Situation Today

Mikey Franklin wants to end unpaid internships in the public sector. He worked as an intern in the past and really enjoyed it, but feels that the public and private sector now take it for granted that people will work for no pay. In 2013 Franklin founded the Fair Pay Campaign, surprised that such an organisation hadn’t appeared before. His opposition to these programmes is easy to understand and has a clear message: “Not everyone can afford to take an unpaid internship.” The need for such a campaign has been increasing over the years.

In 2012, 66 per cent of internships were unpaid according to internships.com CEO Robin Richards (Smith). This has been due in part to the number of students seeking internships who lack skills compared to other workers and can therefore only compete in the lower wage they are willing to take.

In 1981, the proportion of college graduates nationwide who interned was one in thirty-six; by 1991, that number had jumped to one in three. A survey by Vault estimated that in 2004, eighty percent of graduating college seniors had participated in some kind of internship, whereas a decade ago only sixty percent of seniors had interned (Curiale, 104).

Internships now form part of university programmes, and firms increasingly look for internship experience along with a bachelor’s degree when deciding who to hire. But this increase in the number of people participating in internships has also drawn attention to the practice. This attention however, comes not from economics journals, but rather from the media and law reviews.
Does the law view interns as employees or as trainees? This question determines the ability for an individual to work for no pay. Specifically, they must meet the requirements set by the Fair Labor Standards of 1938. Obviously, internships were not very common then so the question has been taken up by judges and law reviews. Fortunately, the Department of Labor’s Wage and Hour Division clarified the FLSA in 2010 with Factsheet #71, setting strict requirements concerning the status of an intern. When determining an individual’s position as an employee or a trainee, companies must meet the following criteria:

1. The internship, even though it includes actual operation of the facilities of the employer, is similar to training which would be given in an educational environment;
2. The internship experience is for the benefit of the intern;
3. The intern does not displace regular employees, but works under close supervision of existing staff;
4. The employer that provides the training derives no immediate advantage from the activities of the intern; and on occasion its operations may actually be impeded;
5. The intern is not necessarily entitled to a job at the conclusion of the internship; and
6. The employer and the intern understand that the intern is not entitled to wages for the time spent in the internship.

If all of the factors listed above are met, an employment relationship does not exist under the FLSA, and the Act’s minimum wage and overtime provisions do not apply to the intern. This exclusion from the definition of employment is necessarily quite narrow because the FLSA’s definition of “employ” is very broad (FLSA Factsheet #71).

The document contains a good degree of ambiguity and it can prove hard to determine when an intern displaces regular employees (especially if said interns substituted for new employees).

Another important thing to note though is that the Department of Labor states at the end of the sheet that “This publication is for general information and is not to be considered in the same light as official statements of position contained in the regulations” (FLSA Factsheet #71). However, this application of the FLSA is not without precedent. The Work and Hours Division’s interpretation stems from the Supreme Court case Walling v. Portland Terminal Co. which helped define trainees due to Portland Terminal Co.’s unpaid trainee programme which sometimes impeded the railroads business (Curiale, 109). This court case has helped judges with more recent court cases involving internships.
Franklin got an early victory and an early ally in his campaign against unpaid internships when New York District Judge William H. Pauley III ruled in favour of the unpaid interns in *Eric Glatt v. Fox Searchlight Pictures Inc.* on June 11th, 2013. Glatt and his co-worker Alex Footman had worked on the film *Black Swan* as unpaid interns getting coffee and cleaning up (Durrant, 3). These were not experiences for the benefit of the intern and did provide an immediate (if monetarily limited) benefit to the employers. Additionally, it didn’t resemble training in an educational environment. Judge Pauley subsequently ruled that “they were ‘employees’ covered by the FLSA and [New York Labor Law] NYLL and do not fall under the ‘trainee’ exception established by *Walling v. Portland Terminal Co.*, 330 U.S. 148 (1947)” (Pauley, 19). A string of law reviews have also come out on the matter, but there remains a noticeable absence of economic research into the effects of removing unpaid internships from the labour market. Craig Durrant’s *To Benefit or Not to Benefit: Mutually Induced Consideration as a Test for the Legality of Unpaid Internships*; Jessica Curiale’s *America’s New Glass Ceiling*, and Andrew Bennett’s *Unpaid Internships & The Department of Labor* all highlight the problems of unpaid internships.

