

Background

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Raising the Minimum Wage Will Not Reduce Poverty

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Supporters of raising the minimum wage argue that doing so will reduce poverty. It seems intuitive that raising the minimum wage would have this effect. Presumably, requiring employers to pay their lowest-paid employees more would lift large numbers of low-income households out of poverty. But the evidence shows that this does not happen.

Despite supporters' good intentions, a higher minimum wage will not reduce poverty. This is true for three main reasons.

First, the only workers who benefit from a higher minimum wage are those who actually earn that higher wage. Raising the minimum wage reduces many workers' job opportunities and working hours.

Second, few minimum-wage earners actually come from poor households.

Third, the majority of poor Americans do not work at all, for any wage, so raising the minimum wage does not help them.

The Minimum Wage Does Not Reduce Poverty

Supporters argue that a higher minimum wage is an effective anti-poverty tool. If businesses must pay their low-wage employees more, then those workers should earn more and fewer of them should live in poverty. Common sense says a higher minimum wage should fight poverty.

The facts, however, show otherwise. Many economists have examined the evidence and come to the sur-

Talking Points

- A higher minimum wage is not effective in fighting poverty. Past increases have neither reduced the poverty rate nor raised the incomes of most low-income families.
- Raising the minimum wage causes businesses to hire fewer workers and reduce working hours, and many low-income workers lose out. Raising the minimum wage to \$7.25 an hour would cost at least 8 percent of affected workers their jobs.
- The benefits from a higher minimum wage are poorly directed toward low-income families. Less than 20 percent of minimum-wage workers are poor, and most poor Americans do not work for the minimum wage.
- The real problem is that most poor Americans do not work for any wage. Over 63 percent of poor adults did not work at all during the year, while only 11 percent worked full-time year-round. Unlike increasing the minimum wage, increasing low-income families' hours worked would reduce poverty rates by over 70 percent.

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prising conclusion that the minimum wage does not reduce poverty. Ohio University economists Richard Vedder and Lowell Gallaway examined the effect that increases in the minimum wage had on the overall poverty rate in the United States and on the poverty rates for groups like minorities and teenagers that might especially benefit from higher minimum wages.¹ They found that the minimum wage had no statistically detectable effect on poverty rates.

Other researchers have approached the evidence in different ways and reached the same conclusion. For example, economists David Neumark of the University of California–Irvine, Mark Schweitzer of the Federal Reserve Bank of Cleveland, and William Wascher of the Federal Reserve Board examined how the minimum wage affects the incomes of families living near the poverty line. In a series of papers, they repeatedly reached the same conclusion as Vedder and Gallaway: A higher minimum wage does not lift low-income families out of poverty.² Their results were particularly 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.³

Whether measured by the poverty rate or by the earnings of low-income families, the minimum wage does not help the poor.

Higher Minimum Wages Cost Jobs and Working Hours

A major reason why the minimum wage is such an ineffective anti-poverty tool is that minimum-wage hikes cause businesses to reduce the number of workers they hire and the hours they ask their employees to work. According to Neumark *et al.*, for example:

Workers who initially earn near the minimum wage experience wage gains. But their hours and employment decline, and the combined effect of these changes on earned income suggests net adverse consequences for low-wage workers.⁴

Most estimates suggest that each 10 percent increase in the minimum wage reduces employment in affected groups of workers by roughly 2 percent.⁵ Thus, raising the minimum wage to \$7.25 an hour would cost at least 8 percent of affected workers their jobs. A higher minimum wage helps only those workers who actually wind up earning that wage and further disadvantages lower-income workers, who suffer fewer job opportunities and working hours. Though intended to help low-income families get ahead, the minimum wage instead costs some their jobs and others hours at work. This leaves poor families actually worse off.

1. 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).
2. 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.
3. 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.
4. Neumark, Schweitzer, and Wascher, “The Effects of Minimum Wages Throughout the Wage Distribution,” p. 445.
5. See, for example, Neumark, Schweitzer, and Wascher, “The Effects of Minimum Wages Throughout the Wage Distribution,” p. 442; 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; and David Neumark and William Wascher, “Employment Effects of Minimum and Subminimum Wages: Reply to Card, Katz, and Krueger,” *Industrial and Labor Relations Review*, Vol. 47, No. 3 (April 1994), pp. 497–512.

Few Minimum-Wage Workers Are Poor

Another reason for the failure of higher minimum wages to reduce poverty is that the vast majority of minimum-wage workers do not live in poverty. Much of the benefit of a higher minimum wage accrues to suburban teenagers and college students, not the heads of poor families. A majority of minimum-wage earners are between the ages of 16 and 24, and over three-fifths of minimum-wage earners work part-time.⁶ The average family income of a minimum-wage earner is almost \$50,000, and less than one in five live at or below the poverty line.⁷

It therefore should not be surprising that higher minimum wages do little to benefit poor families when minimum-wage workers are only slightly more likely to be poor than is the population as a whole.

Members of Poor Families Work Less

Higher minimum wages do not address the main reason that most poor families live below the poverty line. Contrary to what many assume, low wages are not the primary problem, because most poor Americans do not work for the minimum wage. The problem is that 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 demonstrates, over three-fifths of individuals living below the poverty line did not work, and only 11 percent worked full-time year-round. Families are poor not because they earn low wages but because they do not have full-time jobs. The median family with children living below the poverty line works only 1,040 hours a year in total.⁸ That is only 20 hours per week. If at least one parent in every poor household worked full-time year-round, the child poverty rate in the

Table 1		B 1994
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%
<p>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/hstpv25.html (January 3, 2007).</p>		

United States would plummet by 72 percent.⁹ Raising the minimum wage does not address this problem and, by causing businesses to hire fewer workers, actually makes it harder for potential workers to find full-time jobs.

Conclusion

Extensive research shows that the minimum wage does little to reduce poverty. While this may appear counterintuitive, deeper analysis reveals three reasons behind the minimum wage's ineffectiveness.

First, a higher minimum wage causes employers to cut back on both the number of workers they hire and their employees' working hours.

Second, the beneficiaries of higher minimum wages are unlikely to be poor because most minimum-wage earners are not poor.

Finally, few individuals living in poverty work at minimum-wage jobs or any job.

For all its advocates' good intentions, raising the minimum wage will not reduce poverty in America.

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6. 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.

7. *Ibid.*

8. 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.

9. *Ibid.*, Chart 2.