Backgrounder

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Good Intentions Are Not Enough: Why Congress Should Not Raise the Minimum Wage

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Supporters of raising the federal minimum wage make a seemingly compelling argument when they point out that the minimum wage has not increased in almost a decade. During that time, they note, inflation has steadily eaten away at the purchasing power of a $5.15-per-hour wage. It seems only fair that the government should step in now and boost the earnings of America's lowest-paid workers.

Despite its proponents' good intentions, raising the minimum wage will not accomplish this goal and will have many unintended consequences.

Few of those who would benefit from a higher minimum wage are disadvantaged workers. Nor do minimum-wage workers need the government to step in for them to earn a raise. A higher minimum wage does not reduce poverty rates, and because of the perverse way that many government aid programs are structured, it will also do little to help the neediest minimum-wage families.

Raising the minimum wage has other unintended effects, however. For one thing, it causes businesses to hire fewer workers, and it particularly discourages businesses from hiring the least-skilled workers who most need assistance. Losing access to entry-level positions deprives many unskilled workers of the opportunity to learn the skills they need to advance up a career ladder. Thus, a minimum wage hike harms these workers' job prospects for years after it takes effect.

Good intentions are not enough to make good policy, nor do they abolish the law of unintended consequences.

Talking Points

- Primarily teenagers and young adults, not the poor, would benefit from a higher minimum wage. Only one in five minimum-wage earners lives below the poverty line, and the average family income for a minimum-wage worker is almost $50,000 a year.
- Businesses actually cut the number of unskilled and disadvantaged workers on their payrolls after an increase in the minimum wage. Raising the minimum wage to $7.25 an hour would cost at least 8 percent of affected workers their jobs.
- Minimum-wage jobs are entry-level positions that teach career skills that make workers more productive and enable them to earn a raise. Two-thirds of minimum-wage workers earn a raise within a year.
- Because increasing the minimum wage removes many of these jobs, it cuts off the bottom rung of the career ladder for many unskilled workers, who can suffer lower earnings and reduced job prospects for over a decade after a minimum wage hike.

This paper, in its entirety, can be found at: *www.heritage.org/research/labor/bg1993.cfm*

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Who Earns the Minimum Wage?

Many people assume that most minimum-wage workers live in poverty, but this is not the case. Just a small minority of those earning the federal minimum wage—less than one in five—live at or below the poverty line.[1] Why do so few minimum-wage workers live in poverty when a minimum-wage job is not enough to put a family of three above the poverty line?

Part of the answer is that few minimum-wage workers rely on their pay to support themselves. The average family income of a minimum-wage worker is $49,885 a year. Further, the majority of minimum-wage workers are between the ages of 16 and 24.[2] These are high school and college students seeking to supplement their family's earnings, not to make it on their own. Similarly, more than three-fifths of all minimum-wage earners work only part-time.[3]

In addition, very few minimum-wage earners support families on their income. Less than 1 in 25 minimum-wage workers are single parents who work full-time. Even among the minority of minimum-wage earners who are over the age of 24, and thus more likely to be parents, just 1 in 16 are single parents who work full-time—no different from the population as a whole.[4] So while a minimum-wage job will not put a family of three over the poverty line, very few rely on minimum-wage jobs to do so.

Some minimum-wage workers do fit the stereotypes—for example, a single mother struggling to support her family on a meager income—but most do not. Because of the profile of those who earn the minimum wage, most of the benefits of increasing it would accrue to workers early in their careers who have limited family obligations.

The Problem Is Work, Not Wages

Few minimum-wage workers are from poor families. This poor worker stereotype does not cover the vast majority of minimum-wage workers. It is true, however, that a small number of workers without a realistic possibility of promotion are trying to support children on a minimum-wage income. Even if most of the benefits of a higher minimum wage go to other workers, would it still help particularly disadvantaged workers to get ahead?

No. Many economic studies show that raising the minimum wage does not lift workers out of poverty.[5] If anything, it makes the problem of poverty worse. As one research paper explains, this effect is clear:

> The answer we obtain to the question of whether minimum wage increases reduce the proportion of poor and low-income families is a fairly resounding "no." The evidence on both family income distributions and changes in incomes experienced by families indicates that minimum wages raise the incomes of some poor families, but that their net effect is to increase the portion of families that are poor and near-poor.[6]

The minimum wage does so little to reduce poverty because it does nothing to address the real