In addition to the inequality of opportunity, the opportunity for exploitation also arises. In *O’Connor v. Davis*, Bridget O’Connor had a supervisor who sexually harassed her leading her to file a suit against him (Durrant, 27). However, the court dismissed the case because the law did not judge her as an employee (27). If she had been a paid intern, the law would have offered her protection by dis-incentivising her supervisor.

Whilst these court rulings and law reviews do a good job of determining the legality of most unpaid internships in the private sector and their consequences, they fail to address the economic consequences of their solution: to better enforce the law. They cite several sources
revealing that “In some fields like entertainment and politics, nearly all internships are unpaid” (Bennet, 295). This leaves questions unanswered. What is the cost-benefit of interns compared to hired employees or not hiring them? That will determine if they still exist? Will these court cases make firms decide internships aren’t worth the trouble?

The ambiguity of some requirements has led different companies to take different actions. Like Fox Searchlight, interns sued Condé Nast, which has since ended its internship programme as a result whilst Atlantic Media replaced its unpaid internship programme with a paid one (Carr). But whilst the media does note examples of the implications of removing unpaid internships, neither the law reviews nor their academic sources, notably David Yamada (Who also wrote a law review), answer these questions. Above all, how will the unemployment rate among interns change if many who were originally paid close to $0.00 per hour suddenly earn $7.25 an hour? If a large enough surplus of labour emerges, then firms can employ favouritism and might work harder to seek out more skilled individuals than they would have before.

Of all the authors of the law reviews covered, the only person to say anything about the change in the unemployment rate is Andrew Bennett. He acknowledges the idea that the number of internships would decrease, but denies its significance… in his conclusion. It is quite literally three sentences:

One concern repeatedly voiced is that if the Department of Labor launches a vigorous enforcement campaign to end illegal unpaid internships, internships will disappear because employers will not be able to afford them. To the contrary, it is likely that the vast majority of unpaid internships will convert into paid internships. Economists have found that minimum wages laws do not necessarily result in a decrease in the number of jobs.¹⁷⁶

These economists referenced in footnote 176 are David Card and Alan B. Krueger. Their study of the Fast Food industry New Jersey and Pennsylvania started with the observation that the industry was a monopsony due to a substantial lack of other buyers of minimum wage labour.
This idea has some validity as a characterisation of low-wage employment. Research suggests an increase in the minimum wage had a small effect on employment, as suggested by Charles Brown in 1982 and Allison Wellington in 1991, but Card and Kreuger were arguing the market had only one firm, or type of firm demanding labour and that a rise in the minimum wage would lead to more employment. The market for internships can categorically be proven not to be a monopsony just by reading Bennett’s law review. So what does the economic literature regarding the unemployment rate and the minimum wage say?

IV. Literature Review

Most economists accept that increasing the minimum wage increases the unemployment rate or else they wouldn’t teach it in every basic economics class. However, economists do question the extent of its effect. Charles Brown et al. published the first significant modern study in 1982 concerning the effects of increase in the minimum wage on the demand for labour, working off of simulations by labour economist Finis Welch. Their samples varied in terms of age and location demographics, though they primarily focused on age groups. Their conclusions then varied by demographic. For this study, the results for teenagers were more important than young adults in their 20s and 30s because interns are more like teenagers looking for temporary work rather than full time employment:

In summary, our survey indicates a reduction of between one and three percent in teenage employment as a result of a 10 percent increase in the federal minimum wage. We regard the lower part of this range as most plausible because this is what most studies, which include the experience of the 1970s and deal carefully with minimum-wage coverage, tend to find (Brown et al. 41).

