



Joint Economic Committee

Representative Kevin Brady • Chairman

REPUBLICAN STAFF ANALYSIS

Increasing the Minimum Wage

New Fallacies and Old Realities

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Introduction

Public support for increasing the minimum wage is based on a number of widely held beliefs. First, no one who works full-time should live in poverty. Second, the current minimum wage is worth less than in 1968. Third, raising the minimum wage helps millions of poor families and hurts no one. Unfortunately, these popular beliefs are either misleading or wrong.

First, most minimum-wage workers live with a parent, spouse, or relative who is also employed. Those trying to support a family can receive government benefits to supplement their wages. These benefits lift most minimum wage workers above the poverty level.

Second, historical rates of inflation or productivity provide no basis for determining the minimum wage. Wages are determined by the value of the additional products or services businesses can sell through the employment of additional workers. Workers with the least knowledge, skill, and experience add the least value and receive the lowest wages.

Third, most minimum-wage workers are not poor. Most poor people are not minimum-wage workers. Only 16 percent of the last minimum wage increase (2007-2009) went to families living below the poverty level.¹ While some workers got a bigger paycheck, other workers got a pink slip. Job losses offset higher wages, preventing any reduction in poverty.

The financial hardship facing some low-wage workers is real. Their plight deserves the full attention and the best efforts of all serious policymakers. But good intentions are no excuse for bad policy.

Increasing the minimum wage will result in higher wages for some and fewer jobs for others.

Most of the higher wages will go to middle-class families.

Only \$1 out of every \$9 will go to the poor.

The minimum wage is a highly ineffective tool in the war on poverty.

Should Full-Time Workers Live in Poverty?

A person working full-time, year-round at the current minimum wage would earn \$15,080 on a pre-tax basis.² This amount falls below the poverty level for every family size larger than one.³

But minimum wage workers trying to support a family can receive government benefits to supplement their wages. They typically receive the Child Tax Credit (CTC), the Earned Income Tax Credit (EITC), and Supplemental Nutrition Assistance Program (SNAP) benefits. Including the value of these benefits, the net income of most minimum wage workers exceeds the poverty level for their given family size.⁴ Many of these families are also eligible for other forms of government assistance.⁵

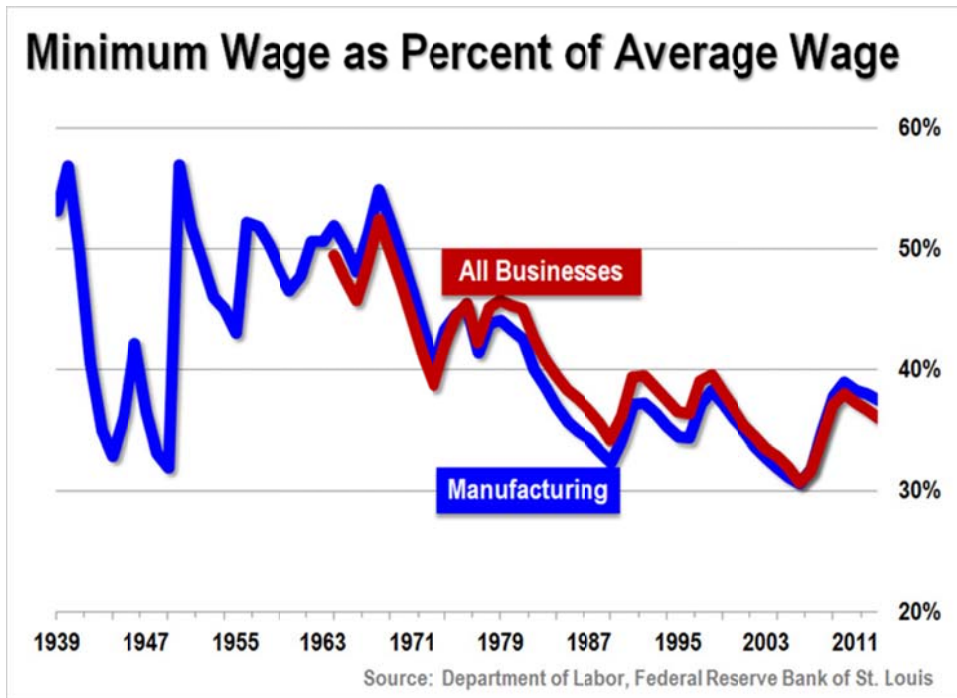
Selected Government Benefits Available to Minimum Wage Workers in 2013				
Family Type	Minimum Wage Full-Time Year-Round	Government Benefits minus Taxes*	Total Net Income	HHS Poverty Threshold
Single Adult	\$15,080	-\$1,662	\$13,418	\$11,490
Single Parent w/ One Child		+\$4,189	\$19,269	\$15,510
Single Parent w/ Two Children		+\$8,922	\$24,002	\$19,530
Married Couple w/ Two Children		+\$10,590	\$25,670	\$23,550
*CTC + EITC + SNAP – Income Tax – Payroll Tax				

