



Minimum Wage Hike Would Benefit 3X More Middle-Class Workers Than Poor

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By Barbara Hollingsworth

(CNSNews.com) – Three times as many workers from middle-class families would benefit from President Obama's proposal to raise the federal minimum wage from \$7.25 to \$10.10 an hour as those living in households below the federal poverty line, according to a new study.

A family of four with an annual income of \$23,550 or below is considered poor under the 2013 Federal Poverty Guidelines. But raising the minimum wage would help only 13 percent of workers in that category, according to a study by Joseph Sabia, associate professor of economics at San Diego State University and an expert on the minimum wage.

However, the 39 percent hike in the minimum wage proposed by President Obama would benefit two-thirds of workers in households with annual incomes over twice the poverty line (\$47,100 for a family of four) and 40 percent of workers with household incomes three times the federal poverty level (\$70,650 for a family of four) - or three times the percentage of poor workers who would benefit.

Calling the minimum wage "an antiquated anti-poverty tool," Prof. Sabia says his own research and a comprehensive survey of past minimum wage studies shows that "there is no evidence that minimum wage increases reduce poverty."

"Even among a population that has been targeted by policymakers for minimum wage protection - less-educated single mothers - my research has found no evidence that minimum wage increases reduce poverty," Professor Sabia writes in a paper published by the Cato Institute. "While alleviating poverty is a widely shared goal, raising the minimum wage is a very inefficient means of achieving this objective." (See Minimum wage CATO (1).pdf)

There are two reasons why the minimum wage does not reduce poverty, Sabia told CNSNews.com.

"First, the minimum wage is poorly targeted to those in need; and second, while some poor low-wage workers who keep their jobs after a minimum wage hike may be lifted out of poverty, other near-poor minimum wage workers may lose their jobs or have their hours cut, reducing their

income and increasing poverty. Higher minimum wages are more likely to redistribute poverty than alleviate it," he said.

"When my co-authors and I examined Census data -- first from 1979 to 2003 and then from 2003 to 2011 -- we found no evidence that higher minimum wages reduce net poverty rates. Investing in human capital -- such as education -- is a far better strategy to improve the long-run productivity of low-wage workers," Sabia concluded.

Sabia and Robert Nielsen of the University of Georgia used data from the Census Bureau's Survey of Income and Program Participation to determine whether raising the minimum wage was effective as a poverty-fighting tool, as Obama suggested when he said that "it could mean the difference between groceries or the food bank, rent or eviction, scraping by or finally getting ahead."

The survey asked respondents whether they had difficulty paying their rent, utility bills or other essential household expenses such as medical, energy and food bills on time during the past 12 months.

"Using Census data from 1996-2007, we found no evidence that higher minimum wages reduced any of these measures of material hardship," Sabia told CNSNews.com.

"We conclude there are two reasons for this:

- (1) Poor target efficiency of the minimum wage (it is very poorly targeted to those in hardship); and
- (2) Minimum wage hikes may alleviate hardship among those minimum wage workers who keep their jobs and do not have their hours cut, but they increase hardship among others who lose their jobs."

The president will meet next week with Northeastern governors to encourage them to raise their own states' minimum wage, which can be set higher than the federal minimum wage but not lower.

But since a 10 percent increase in the minimum wage results in a reduction in employment for low-skilled workers between 1 and 3 percent, called "employment elasticity," Sabia calculates that Obama's proposal to raise the federal minimum wage 39 percent will result in a 4 to 12 percent reduction in jobs for the very workers the rate increase is supposed to help.

"In a 2014 study, I examined Census data from 1990 to 2010 to explore whether the low-skilled employment effects of minimum wage increases differ in peaks and troughs of state business cycles," he writes, finding that the negative effect is twice as large in a recession, resulting in a "nearly 16 percent decline in employment for vulnerable, low-skilled workers."

A much better way to help low-income workers is “a pro-work negative income tax that replaces a tangled web of in-kind public transfer programs - many of which have perverse disincentives for work,” Sabia maintains.

“One example of a targeted negative income tax is the Earned Income Tax Credit. This program has a number of important advantages over the minimum wage in poverty alleviation,” he told CNSNews.com.

“The EITC is better targeted to those living in poverty than a blunt policy instrument like the minimum wage because eligibility for the EITC is based on family income, not a single worker's wage. Moreover, rather than reduce employment opportunities by increasing the cost of low-skilled labor to employers, the EITC increases employment among affected individuals. And encouraging work is the best anti-poverty strategy of all,” Sabia added.