However, there are severe limitations with this data because it assumes that the demand for labour is linear, which it may well be when looking at a 10% change, but here we’re looking at a change from $0.00 to as much as $7.25. Assuming an inters gets a $50 travel expense a month,
which works out to $0.3125 per hour, then suddenly being paid minimum wage would reflect a change of 2,220 per cent.

Alison Wellington did a similar study in 1991 observing the impact of a 10 per cent rise from the $3.35 minimum wage that had been around since 1981. Like Brown, Wellington also used a two-sector model (from Welch, the same source Brown used). Her study used an empirical model to find the effect on teenage and adult unemployment due to the minimum wage. Her samples varied in terms of age and location demographics, though they primarily focused on age groups like Brown. Wellington then concluded that “a 10 percent increase in the level of the minimum wage reduces teenage employment by approximately 1.8 percent” (Wellington, 38). This estimate has uses in providing a logarithmic change as well as a linear one, which would be a little more accurate. But, as with Brown, there are similar limitations with this data due to the extent of the change in wages by only 10 per cent, but at least there are some logarithmic figures. Additionally, these figures were made when the coverage of the minimum wage was low whereas today’s economy likely has a higher coverage given the current levels of unemployment and underemployment. A model for unemployment in the labour market would provide a much better solution to the problem. Fortunately, MIT professor Christopher Flinn does just that in his 2010 book *The Minimum Wage and Labor Market Outcomes*.

V. **Conceptual Framework, Model, and Data**

To discover the equilibrium in the market for labour one must understand the decision making process of the buyer of labour (the firm) and the supplier of labour (the job seeker). To that extent, a firm will not hire a person unless the profit (\(\pi\)) is greater than or equal to the wage (\(w\)), which in this case is (\(m\)). A firm can create a vacancy at any time until the expected profit
is zero. Of the models that factor in this information, the best for the study to employ comes from recent work by Christopher Flinn. Flinn uses a great deal of variables, a lot of complicated mathematics, and a lot of data that only PhD professors at Ivy League universities can get a hold of. Where necessary and appropriate, the model uses some of Flinn’s data from a study of 2,022 nationwide McDonalds employees from 1996 (Flinn, 169). This group of the labour force shares some common characteristics with the market for interns who come from a similar age group and lack skills. A log likelihood (ln L) equation will be used to verify the validity of the model. With this in mind, one must remember that the purpose of the model is not to give a precise number to the unemployment rate, but rather prove the general idea that an increase in the minimum wage on interns from $0.3125 (the model will not work with $0.00) to $7.25 will raise the unemployment rate substantially.

Creating such a model requires a lot of variables. Generally speaking, the data needed can be found using the following adjustable parameters at a unique equilibrium: the minimum wage (m), the bargaining power of the person searching for a job (α) and the Cobb-Douglas Parameter (γ), which is the same as the pooled match elasticity (176). The first important assumption to make is that the time one is employed or unemployed has no standing on the decision to hire, which is reasonable to make as university students are often on equal standing in this regard. This gives us the values for the average frequency of an offer arriving (λ) and the average length of employment (η). Flinn’s data will be used for λ (= 0.309), α (= 0.404), and γ (= 0.147) (169, 173, and 176). m = 0.3125 and 7.25, and η = 0.003 to represent the average three month length of an internship. This last figure does have some effect on the edges of the model as small changes have a larger effect.
Changes in the minimum wage cause two crucial changes that affect the unemployment rate. The first is the endogenous contact rate of potential employees to employers, which affects how often businesses become aware of a new prospective employee. The endogenous contact rate as a function of \( m \) is written as:

\[
\lambda(m) = \left[ \hat{G}(m)J(m) \right]^{\gamma/\gamma} / \gamma
\]