Proponents of raising the minimum wage often argue that full-time, minimum-wage workers should not have to rely on government programs to lift them out of poverty. But businesses can't pay workers based on family size. When you stop at the local coffee shop, they don't charge you \$5 when the cashier is a teenager living at home with her parents and \$10 when the cashier is a single mom with two children. Any business that tried to do that would soon be out of business.

Does History Tell Us What the Minimum Wage Should Be Today?

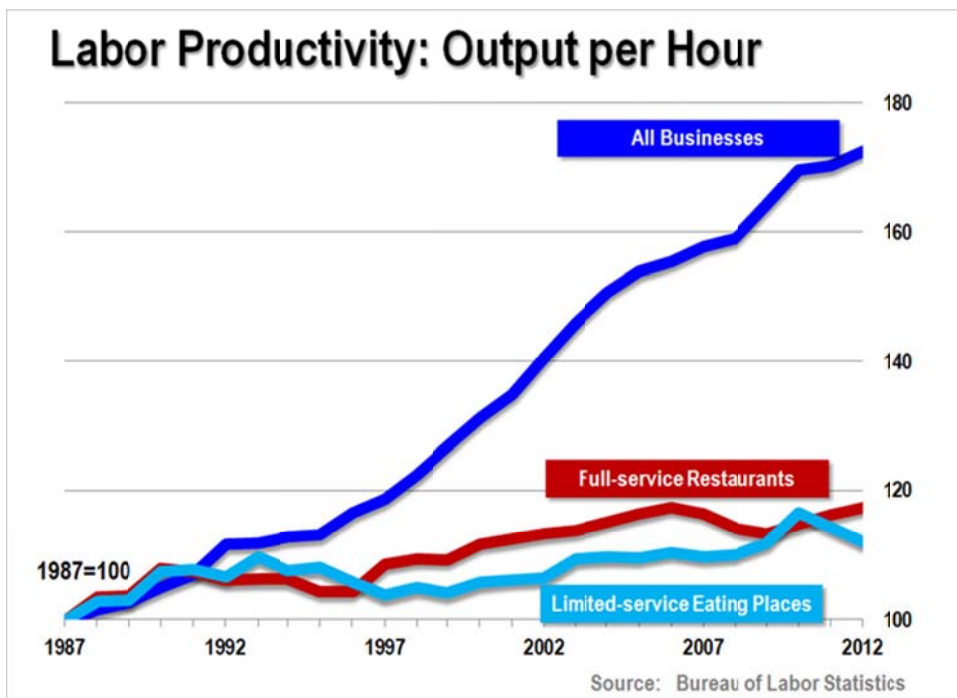
Proponents claim a minimum wage increase is long overdue. They say it's lower today than it was in 1968, after adjusting for inflation. What they fail to acknowledge is that many businesses were either exempt or paid a lower rate until 1978.⁶ But knowing what the minimum wage was in the past doesn't tell us what it should be today.

The economic effects of a minimum wage depend not only on its value, but also on its coverage. When the minimum wage was first enacted in 1938 at a rate of \$0.25 an hour, it was equal to 53 percent of the average hourly wage in the manufacturing sector. But only about 20 percent of workers were covered.⁷ Most low-wage workers in the service sector were exempt.



Minimum wage coverage has expanded over the years, although it's still not entirely universal.⁸ Its steady decline in value, relative to the average wage, has been periodically offset by legislative increases. Its current value is 36 percent of the average wage.⁹

Some proponents say if the minimum wage had been indexed to productivity it would now be over \$18 an hour.¹⁰ But most minimum-wage workers are employed in the food service industry.¹¹ Their productivity gains have lagged far behind the rest of the business sector.¹²



Wages are determined by the value consumers place on the goods and services produced by workers. The amount of wages offered to each worker reflects the relative supply and demand for the knowledge, skill, and experience of that worker.