1. Rea S. Hederman, Jr., and James Sherk, "Who Earns the Minimum Wage—Single Parents or Suburban Teenagers?" Heritage Foundation *WebMemo* No. 1186, August 3, 2006, Table 1, at *www.heritage.org/Research/Economy/wm1186.cfm*.
2. *Ibid.*
3. *Ibid.*
4. *Ibid.*, Table 2 and footnote 6.
5. See Richard K. Vedder and Lowell E. Gallaway, "Does the Minimum Wage Reduce Poverty?" Employment Policies Institute, June 2001, at *www.epionline.org/studies/vedder_06-2001.pdf* (December 28, 2006); David Neumark, Mark Schweitzer, and William Wascher, "The Effects of Minimum Wages Throughout the Wage Distribution," *The Journal of Human Resources*, Spring 2004, pp. 425–450; David Neumark, Mark Schweitzer, and William Wascher, "The Effects of Minimum Wages on the Distribution of Family Incomes: A Non-Parametric Analysis," forthcoming in *Journal of Human Resources*; and David Neumark and William Wascher, "Do Minimum Wages Fight Poverty?" *Economic Inquiry*, July 2002, pp. 315–333.
6. Neumark, Schweitzer, and Wascher, "The Effects of Minimum Wages on the Distribution of Family Incomes." Note that though this paper is forthcoming, it is available as National Bureau of Economic Research *Working Paper* No. 6536 at *www.nber.org/papers/w6536*. The quote is from page 30 of the *Working Paper* version.

Table 1 B 1993

Work Status of Individuals 16 and Over Living Below the Poverty Line, 2005

Worked Full-Time Year-Round	11.4%
Worked Either Part-Time or Part-Year	25.4%
Did Not Work During the Year	63.2%

Source: U.S. Census Bureau, Historical Poverty Tables, Table 25, "Work Experience and Poverty Status for People 16 Years Old and Over: 1987 to 2005," at *www.census.gov/hhes/www/poverty/histpov/hstpov25.html* (January 3, 2007).

problems behind poverty. Most poor Americans do not work for the minimum wage. In fact, most poor Americans do not work at all. Table 1 shows the work status of individuals 16 years and older who lived below the poverty line in 2005.

As the table indicates, only 11 percent of adults living below the poverty line worked full-time year-round, and more than three-fifths did not work at all. The median family with children living below the poverty line works only 1,040 hours a year in total—just 20 hours a week.[7] Most of these families are poor because they do not work full-time, not because they earn low wages. If at least one parent in every poor household worked full-time year-round, the child poverty rate in the United States would plummet by 72 percent.[8] Raising the minimum wage does not address this problem and so will not reduce poverty rates.

Government Programs Blunt the Minimum Wage's Impact

Additionally, even among those very few low-income workers who might receive a wage boost due to a higher minimum wage, few would benefit in terms of a higher standard of living.

Due to the perverse structure of many government anti-poverty programs, increases in the minimum wage do very little to help truly needy workers. While the minimum wage affects all low-skilled workers, the government has a vast array of programs directly targeted at low-income families. Programs like Temporary Assistance to Needy Families, Medicaid, child-care assistance, housing assistance, and food stamps provide low-income families with generous food, housing, child care, and medical benefits and direct income supplements. These programs ensure that a low-income family with only a minimum-wage income lives well above the poverty line even though minimum-wage earnings alone would leave the family below the line.

The problem is that these programs phase out as workers' earnings rise. For each dollar workers earn above a certain amount, they lose a portion of their benefits. Truly needy workers earning the minimum wage who qualify for many of these programs—for example, a single parent trying to raise a family—would lose almost as much in forgone government benefits as they would gain from a higher minimum wage. Raising the minimum wage to $7.25 an hour would increase minimum-wage workers' earnings by 41 percent. After adjusting for lost benefits, however, these workers' total income, if they worked full-time, would rise only 3 percent to 5 percent in most states. In some states, like North Dakota, low-income families would actually be worse off than before.[9]

The poorly conceived structure of the government's anti-poverty programs prevents a higher minimum wage from helping truly needy minimum-wage workers. Suburban high school students and college students who do not receive government assistance would enjoy somewhat higher earnings, but the heads of low-income families would not. What gains in higher wages these families received would be offset by reduced government benefits. And this assumes that needy workers would keep their jobs and not suffer reduced working hours due to a minimum wage hike.

7. Robert E. Rector and Rea S. Hederman, Jr., "The Role of Parental Work in Child Poverty," Heritage Foundation *Center for Data Analysis Report* No. CDA03–01, January 29, 2003, Table 1, at *www.heritage.org/Research/Family/cda-03-01.cfm*.
8. *Ibid.*, Chart 2.
9. Rea S. Hederman, Jr., and Sam Hyman, "Low-Income Workers May Be Worse Off If Congress Increases the Minimum Wage," Heritage Foundation *WebMemo* No. 1187, August 3, 2006, at *www.heritage.org/Research/Economy/wm1187.cfm*.