Where \( \hat{G}(m) \) is a lognormal distribution with parameters \( \mu \) and \( \sigma \) taken from Flinn as 2.243 and 0.579 respectively (173). \( J(m) \) is the function of expected value of a filled vacancy at wage \( m \). Logically, no employer will take on a paid intern if they aren’t going to turn a profit so the expected value must cover the costs of seeking the intern and employing them over the course of 12 weeks for 40 hours a week. Assuming an intern will work 40 hours a week can seem rather extreme during the academic year, but full time internships aren’t uncommon in the summer and allow the full time employment model to better reflect the scenario in question. With that in mind the expected value of filled vacancy as a function of \( m \) is written as:

\[
J(m) = ((0.765 + m)(40 * 12)) - (m(40 * 12)) - \psi
\]

This brings us to the final, and most frustrating, variable: the flow cost of a vacancy (\( \psi \)). There are costs to filling a vacancy in terms of interviews and opportunity cost.

In an interview with employer Miguel Peñaloza at the Institute of International Finance, he revealed that the search for an unpaid intern normally lasts no longer than a couple of hours of sifting through cover letters and a couple more hours for four or five thirty minutes interviews. However, he admitted that if he wanted a paid intern, he would have a more rigorous, intensive, and costly search process (Peñaloza). To this end, the flow cost was set at an arbitrary value of 0.66 when \( m = 0.3125 \) and 128.96 when \( m = 7.25 \), the latter being taken from Flinn (Flinn,
There is no effective way to guarantee that these numbers accurately reflect the real world. However, given that internmatch.com charges firms $99 to advertise an internship position and the other opportunity costs of a more thorough search to consider, the number isn’t unreasonable (Employers: Pricing). Use of such websites should increase as firms work harder to find better, more profitable, interns. Additionally, so long as the log likelihood resembles Flinn’s then they have a degree of plausibility to these numbers.

The final variable before moving on is the Critical Match Value, which is also affected by the minimum wage ($\theta^*(m)$ or $\rho V_U(m)$). This changes as people’s views of the value of the job search change and is represented in Flinn’s work by the equation:

$$\theta^*(m) = 0.256(m) + 2.295$$  
(Flinn, 173)

However, there are two other assumptions to make given the limited information. First, all students are looking for internships. In this situation the labour force participation rate is not useful due to the fact that this scenario only concerns a tiny fraction of the labour market itself. Assuming the labour force participation rate is 100 per cent makes things clearer. Second, the more interns are paid, the more productive the interns themselves become, due to a combination of the efficiency wage theory and due to the type of work firms will assign them (it’s rather expensive to pay someone $7.25 an hour to go and fetch you coffee, although it could still occur). Because internships can involve training for more profitable skilled work than say burger flipping, it’s not inconceivable that this might occur and provides justification for the equation for $J(m)$.

With all of these variables, the model can put them to use. The Unemployment Rate of those in the labour market (everyone) is the probability of people looking for work and failing to find work or:
\[ p(u \mid V_0 < V_U(m)) = \frac{\eta}{\eta + \lambda(m) \cdot \hat{G}(m)} \]  

Where \( r(m) \) is the \( \text{Max}(m, \theta^*) \). Finally, the outcome undergoes the log likelihood test:

\[
\begin{align*}
\ln L &= N \ln h_U - N \ln D - N_U \ln \eta - h_U d \sum_{i \in S_U} ti + N_M \ln (1 - \hat{G}( \frac{[m - (1 - \alpha) \theta^*]}{\alpha} )) + \\
\sum_{i \in S_H} \ln \left( \frac{(1/ \alpha) g\{w_i - (1 - \alpha) \theta^*/ \alpha\}}{\hat{G}(m)} \right)
\end{align*}
\]

Where \( N \) is the number of observations (2,022), \( D = \eta + h_U \), \( h_U \) is the hazard rate of the unemployment state (\( \lambda \hat{G}(m) \)), and \( d \) is the individuals decisions whether or not to join the labour market and is therefore always equal to one in this model (169, 153, and 66).