In general, older workers earn more than younger workers, and college graduates earn more than high school dropouts. The table below shows the average annual earnings of full-time, year-round workers by age and education.¹³

Average Annual Earnings by Age and Education Full-Time Year-Round (2012)					
Educational Attainment	20-24	25-34	35-44	45-54	55-64
Less than 9 th grade	\$22,580	\$23,890	\$26,040	\$26,950	\$29,420
9 th -12 th grade, no diploma	\$22,610	\$29,050	\$33,100	\$32,920	\$32,350
High school diploma (GED)	\$26,720	\$35,180	\$42,610	\$44,110	\$46,580
Some college, no degree	\$24,470	\$39,450	\$51,150	\$54,730	\$55,370
Associate's degree	\$27,110	\$42,990	\$50,010	\$54,490	\$51,280
Bachelor's degree	\$39,050	\$56,240	\$74,690	\$80,720	\$75,140
Master's degree	\$42,860	\$67,690	\$90,670	\$101,200	\$93,830
Doctorate (PhD or EdD)	\$93,430	\$85,390	\$118,270	\$142,600	\$152,160
Professional degree (MD or JD)	\$70,890	\$101,480	\$167,730	\$160,020	\$183,430
<i>Source: Current Population Survey</i>					

The majority of minimum-wage workers are under the age of 25. Those who start their career at the minimum wage, generally see their wages rise quickly as they complete their education and acquire more knowledge, skill, and experience.

Proponents of raising the minimum wage claim that the market for low-wage workers is fundamentally flawed. They contend this flaw is self-evident because low-wage workers are not paid enough to support a family. Such criticism fails to recognize not everyone needs to support a family.

Most secondary earners, like teenagers, spouses, and retirees can rely on the earnings of other family members or other sources of income. Hence, they are willing to take low-wage jobs. The case for raising the minimum wage is based on the argument that if we continue to allow these workers to accept low-wage jobs, such jobs will persist and others will be forced to take them out of desperation. This argument leads to the absurd conclusion that low-wage jobs are so bad no one should be allowed to have one, even those who want one.

Does the Minimum Wage Help the Poor Without Harming Anyone Else?

Most minimum wage workers are not poor. According to a recent report, only 11 percent of the workers who would benefit from an increase in the minimum wage from \$7.25 to \$9.50 live in households that are below the poverty level.¹⁴ That means only one out of every nine dollars of the minimum wage increase would go to the poor.

The minimum wage is not only a highly ineffective tool in the war on poverty it also reduces employment among low-skilled workers.¹⁵ Admittedly, the negative employment effects of the minimum wage have been challenged by some economists.

In the 1990s, David Card and Alan Kruger concluded a higher minimum wage increased employment at fast food restaurants in New Jersey. This study was widely cited by proponents of raising the minimum wage. But it was later revealed to be badly flawed due to its reliance on telephone surveys, instead of payroll records, to collect employment data.¹⁶

Recently, Sylvia A. Allegretto, Arindrajit Dube, T. William Lester, and Michael Reich concluded a higher minimum wage has no effect on employment. They claim the negative effects found in previous studies were due to a lack of adequate controls for the various differences among the states. Using their preferred controls based on geographic proximity and linear time-trends, they find no effects. But other studies using alternative controls continue to find negative employment effects.¹⁷

Another recent study by Dube concluded a higher minimum wage reduces poverty.¹⁸ But his study fails to explain how a higher minimum wage results in higher income for those without a job.¹⁹ Moreover, income-to-poverty ratios are calculated on a pre-tax basis and do not include non-cash benefits such as Medicaid, SNAP, school lunches, or housing and energy assistance.²⁰ Thus, these ratios do not accurately reflect true economic well-being. Whether or not a higher minimum wage really reduces poverty depends on the interaction between income, taxes, benefits, and employment. So far, no one has thoroughly examined all of these interactions.

Despite recent claims to the contrary, there is no compelling evidence that raising the minimum wage won't reduce employment or that it will reduce poverty.

Conclusion

Raising the minimum wage will create both winners and losers. The winners are those who keep their job at the new higher wage. The losers are those who lose their job, have their hours reduced, or fail to obtain any job at all. Contrary to popular belief, the winners often reside in high-income families while the losers often reside in low-income families. Thus, despite the good intentions, raising the minimum wage will provide little help to those who need it the most.

