



# Minimum Wages: A Poor Way to Reduce Poverty

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Minimum wages are poorly targeted to those actually in need, says Joseph Sabia, an associate professor of economics at San Diego State University.

- Sabia's own research has found no evidence that increasing the minimum wage reduces poverty, even among less-educated single mothers, who are specifically targeted by these policies.
- Research by David Neumark and William Wascher found that while some poor workers that kept their jobs after the wage increase were lifted from poverty, others lost their jobs and fell into poverty. The Neumark and Wascher findings indicate that wage increases only redistribute income between poor and near-poor households.
- Some in favor of wage increases have said that the poor record of wage increases on alleviating poverty is simply because poverty is an imperfect way of measuring the economic well-being of low-income households. As such, Sabia and Robert Nielson of the University of Georgia studied whether wages were effective in reducing alternate measures of well-being, finding no evidence that higher minimum wages helped people pay rent, pay utility bills on time, avoid financial or health insecurity, or make ends meet in other ways.

Why does the minimum wage fail to alleviate net poverty? Sabia points to two reasons: adverse employment hours and effects, and because few minimum wage beneficiaries actually live in poor households.

- A government-mandated wage floor raises the cost of low-skilled labor, which incentivizes firms to cut jobs or reduce employee work hours.
- Raising the minimum wage in a struggling economy has an even stronger negative impact. Sabia determined that raising the minimum wage by 10 percent reduces employment of young high school dropouts by 2 percent, but that the same increase during a recession would reduce low-skilled employment by 4 percent.
- Workers earning between \$7.25 and \$10.10 per hour overwhelmingly live in non-poor households, with only 13 percent of workers who would be affected by the proposed \$10.10 wage increase actually living in poor households. Two thirds of workers live in households with incomes more than twice the poverty line, while 40 percent live in households with incomes over three times the poverty line.

- Only 19 percent of minimum wage workers reported difficulty making ends meet, only 10.5 percent have difficulty paying utility bills on time, and only 7.6 percent reported having trouble paying rent.

Raising the minimum wage is not likely to alleviate poverty, and wage increases divert attention from public policies that actually do raise incomes and promote employment. Tax reforms, for example, and a pro-work negative income tax to replace wealth transfer programs would better target the poor.

Source: Joseph J. Sabia, "[Minimum Wages: A Poor Way to Reduce Poverty](#)," Cato Institute, March 2014.