VI. Results

The first step is to calculate \( \hat{G}(m) \), \( J(m) \), and \( \lambda(m) \) at \( m = 0.3125 \) and \( m = 7.25 \). Solving these outs gives the following answers:

- \( \hat{G}(0.3125) = 2.0167 \times 10^{-9} \)
- \( J(0.3125) = ((0.765 + 0.3125)(40 \times 12)) - (0.3125(40 \times 12)) - 0.66 = 367.13 \)
- \( \lambda (0.3125) = \left[ \frac{2.0167 \times 10^{-9} \times 367.13}{1 - 0.147} \right] = 6.597 \)

- \( \hat{G}(7.25) = 0.326 \)
- \( J(7.25) = ((0.765 + 7.25)(40 \times 12)) - (7.25(40 \times 12)) - 128.96 = 238.19 \)
- \( \lambda (7.25) = \left[ \frac{0.326 \times 238.19}{1 - 0.147} \right] = 0.0528 \)

Immediately \( \lambda(0.3125) \) appears questionably high, whilst \( \lambda(7.25) \) suggests the frequency of applications to businesses would greatly increase. Any results for \( \lambda(0.3125) \) must therefore be taken with a lump of salt. The latter finding, however, isn’t surprising. In 2012 Robin Richards found that postings for paid internships received four times as many applications than unpaid ones (Smith). The second step is the most important, calculating the unemployment rate at \( m = 0.3125 \) and \( m = 7.25 \). The results suggest a mixed bag.
The change in unemployment is surprisingly small given the large change in the minimum wage, probably owing to the combination of the efficiency wage theory, firms giving interns more profit maximising work, and the questionable accuracy of $p(u | V_0 < V_U(0.3125))$.

Finally there is the log likelihood to consider and though, unsurprisingly, $m = 0.3125$ produces a result outside the bounds of Flinn’s own findings of -5,000 to -10,000 (with most of his results closer to the latter), the result for $m = 7.25$ does fall into that area. Therefore, using Flinn’s model and some of his data, we can conclude that a change in the minimum wage of this magnitude would create a large enough rise in the unemployment rate of labour from a fall in demand to result in things like favouritism and searches for better workers. So what sorts of unintended consequences could be expected from a rise in unemployment rate of student labour?

\[
p(u | V_0 < V_U(0.3125)) = \frac{\eta}{\eta + \lambda(m) \cdot G(r(m))} = \frac{0.003}{0.003 + 6.597 \cdot 0.00866} = 4.99\%
\]

\[
p(u | V_0 < V_U(7.25)) = \frac{\eta}{\eta + \lambda(m) \cdot G(r(m))} = \frac{0.003}{0.003 + 0.0528 \cdot 0.326} = 14.84\%
\]
VII. **Implications**

Given the knowledge that an abolition of unpaid internships would raise unemployment significantly, policymakers must consider the possible results of this outcome. The increase in the volume of applications gives firms a larger pool of prospective interns to choose from. Given the assumption that the bargaining power lies with the companies, their decisions that deserve closer examination. Generally speaking, most surpluses in a market result in 1) concessions by sellers to buyers 2) finding ways around the law, and 3) favouritism. The first of these takes the form of competing through other means than the price mechanism, often through the quality of the product. The second involves people working outside the bounds of the law, allowing employers to pay willing employees below the minimum wage. The third, and most concerning of these, regards employers picking equally qualified people based off of other things than merit because this situation allows them to do so. These are not things that can be definitively proven from occurring, but rather, need to be disproven given the very nature of surpluses in a market.