Workers *Earn* Raises

Another mistaken assumption is that minimum-wage workers' incomes will rise only if the government raises the minimum wage. In fact, few workers start at the minimum wage and then stay there for decades. Minimum-wage jobs are the first rung on a career ladder that soon leads to higher-paying jobs. Very few workers who earned the minimum wage a decade ago still earn it today.

This is because minimum-wage jobs are entry-level positions. Minimum-wage workers are typically low-skilled and have little workforce experience. Fully 40 percent of minimum-wage workers did not have a job the year before.[10] Minimum-wage jobs teach these workers valuable job skills, such as how to interact with customers and coworkers or accept direction from a boss—expertise that is difficult to learn without actual on-the-job experience. Once workers have gained these skills, they become more productive and earn higher wages.

The evidence shows that minimum-wage workers quickly earn raises. Between 1998 and 2003—a time when the federal minimum wage did not rise—over two-thirds of workers starting out at the minimum wage earned more than that a year later.[11] Once workers have gained the skills and experience that make them more productive, they can command higher wages.

Workers also have a say in how quickly they become more productive. Most minimum-wage earners work part-time, and many are students and young adults who desire this flexibility. But minimum-wage workers who choose to work longer hours gain more skills and experience than those who work part-time and, as expected, earn larger raises. A typical minimum-wage employee who works 35 hours or more a week is 13 percent more likely to be promoted within a year than is a minimum-wage worker putting in fewer than 10 hours per week.[12]

Similarly, better-educated employees are more productive and therefore more likely to receive raises. Workers with college degrees who start at the minimum wage are 10 percentage points more likely to earn a raise within a year than are those who have not graduated from high school.[13]

The notion that workers are trapped earning $5.15 an hour for much of their working lives is mistaken and ignores the true value of minimum-wage jobs. That value is not the wages that the jobs pay in the present, but the role that they play in introducing low-skilled workers into the workforce and providing them with the skills they need to advance in the economy.

Fewer Job Opportunities

The true minimum wage is always zero. A business can always choose not to employ a worker. A higher minimum wage boosts wages only for workers who could earn that wage without it. When the cost of hiring workers rises, however, businesses hire fewer workers. Some workers get a raise while others lose their jobs.

Most research on the minimum wage confirms this effect. A November 2006 paper examining this research found that two-thirds of recent studies of the minimum wage showed that it reduces employment, and all but one of the most reliable studies reached this conclusion.[14]

Although individual studies give different estimates, the typical results from research suggest that a 10 percent increase in the minimum wage will reduce employment among heavily affected

10. David Macpherson and William Even, "Wage Growth Among Minimum Wage Workers," Employment Policies Institute, June 2004, p. 3, at *www.epionline.org/studies/macpherson_06-2004.pdf* (December 28, 2006).
11. *Ibid.*, pp. 3 and 5, Table 1. Wage figures are adjusted for inflation.
12. *Ibid.*, p. 8, Table 4, and p. 11, Table 5. Note that the "typical" minimum wage earner is defined as the median minimum wage earner.
13. *Ibid.*
14. David Neumark and William Wascher, "Minimum Wage and Employment: A Review of Evidence from the New Minimum Wage Research," National Bureau of Economic Research *Working Paper* No. 12663, November 2006, p. 115, at *www.nber.org/papers/W12663* (December 20, 2006; subscription required).

groups of workers by roughly 2 percent. One study of the effect of minimum wages on low-income workers found that each 10 percent increase would cost 1.2 percent to 1.7 percent of low-income workers their jobs.[15] Another study found that in the long term, a 10 percent increase in the minimum wage reduces teenage employment by 2.7 percent.[16] These estimates suggest that the proposed 40 percent hike in the minimum wage will cost at least 8 percent of intended beneficiaries their jobs.

More evidence of the job-destroying effect of the minimum wage comes from studies that examine state minimum wage hikes. One recent study analyzed the effects of increases in the state minimum wage in Oregon and Washington.[17] These states' economies are similar, and they increased their minimum wages at different times.

The researchers compared low-wage employment in Washington and in Oregon when Washington's minimum wage increased and when Oregon's increased. They found that the minimum wage strongly reduced employment in restaurants, where many workers earn the state minimum wage, but that it did not cost jobs in hotels, probably because most hotels in these states paid their employees more than the minimum wage both before and after the hikes. When the minimum wage rose, however, workers in industries that paid the minimum wage lost their jobs.