Endnotes

¹ Minimum Wages and Poverty: Will a \$9.50 Federal Minimum Wage Really Help the Working Poor?, Joseph J. Sabia and Richard V. Burkhauser, *Southern Economic Journal*, 76(3), 2010, www.people.vcu.edu/~lrizzolini/GR2010.pdf

² \$7.25 (per hour) x 8 (hours a day) x 5 (days a week) x 52 (weeks a year) = \$15,080

³ Annual poverty guidelines are determined by the U.S. Department of Health and Human Services. <http://aspe.hhs.gov/poverty/13poverty.cfm>

⁴ JEC Republican staff calculations

⁵ Programs that utilize HHS poverty guidelines: <http://aspe.hhs.gov/poverty/faq.cfm#programs>

⁶ History of Federal Minimum Wage Rates Under the Fair Labor Standards Act, 1938 – 2009, U.S. Department of Labor, <http://www.dol.gov/whd/minwage/chart.htm>. According to one estimate, more than 25% of workers were not covered by the minimum wage in 1968. The Rising Impact of Minimum Wages, Finis Welch, *AEI Journal on Government and Society*, Regulation, November/December, 1978 <http://object.cato.org/sites/cato.org/files/serials/files/regulation/1978/12/v2n6-6.pdf>

⁷ Fair Labor Standards Act of 1938: Maximum Struggle for a Minimum Wage, Johnathan Grossman, Monthly Labor Review, June 1978. <http://www.dol.gov/oasam/programs/history/flsa1938.htm>

⁸ Questions and Answers About the Minimum Wage, Wage and Hour Division, U.S. Department of Labor, <http://www.dol.gov/whd/minwage/q-a.htm>

⁹ Federal Reserve Bank of St. Louis, Average Hourly Earnings of Production and Nonsupervisory Employees, Total Private and Manufacturing, <http://alfred.stlouis.org>

¹⁰ "Lagging minimum wage is one reason why most American's wages have fallen behind productivity," Economic Policy Institute, July 11, 2013, <http://www.epi.org/publication/lagging-minimum-wage-reason-americans-wages/>

¹¹ Characteristics of Minimum Wage Workers: 2012, U.S. Bureau of Labor Statistics, www.bls.gov/cps/minwage2012tbls.htm

¹² Labor Productivity and Costs, U.S. Bureau of Labor Statistics, <http://www.bls.gov/lpc/#data>

¹³ Current Population Survey, <http://www.census.gov/cps/data/cpstablecreator.html>

¹⁴ Sabia and Burkhauser, Op. Cit.

¹⁵ Minimum Wages and Employment, David Neumark and William L. Washer, Foundations and Trends in Microeconomics, Vol. 3, No 1-2, 2007, http://www.socsci.uci.edu/~dneumark/min_wage_review.pdf

¹⁶ The Crippling Flaws in the New Jersey Fast Food Study, Employment Policies Institute, 2nd Edition, April 1996, http://www.epionline.org/studies/epi_njfastfood_04-1996.pdf

¹⁷ Minimum Wages: Evaluating New Evidence on Employment Effects, David Neumark and J.M. Ian Salas, Employment Policies Institute, July 2013, <http://www.epionline.org/studies/Neumark-01-2013.pdf>

¹⁸ Minimum Wages and the Distribution of Family Incomes, Arindrajit Dube, December 30, 2013 https://dl.dropboxusercontent.com/u/15038936/Dube_MinimumWagesFamilyIncomes.pdf

¹⁹ According to Dube, "There are a number of outstanding issues that I did not address in this paper. The first set of issues concerns the definition of family income used in this analysis. Following official poverty calculations, my family income definition includes both pre-tax earnings and cash transfers, and I have not decomposed the increase in income following minimum wage increases into component part. At the same time, the estimates here do not capture the impact of minimum wages on non-cash transfers such as food stamps or housing, or on the receipt of tax credits such as EITC. Second, and relatedly, while my estimates control for state EITC supplements, I have not directly evaluated the interaction of EITC (or other policies) and minimum wages in this paper. As such, the minimum wage estimates I provide are the average effects over the sample period.... Better understanding the source of income gains from minimum wage increases, as well as understanding the interactions of various policies in shaping the post-tax-and-transfer family income distribution, seem fruitful directions for future research." Ibid. page 35.

²⁰ How the Census Bureau Measures Poverty, <http://www.census.gov/hhes/www/poverty/about/overview/measure.html>