When people can no longer compete by offering to work for less, they often have to offer more of what buyers want. In the case of employees, this means more knowledge, more skills, more dedication to work; basically more ability to increase the firm’s profits. This was reflected in the model results, internships involving menial and unprofitable tasks would likely vanish in favour of important, or at the very least, profitable work (sometimes profitable work is menial and undesirable). Employers would probably better vet potential interns by increasing entry requirements: incorporating or raising minimum GPA requirements, demanding unofficial transcripts, and possibly even only asking for students pursuing a master’s degree or more instead of an undergraduate’s degree.
Concerning inequality, these aren’t severe problems if we only look at the demographic wealth gap between undergraduate and graduate students. In 2001, New York University professor Dalton Conley found that “parental income is significant in predicting total years of schooling, but fails to reach significance for any of the postsecondary outcomes” (Conley, 66). Assuming that poor students at university work equally as hard as rich students, their family background should not negatively affect their chances of getting an internship. However, if employers’ screening processes place more value on things like dress and manners, those from rich backgrounds might be at an advantage even though they would not really be able to do the job any better, and would not have better grades or accomplishments in school. When two equally qualified candidates cannot compete by offering to work for a lower wage, they might need to compete by dressing better and behaving more politely.

Luckily, given that the rise in unemployment isn’t enormous, firms probably won’t only hire students with a master’s degree or something higher. According to the 2012 US census data on educational attainment, of the 9.899 million people between 18 and 29, only 1,682 million had achieved a master’s degree or higher. Given that only 16.99 per cent of the labour force has those kinds of degrees, there’s little chance of companies exclusively looking for interns among that segment of youth pursuing higher education.

Off the book internships present more of a problem. Though black markets tend to only appear when surpluses and shortages are exceptionally large, firms that wish to continue to hire free labour without adhering to Factsheet #71 have to find ways around the law. They have before, and some doubtless will in the future even if heavier enforcement practices raise the costs of doing so. Equally, students seeking internships may decide that an unpaid internship outside the law is better than none. The most obvious way around the law involves limiting an
interns hours at the office and then sending them home with work that they have to do to keep their position, but don’t get paid for. Such was the situation American University student Maggie Moore found herself in; doing a paid internship that frequently sent her home with additional work.

If actual black markets did emerge, interns in this field would face more risks than employees do such as sexual harassment. However, this reveals one of the positive facts about paying interns. As noted earlier, courts don’t see unpaid interns as employees and therefore they don’t get the benefits of protection of the law from inappropriate behaviour by their superiors. However, if a firm pays its interns then the law treats them as employees and would make them eligible to file a law suit against their superiors if they were sexually harassed. Abolishing most unpaid internships should provide strong disincentives against such treatment of most interns. Nevertheless, employees who decide to skirt the law to get an internship must give up the protection a lot of the law provides against bad employment practices. These practices would only disproportionately affect the children of the poor if they end up with the majority of these kinds of internships. Sadly, it seems likely that students from poor backgrounds would because of the third effect of surpluses: favouritism.

When the unemployment rate is exceptionally high, it isn’t what you know so much as who you know and in the real world, the rich often know the right people to get the best internships. Many people highlighting the exploitive culture of unpaid internships fail to realize that the problems they list won’t go away and might even get worse if firms have to pay interns. Several notable examples from the United Kingdom (UK) highlight the potential consequences. With internships becoming scarcer, the ability to find them goes down. Increasing demand for internships in the UK led to the creation of Etsio, which sells access to internships. “They charge
interns up to £100 a day to get work experience in small, specialised businesses” according to The Guardian (Malik and Rajeev).

This model isn’t so bad for the poor since it only affects those who find internships through their services. However, in country where minimum wage earners only make £48.64 in an eight hour workday this isn’t exactly affordable. Demand for paid internships could hypothetically drive the cost of such a service above the pay interns would receive after tax and travel expenses. At that point, the surplus of labour might force interns to lose money taking paid internships just as they did with unpaid ones. Except before, everyone had equal access to these internships posted on websites. Under the Etsio system, only those willing to lose pay would get better access to internships, giving the rich an edge over the poor that did not quite exist before. Some small, selective areas of the US internship market already have such systems in place. On their website, the Association of Psychology Postdoctoral and Internship Centers (APPIC) offers students access to: “the APPIC Match, the National Matching Services, the APPIC Directory On Line and the online APPIC Application for Psychology Internship (AAPI)”… for a price (Students and Postdocs). The cost of the AAPI will increase by $15 per application to around $27 for the 2014-15 internship year, so that 15 applications will cost $400 (Students and Postdocs).

