Joint Economic Committee Republicans
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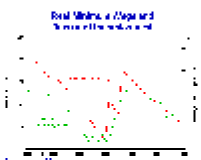
The Case Against a Higher Minimum Wage

The voices clamoring for a minimum wage hike are getting ever louder. Proponents argue that the current wage level does not provide an adequate incentive for work. Also, they argue that an increase in the minimum wage will have only a very minor impact on jobs. These arguments are not grounded in fact. The impact of raising the minimum wage has been studied since its inception. All credible research has come to the same conclusion: **raising the minimum wage hurts the poor. It takes away jobs, keeps people on welfare, and encourages high-school students to drop out.** Policy makers should be clear on the consequence of higher minimum wages.

Jobs and the Minimum Wage

Economists have studied the job-destroying features of a higher minimum wage. **Estimates of the job losses of raising the minimum wage from $4.25 to $5.15 have ranged from 625,000 to 100,000 lost jobs.** It is important to recognize that the jobs lost are mainly entry-level jobs. By destroying entry-level jobs, a higher minimum wage harms the lifetime earnings prospects of low-skilled workers.

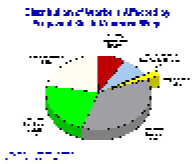

Click here to see Figure 1.

Proponents have been able to muddle the debate by pointing to a study done by two Princeton economists, David Card and Alan Krueger. These economists claimed to find that raising the minimum wage does not lower employment. [1] In one paper, they succeeded in casting doubt on 200 years of economic research and theory. Economists took their challenge seriously and attempted to recreate their results. It could not be done. Economists who attempted to replicate their work demonstrated conclusively that raising the minimum wage destroys jobs. [2]

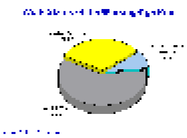
Even after the Card and Krueger study was fully discredited by economic science, it is still being used by proponents of higher minimum wages to support an increase. Why must they rely on discredited research to support their call for raising the minimum wage? Because they recognize that Americans do not support proposals that destroy jobs. Proponents often like to show survey results that say more than eighty percent of Americans support a higher minimum wage. Yet, the same survey shows less than half surveyed, 46 percent, support raising the minimum wage if it "might reduce the number of jobs available for workers with limited skills."[3] Clearly, if Americans were informed of the true effects of raising the minimum wage, support would rapidly erode.

Minimum Wage Workers

Supporters claim that raising the minimum wage is important for working families. Secretary of Labor Robert Reich often repeats the fact that forty percent of minimum wage workers are the sole source of income for their families. This is misleading because it relies on lumping single, non-family individuals with families. **Only 2.8 percent of workers earning less than $5.15 are single parents. [4] Only 1.2 percent of all minimum wage workers were adult heads of households with incomes less than $10,000. [5] Fifty-seven percent of minimum wage workers are single individuals,** many of them living with their parents.


Click here to see Figure 2.

Minimum wage workers are not parents struggling to feed their children. Rather, they are high school or college students living at home. The level of the minimum wage is irrelevant for most people in poverty. **Only 9.2 percent of poor people of working age have full-time jobs. [6]**


Click here to see Figure 3.

Side Effects of Raising the Minimum Wage

It has been well documented that the minimum wage destroys jobs, particularly the jobs of low-skilled, young workers. However, there are other equally pernicious side effects of higher minimum wages. Higher minimum wages make it more difficult for people to leave welfare and induce high-school students to drop out.

Dr. Peter Brandon of the Institute for Research on Poverty studied how raising the minimum wage affect the transition from welfare to work. [7] He found that raising it keeps welfare mothers on welfare longer. **Mothers on welfare in states that raised their minimum wage remained on welfare 44 percent longer than mothers on welfare in states where it was not raised.**[8]

The reason for this result is that raising the minimum wage induces some people to enter the labor market who would not apply if not for the higher level. With a larger labor market, employers choose higher-skilled applicants. Thus, raising the minimum wage hurts low-skilled workers in two ways. First, there are fewer jobs available. Second, with a larger pool of applicants, competition is stiffer. Low-skilled workers have a more difficult time getting those job skills that are crucial to economic well-being.

Another side effect of raising the minimum wage is that it increases the number of high-school students who drop out. [9] Some of these students do not find employment. Another group of students are part of those applicants that compete jobs away from welfare recipients. Dropping out of school is very destructive. High school drop-outs have a very difficult time improving their well-being.

The Elusive Benefits of a Higher Minimum Wage

The proponents of a higher minimum wage argue that it is vitally important to raise it in order to improve the lives of poor workers. However, the raise will have only a limited impact on poor working families. [10] A single parent with two children living in California would gain only 26 cents from a 90 cent increase in the minimum wage.

To put this gain in perspective, **each minimum wage worker who earns $4.25 an hour brings home $3.92 for each hour worked once payroll taxes are deducted.** The employer costs of a minimum wage worker is $4.58 an hour when the employers share of the payroll tax is included. [11] **If workers could take home the amount of money it costs the employer to hire workers, they could have 62 cents more per hour.** Clearly, the California parent would be better off if the tax wedge were reduced, rather than increasing the minimum wage.

Conclusion

The campaign to raise the minimum wage will have little positive impact on the lives of poor people. Rather, it is a political measure that plays to a misunderstanding of the impact of higher minimum wages. The future of the American economy depends on a correct understanding of the causes of prosperity. For too long, attempts to relieve poverty have been misguided. To lift people out of poverty, we need a system that maximizes opportunities for economic well-being of low-skilled workers. Raising the minimum wage is a wrong-headed solution that will deprive young, poor Americans of an opportunity to improve their economic situation.

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Endnotes

1. Card, David and Alan B. Krueger, "Minimum Wages and Employment: A Case Study of the Fast-Food Industry In New Jersey and Pennsylvania." *American Economic Review.* September 1994: pp. 772-793.

2. Neumark, David and William Wascher, *The Effect of New Jersey's Minimum Wage Increase on Fast-food Employment: A Re-evaluation using Payroll Records.* National Bureau of Economic Research: Cambridge, MA, 1995.

3. *Washington Post*, April 26, 1996, p. F1.

4. *EPI Edge*, Employment Policies Institute, April 1996.

5. Vedder, Richard and Lowell Gallaway, *Should the Federal Minimum Wage Be Increased?* National Center for Policy Analysis: Dallas, TX, 1995.

6. *ibid.*

7. Brandon, Peter, *Jobs Taken by Mothers Moving from Welfare to Work and the Effects of Minimum Wages on this Transition.* Employment Policies Institute: Washington, DC, 1995.

8. *ibid.*

9. Neumark, David and William Wascher, *The Effects of Minimum Wages on Teenage Employment and Enrollment: Evidence from Matched CPS Surveys.* National Bureau for Economic Research: Cambridge, MA, 1995.

10. The reason for the minimal impact is that raising higher incomes causes a loss of benefits in Aid to Families with Dependent Children (AFDC), Food Stamps, and the Earned Income Tax Credit (EITC).

11. This discussion only focuses on the payroll taxes. Many other taxes such as workers compensation and unemployment insurance also raise the costs of hiring workers for employers.