



# THE HEARTLAND INSTITUTE

IDEAS THAT EMPOWER PEOPLE

## Minimum Wage Hikes Hurt the Poor. There's a Better Way.

*Policymakers must consider the serious consequences a minimum-wage increase can have on employment rates and economic growth.*

Matthew Glans

August 9, 2016

Arizona is one of three states — Maine and South Dakota are the others — that will ask voters in November to approve a minimum-wage increase.

While supporters of these proposals argue they protect workers from exploitation by employers and reduce poverty, many opponents question the effectiveness of mandated wage increases, and many believe they are nothing more than election-year gimmicks.

Arizona's current minimum wage is \$8.05 per hour. Under the law, which was initiated by voters in 2006, the state minimum wage is increased each year, based on inflation.

Proponents of a minimum-wage increase in the state say the annual increase isn't enough and that more must be done.

Food prices will likely increase

The Healthy Families Initiative measure on the Nov. 8 Arizona ballot would begin by raising the minimum wage to \$10 per hour on Jan. 1, 2017, with subsequent increases occurring on Jan. 1 of every year until it reaches \$12 in 2020.

Policymakers must consider the serious consequences a minimum-wage increase can have on employment rates and economic growth. Supporters of minimum-wage increases often argue that employers paying their employees less than \$15 per hour place an additional burden on government services. They say the higher wage would help nearly 1 million of the state's roughly 4 million workers, especially minimum-wage earners.

However, evidence shows minimum-wage increases don't improve workers' lives.

Mark Wilson of the Cato Institute noted in a 2012 review of more than 20 minimum-wage studies looking at price effects that prices are likely to increase: "a 10 percent increase in the U.S. minimum wage raises food prices by up to 4 percent." Another study by the Federal Reserve Bank of Chicago, published in 2007, found restaurant prices increased in response to minimum-wage hikes.

## Higher wages create barriers

Evidence shows increasing minimum-wage laws is not an effective way to address poverty and often creates barriers to entry for workers with less skill 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 between 2003 and 2007.

Promises to raise the minimum wage are often used as a get-out-the-vote tool, but that decision is nothing more than a shortsighted move that could cause real harm for the U.S. economy.

To maintain profitability, businesses forced to raise their wages beyond market rates must make adjustments elsewhere. These cuts typically lead to reduced hiring, fewer work hours for employees, diminished fringe benefits for employees, and higher prices for consumers.

## A better idea: Income tax credits

Alternatives to minimum-wage laws that can help low-income families move out of poverty do exist and can be expanded upon. The earned-income tax credit (EITC), the largest poverty-reduction program in the United States, is a refundable tax credit for lower-income working individuals and families that's based on income level and the number of dependents the applicant supports.

EITC is designed to increase employment, stimulate spending in the economy, offset the burden of Social Security taxes, and encourage existing workers to stay employed. It covers a large group of low-income families, and according to several studies, it is far more effective than raising the minimum wage at improving workers' quality of life.

Michael Saltsman, a research fellow at the Employment Policies Institute, cited a study from economists at the University of Alabama and East Carolina University that found "2.5 times more Americans would have been lifted out of poverty if there had been an expansion of the federal EITC between 2007 and 2009 instead of an increase to the minimum wage.

"Additional research shows that every 10 percent increase in a state's EITC supplement is associated with a 1 to 1.5 percent increase in employment for single mothers."

Currently, 26 states, including the District of Columbia, have created earned-income tax credits.

## Reject this ballot measure

Arizona legislators should consider the earned-income tax credit as an alternative to a minimum-wage tax hike.

Increasing the legal minimum wage is not an effective method of addressing poverty. It harms workers by creating barriers to entry for less-skilled and less-educated people because many employers will be forced to hire fewer new employees, while increasing the cost of everyday products and services.

State legislators and voters alike should reject this detrimental public policy and instead consider creating reforms to encourage work and move people from government dependency to self-sufficiency.