On the other hand, websites like InternMatch charge companies to post internships positions on their website (Employers: Pricing). Like taxes though, that doesn’t mean firms bear the cost, but rather the group with the more inelastic curve. With the profit from interns realistically small and therefore fairly elastic, companies would likely find both direct and indirect ways to pass on the costs to the employees. These websites exist in a market dominated by unpaid internships (though neither website states how often the internships they match people
to pay), and a high unemployment rate would undoubtedly make this situation worse. But even worse threats to poor student’s access to internships exist.

Firms want to make a profit off of paid interns. They can do that either by giving them work that generates a profit and hope they do so or they can find an alternative way to make cash. How might this happen? Again, the United Kingdom offers a good example of the slippery slope paid internships could lead the market down. Back in 2011 at a Conservative Party fundraiser it was discovered that “millionaire Tory supporters paid around £3,000 each for their children to have the golden chance of spending a week or two with a number of top finance companies and banks” (Walters and Carlin). Should paid internships be forced upon the market, firms will find ways around the problem. Many have charities and projects that need funding. Having millionaires hand over a few thousand dollars for a few weeks of work experience isn’t implausible and smacks at the very heart of the idea of equality of opportunity. Business partners in different industries or companies might offer internships to their partners’ children to improve relations and increase their chances of securing a contract. Even if the current market for interns has a ‘who you know’ mentality, without clear proof that these sorts of things won’t happen, it’s hard to image making most internships paid internships would make that problem go away. But, what else might happen? Would employer’s views of interns change as well?

At the minimum wage, interns more closely resemble apprentices, who tend to receive job offers at the end of their training period. A recent study by the National Association of Colleges and Employers (NACE) shows that “63.1 per cent of paid interns received at least one job offer. In comparison, only 37 per cent of unpaid interns got an offer” (2013 Student Survey). Two possible reasons explain this. Either employers want use paid internships to find prospective employees or paid internships signal that students can perform profitable work and would
therefore make good employees. Although a topic for another paper and data is lacking, a good indicator of which theory is more likely would to be examine who actually hires the paid interns. Employment by the same firm that employed the intern would suggest the former, whilst offers from different firms would indicate the signalling theory explains this.

VIII. Conclusions

Why do people work for free? In short, they don’t, they merely work for no pay. But why do people work for no pay? In short, they work for something other than pay: connections, skills, or an additional point on their resume. Since they lack skills and connections in the workforce, students willingly compete with more skilled and better connected workers by offering to work for lower wages or none at all. Like Bangladeshi children, they don’t take them because they want to work for free or because they can afford to work for free, but rather because an unpaid internship still seems better than no internship at all. Without that ability, students might have to find internships through other means and the children of the rich often have an easier time using those other means. Though these outcomes remain speculative, the economics of surplus labour suggest that these outcomes will occur unless proven otherwise. However, the value of an internship should improve and should more likely give way to real employment with the abolition of unpaid internships. At minimum wage, why have someone fetch coffee and return books when they could do more profitable things? There are merits to ending unpaid internships and the culture that they have brought to the labour market. Nevertheless, in his interview, Mikey Franklin said his goal is to increase the opportunity for the children of the poor to get internships. Like Senator Harkin though, Mr Franklin’s solution might have unintended consequences for the very people he wishes to help.
### Appendix

