

Chapter 4

Minimizing the Harm of the Minimum Wage

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We will make our economy fairer, and we will begin by raising the minimum wage.

—INCOMING HOUSE SPEAKER NANCY PELOSI (D-CA)

The federal minimum wage has not increased from its current level in over nine years. Since September 1997, inflation has eroded what workers can buy with \$5.15 an hour, and 28 states and the District of Columbia have raised their minimum wages above the federal level. Today only 32.1 percent of Americans live in states where the federal minimum wage applies.¹ Many policymakers, citing the plight of workers struggling to support their families on the minimum wage, support raising the federal minimum in order to raise the earnings of low income workers and fight poverty. It will not work because the minimum wage harms poor, disadvantaged workers. If Congress must raise the minimum wage, it should allow states to set lower minimums in line with local economic conditions.

A Mistargeted Proposal

The minimum wage is an extremely ineffective anti-poverty measure. It does not help the poor, low-income workers its supporters often invoke.

Contrary to the stereotype, most minimum wage workers do not need government assistance. Less than one in five live below the poverty line, and the average family income of a minimum wage earner is almost \$50,000 a year.² Very few minimum wage workers support a family with their earnings—fewer, in fact, than in the population as a whole.³ Minimum wage workers are far more likely to be teenagers or college students than single parents working full time. The majority of minimum wage workers are between the ages of 16 and 24, and over three fifths work part time.⁴

Most minimum wage earners also earn raises quickly without government intervention. Minimum wage jobs are entry-level positions that help unskilled workers gain work-related experience and skills. The ability to productively interact with customers and coworkers or to accept direction from a boss can be gained only through actual on-the-job experience. Minimum wage jobs provide workers with the opportunity to gain these skills and become more productive. Once workers have done so, they earn raises. Two-thirds of minimum wage workers earn a raise within a year.⁵ Congress does not need to raise the minimum wage in order for minimum wage workers to increase their earnings.

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1. Heritage Foundation calculations based on Bureau of Labor Statistics, Current Population Survey, Outgoing Rotation Group, 2005.
 2. James Sherk and Rea S. Hederman, Jr., “Who Earns the Minimum Wage—Single Parents or Suburban Teenagers,” Heritage Foundation *WebMemo* No. 1186, August 3, 2006, at www.heritage.org/Research/Economy/wm1186.cfm.
 3. *Ibid.*
 4. *Ibid.*
 5. James Sherk, “Minimum Wage Workers’ Incomes Rise When the Minimum Wage Does Not,” Heritage Foundation *WebMemo* No. 1181, July 28, 2006 at www.heritage.org/Research/Economy/wm1181.cfm.

Unintended Consequences

Though Congress can raise the minimum wage, it cannot ensure that low-wage workers will get raises or even end up better off. Many will lose their jobs. As it becomes more expensive to hire workers, companies hire fewer of them. The bulk of research on the minimum wage confirms this: Two-thirds of recent minimum-wage studies, and 18 of the 19 most reliable of these studies, show that the minimum wage costs jobs.⁶ Some workers get a raise, while others lose everything.

Worse, the workers most likely to lose their jobs are the especially vulnerable workers that the increase is intended to help. A higher minimum wage makes hiring unskilled workers particularly unattractive to businesses.⁷ Employers will not hire low-skilled, inexperienced workers for \$7.25 an hour when they can hire more skilled and experienced workers at the same rate. The minimum wage puts the workers who most need to gain experience and skills at a disadvantage.

Higher minimum wages can also cause teenagers to drop out of school. Rather than hire an unskilled adult, many businesses hire teenage workers.⁸ Higher wages make dropping out of school to work full time at a minimum wage job more attractive to teenagers, and research shows that increases in the minimum wage lead to increases in the high school dropout rate.⁹

Less experience and education reduce workers' incomes far into the future. An increase in the minimum wage reduces workers' incomes and chances of holding a job for over a decade after the hike.¹⁰ A higher minimum wage can hurt workers years after it is implemented.

