Increasing the Minimum Wage Does Not Reduce Poverty

Problem

In the last year, 21 states increased their minimum wage, and several more are considering increasing theirs in the current session. Before passing bills that would arbitrarily raise the minimum wage, policymakers should consider the serious consequences a minimum-wage increase can have on employment rates and economic growth.

Although minimum wage laws attempt to create a minimum standard of living to protect employees’ health and well-being by mandating a base level of pay from employers, the unintended consequences of such laws can actually inflict more harm than good.

Policy Brief

Minimum-wage laws require businesses to pay their workers higher wages, forcing them to adjust elsewhere to offset increased costs in order to maintain profitability and avoid bankruptcy. These cuts often lead to reduced hiring, fewer work hours for employees, diminished fringe benefits for employees, and higher prices for consumers.

A 2007 study from economists at the University of California-Irvine and the Federal Reserve Board examined the body of work on the subject and found 85 percent of the studies they considered credible demonstrate minimum-wage laws cause job losses for less-skilled employees.

Proponents of these laws also argue minimum-wage laws protect workers from exploitation by employers and reduce poverty. Opponents cite evidence that increasing minimum-wage laws is not an effective way to address poverty and often has the opposite effect by creating barriers to entry for workers with less skills and education.

In a 2010 study, economists at Cornell University and American University found no reduction in poverty in the 28 states that raised their minimum-wage laws from 2003 to 2007.

Policy Solutions

A sound policy alternative to the minimum wage is the Earned Income Tax Credit (EITC). The Earned Income Tax Credit is a refundable tax credit for lower-income working individuals and families.

According to the Congressional Research Service, the EITC is one of the largest poverty reduction programs in the United States. “For tax year 2015 (returns filed in 2016), a total of $68.5 billion was claimed by 28.1 million tax filers (19% of all tax filers), making the EITC the largest need-tested antipoverty cash assistance program.” It is designed to increase employment, stimulate spending in the economy, offset the burden of social security taxes, and encourage existing workers to stay employed.

Opponents of minimum wage laws argue these artificial wage hikes increase unemployment and poverty. Russell Sykes of the Empire Center for New York State Policy argues the EITC is more effective than increasing the minimum wage and overcomes many of its flaws. He notes, “It [the Earned Income Tax Credit] doesn’t lead to job loss, it doesn’t deter hiring, and, since it penetrates to about 80 percent of [low-income] working families with children, it already raises the effective minimum wage for a mom with two kids from $7.25 to $10.44 an hour.”

Policy Message

Point 1: A 2018 Congressional Budget Office study predicted that if Congress were to raise starting wages to $15 per hour, 1.3 million to 3.7 million jobs could be lost by 2025.

Point 2: According to The Heritage Foundation, a recent study found that an increase of the minimum wage by $1 results in a corresponding 1 percent decrease in employment over a 10-year interval.

Point 3: One major study on the long-run effects of minimum wages found “as individuals reach their late 20s, they earn less the longer they were exposed to a higher minimum wage at younger ages.”

Point 4: Setting a state or national minimum wage ignores the differences in regional cost of living and harms areas with lower living costs.

Point 5: Increasing the cost of labor will accelerate the expansion of automation, further reducing the number of entry-level available jobs.

Point 6: According to Heritage, increasing the minimum wage to $15 eliminates jobs that do not create $38,000 worth of value or more per year.

* * *

For more information, contact The Heartland Institute at 312/377-4000 or by email at governmentrelations@heartland.org, or you can visit our website at www.heartland.org.