It is true that some studies have found that the minimum wage does not reduce employment, but most of these studies failed to measure the long-term effects of the minimum wage on employment. Instead, they looked at employment rates shortly before and shortly after the minimum wage increased and then concluded that the increase had little effect on employment.

Looking only at short-term job losses, however, does not reflect how businesses operate. For example, an alternative to hiring several unskilled workers is to hire just one skilled worker to perform the same task. Businesses begin to make this substitution when the minimum wage—and thus the cost of hiring unskilled workers—rises. Because businesses need time to update their production processes to use skilled labor, job losses do not immediately follow a minimum wage hike. Thus, higher minimum wages destroy a significant number of jobs, not immediately but within a year or two of being passed.[18] Studies showing that minimum wage hikes do not cost jobs three months after they take effect prove only that their full effects take time to be felt in the economy.

A Disadvantage to Unskilled Workers

Another serious drawback of minimum wage hikes is that they discourage companies from hiring the very workers who need the jobs the most. Minimum-wage workers earn low wages because they have fewer skills than other workers. They earn less because they are less productive. They are the workers who most need entry-level jobs so that they can gain experience and develop their skills.

When the government raises the minimum wage, it forces companies to pay their least-skilled workers the same amount as they pay their more-skilled workers. Given the choice between hiring an unskilled worker or a more productive worker for the same hourly rate, companies choose the worker who is more productive. Thus, higher minimum wages make it particularly difficult for unskilled workers to find work. Much research confirms this effect.[19]

Long-Term Consequences

Because higher minimum wages deny unskilled workers entry-level jobs, they have long-term

15. Neumark, Schweitzer, and Wascher, "The Effects of Minimum Wages Throughout the Wage Distribution," p. 442.
16. Stephen Bazen and Velayoudom Marimoutou, "Looking for a Needle in a Haystack? A Re-examination of the Time Series Relationship between Teenage Employment and Minimum Wages in the United States," *Oxford Bulletin of Economics and Statistics*, Vol. 64, Supplement (2002), pp. 699–725.
17. Larry Singell and James Terborg, "Employment Effects of Two Northwest Minimum Wage Initiatives: Eating and Drinking and Staying Merry," unpublished working paper, July 2005, at *www.uoregon.edu/~lsingell/Minimum_Wage.pdf* (December 28, 2006). Forthcoming in *Economic Inquiry.*
18. Neumark and Wascher, "Minimum Wage and Employment," pp. 18–21.

consequences. A worker who does not gain experience today could be at a competitive disadvantage for years.

Further, research shows that raising the minimum wage causes some teenagers to drop out of school to take jobs, replacing less-skilled workers in those positions.[20] The less-skilled workers lose experience, and the teenagers forgo the benefits of education—a loss that will harm them throughout their careers.

This has led economists to examine the long-term consequences of raising the minimum wage. One study examined the earnings and employment of adult workers who were teenagers when their states raised the minimum wage above the federal level. For over a decade after passage, higher minimum wages lowered these workers' earnings and their likelihood of holding a job.[21] The reduced number of entry-level jobs and increased high-school dropout rates mean that higher minimum wages hurt workers long after they become law.

Conclusion

Raising the minimum wage is well intentioned but counterproductive and will not help disadvantaged and unskilled workers get ahead. Many of the benefits flow to teenagers and young adults, not to the most needy, few of whom hold steady, full-time jobs. The minimum wage also does little to benefit disadvantaged workers because most of what they would gain from higher wages would then be lost because of reductions in government benefits.

The minimum wage exacts a steep price for its ineffectiveness. It destroys jobs and discourages employers from hiring the least-skilled and least-experienced workers who most need the work. This impact puts these workers at a disadvantage for years after an increase. Good intentions are not enough. Congress should look out for disadvantaged workers by refusing to increase the minimum wage.

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19. See Kevin Lang and Shulamit Kahn, "The Effect of Minimum-Wage Laws on the Distribution of Employment: Theory and Evidence," *Journal of Public Economics*, Vol. 69, No. 1 (July 1998), pp. 67–82, and David Neumark and William Wascher. "The Effects of Minimum Wages on Teenage Employment and Enrollment: Evidence from Matched CPS Surveys," in Solomon Polachek, ed., *Research in Labor Economics*, Vol. 15 (Greenwich, Conn.: JAI Press, 1996).
20. Neumark and Wascher, "Minimum Wage and Employment."
21. David Neumark and Olena Nizalova, "Minimum Wage Effects in the Longer Run," National Bureau of Economic Research *Working Paper* No. W10656, June 2004, at *www.nber.org/papers/w10656* (December 20, 2006; subscription required).