No Impact on Poverty

For all the harm it causes, the minimum wage does not even help disadvantaged workers. Research shows that higher minimum wages do not reduce poverty rates or improve the lives of low-income workers.¹¹

This is unsurprising because low wages are not a primary cause of poverty. Most poor Americans do not work for the minimum wage. In fact, most poor Americans do not work at all, for any wage.¹² Over three-fifths of individuals below the poverty line did not work during 2005, while only 11 percent worked full time year-round. The median family with children living below the poverty worked only 20 hours per week.¹³ Families are not poor because they earn low wages but because they do not have full-time jobs. 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 over 70 percent.¹⁴ Raising the minimum wage does not address this problem.

Further, the structure of government anti-poverty programs ensures that even those low-income workers who do work full time gain little or nothing when the minimum wage rises. The government provides generous medical,

6. David Neumark and William Wascher, "Minimum Wages and Employment: A Review of the Evidence from the New Minimum Wage Research," NBER Working Paper No. 12663, November 2006, p. 115, at www.aei.org/docLib/20061201_NeumarkWascherPaper.pdf.

7. James Sherk, "Minimum Wage Hikes Hurt Unskilled and Disadvantaged Workers' Job Prospects" Heritage Foundation WebMemo No.1294, January 2, 2007, at www.heritage.org/Research/Labor/wm1294.cfm.

8. *Ibid.*

9. James Sherk, "Raising the Minimum Wage Hurts Vulnerable Workers' Job Prospects without Reducing Poverty," Heritage Foundation WebMemo No. 1176, July 25, 2006, at www.heritage.org/Research/Economy/wm1176.cfm.

10. *Ibid.*

11. James Sherk, "Raising the Minimum Wage Will Not Reduce Poverty" Heritage Foundation *Backgrounder*, forthcoming.

12. *Ibid.*

13. Rea S. Hederman, Jr., and Robert Rector, "The Role of Parental Work in Child Poverty," Heritage Foundation *Center for Data Analysis Report* No. 03-01, January 29, 2003, Table 1, at www.heritage.org/Research/Family/cda-03-01.cfm. Twenty hours per week is equivalent to 1,040 hours per year.

14. *Ibid.*, Chart 2.

child care, food, and housing benefits to low-income families, as well as direct income supplements. However, these benefits phase out as workers' incomes rise. In most states, a single parent supporting two children on a full-time minimum wage job would lose almost as much in government benefits as she would gain from higher wages.¹⁵ For truly needy low-wage workers, the benefits of a higher minimum wage are offset by reduced benefits.

Recommendations

The minimum wage does not do what its supporters intend it to do. Raising the minimum wage will not reduce poverty because it does not target needy workers, reach the poor who do not work, or overcome the loss of generous government benefits for those who do. It makes employers less likely to hire workers who need jobs to gain skills and become more productive so that they can move up the career ladder. Because of its ineffectiveness and harm to unskilled workers, Congress should not increase the minimum wage.

If Congress nonetheless decides to raise the minimum wage, it should minimize the harm by allowing states the freedom to set their minimum wages below the federal level. No one disputes that a very high minimum wage would cost large numbers of jobs; thus supporters push for modest increases, not excessively large ones. The cost of living varies substantially across the country, however, and so a modest boost to the federal minimum wage could be excessive in some regions. For example, \$7.25 buys far more in Shreveport, Louisiana, than in Los Angeles.¹⁶ While \$7.25 may be below the market rate for unskilled workers in Los Angeles, it could price many out of the market, and out of jobs, in Shreveport.

Raising the minimum wage to \$7.25 per hour would be particularly harmful in states that have low costs of living, such as Texas, Mississippi, and Oklahoma. These states should have the ability to set their minimum wages below the federal level if their local economic conditions call for it. This would return control to local officials and ensure that a one-size-fits-all national minimum wage does not impose disproportionate harm on certain states.

15. 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.

16. James Sherk, "Easing the Pain: Let States Opt Out of a Minimum Wage Hike," Heritage Foundation *WebMemo* No. 1295, January 2, 2007, at www.heritage.org/Research/Labor/wm1295.cfm.