<table>
<thead>
<tr>
<th>Flinn’s Variables and Formulas</th>
<th>Flinn’s Definitions and Equations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Log Likelihood (p. 156)</td>
<td>$\ln L = N \ln h_U - N \ln D + N_U \ln \eta - h_U d \sum_{i \in S_U} t_i + N_M \ln \left(1 - \frac{\hat{G}{m - (1 - \alpha) \theta^*}/ \alpha}}{\hat{G}(m)}\right)$</td>
</tr>
<tr>
<td>Unemployment Rate of those in the labour Market</td>
<td>$p(u \mid V_0 &lt; V_U(m)) = \frac{\eta}{\eta + \lambda(m) * \hat{G}(r(m))}$</td>
</tr>
<tr>
<td>$\lambda(m)$ A</td>
<td>$\lambda(m) = \left[\frac{\hat{G}(m) J(m)}{\psi}\right]^{(1 - \psi)/\psi}$</td>
</tr>
<tr>
<td>$\hat{G}(_)$ Probability that the match is greater than or equal to m. Lognormal Distribution.</td>
<td></td>
</tr>
<tr>
<td>$J(m)$ Function of Expected Value of a filled vacancy at wage m.</td>
<td>$J(m) = ((0.765 + m)(40 * 12)) - (m(40 * 12)) - \psi$</td>
</tr>
<tr>
<td>$r(m)$ Max(m, $\theta^*$)</td>
<td></td>
</tr>
<tr>
<td>$\theta^*(m)$</td>
<td>$\theta^*(m) = 0.256(m) + 2.295$</td>
</tr>
<tr>
<td>$\alpha$ Bargaining power parameter of the job searcher.</td>
<td></td>
</tr>
<tr>
<td>$h_U$ (p. 157) Hazard rate of the unemployment state $\lambda \hat{G}(m)$</td>
<td></td>
</tr>
<tr>
<td>$D$ (p. 153) $D = \eta + h_U$</td>
<td></td>
</tr>
<tr>
<td>$d$ Individual Labour Market Participant $\rho V_O$ is Flow Value of being outside of the labour market for every job searcher</td>
<td>$= {1 \text{ if } \rho V_O &lt; \rho V_U(m) }$ $= {0 \text{ if } \rho V_O &gt; \rho V_U(m) }$</td>
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</tbody>
</table>
### Assumptions from Flinn

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<tbody>
<tr>
<td>1</td>
<td>* Means from Flinn’s work due to a lack of other options for data necessary.</td>
</tr>
<tr>
<td>2</td>
<td>The Contact rate or offer of a job ((\lambda)) averages about once every three months (0.309*).</td>
</tr>
<tr>
<td>3</td>
<td>The mode length of an internship ((\eta)) is three months (0.003).</td>
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<tr>
<td>4</td>
<td>The Average Flow Vacancy Cost ((\psi)) is 0.066 when (m=0.3125) and 128.96* when (m=7.25).</td>
</tr>
<tr>
<td>5</td>
<td>The Match Function Elasticity with respect to the unemployment rate ((\gamma)) is 0.147*.</td>
</tr>
<tr>
<td>6</td>
<td>Bargaining power parameter of the job searcher ((\alpha)) is 0.404* suggesting the bargaining power is with the firm.</td>
</tr>
<tr>
<td>7</td>
<td>Parameters of the lognormal distribution (\mu) and (\sigma) are 2.243* and 0.579* respectively.</td>
</tr>
<tr>
<td>8</td>
<td>Workers are made to work harder at higher wages, increasing their value (may also attribute to efficiency wage theory).</td>
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<tr>
<td>9</td>
<td>At no pay, interns still receive $50 per month in travel expenses ($0.3125 per hour).</td>
</tr>
<tr>
<td>10</td>
<td>All Students are seeking internships so (d) always equals 1.</td>
</tr>
</tbody>
</table>

### Works Consulted


Franklin, Mikey, Telephone Interview. 16 Sep. 2013.


Malik, Shiv and Rajeev Syal. “Internships: the scandal of Britain's unpaid army.”


Moore, Maggie, In-person interview. 10 Oct. 2013.


