Increasing the Minimum Wage Won't Help Those in Poverty

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State minimum wages
Every state surrounding Pa. has a higher minimum wage.

$7.25

● More than $10/hr
● More than $9/hr
○ More than $8/hr

SOURCE National Conference of State Legislatures

IMPORTANT POINTS

- **Raising the minimum wage does not primarily help low-wage workers, but instead mainly gives gains to the richest**
- **When using the base year of 1938 to calculate inflation-adjusted minimum wage, we see it has increased closely alongside inflation over time**
- **There has been very little research completed concerning proposed alternatives for raising the minimum wage**
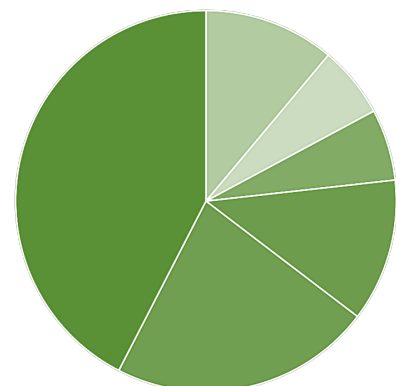
BACKGROUND

The first federal minimum wage law, passed in 1938 under President Roosevelt, has undergone many changes since its inception. For example, most recently in 2009, the minimum wage was increased to $7.25 an hour. The minimum wage's real value peaked in 1968, and steadily declined so that by 2001, its purchasing power had decreased by 37%. This constant decline has made major contributions to the problem that full-time minimum wage workers are often unable to support their families. Many of these of families are not considered to be poor according to the Federal Poverty Level (FPL) measure used in the United States, yet their compensation is not adequate enough to allow them to acquire many of their family's basic needs, such as, food, clothing, health care, and child care. Many cities and localities have begun instituting living wage ordinances, mandating that the minimum wage be raised to a level that is equitable to a living wage in their area, which changes based spatial heterogeneities. However, much of the existing literature on minimum wage concludes that low-wage workers do not benefit greatly from increases.
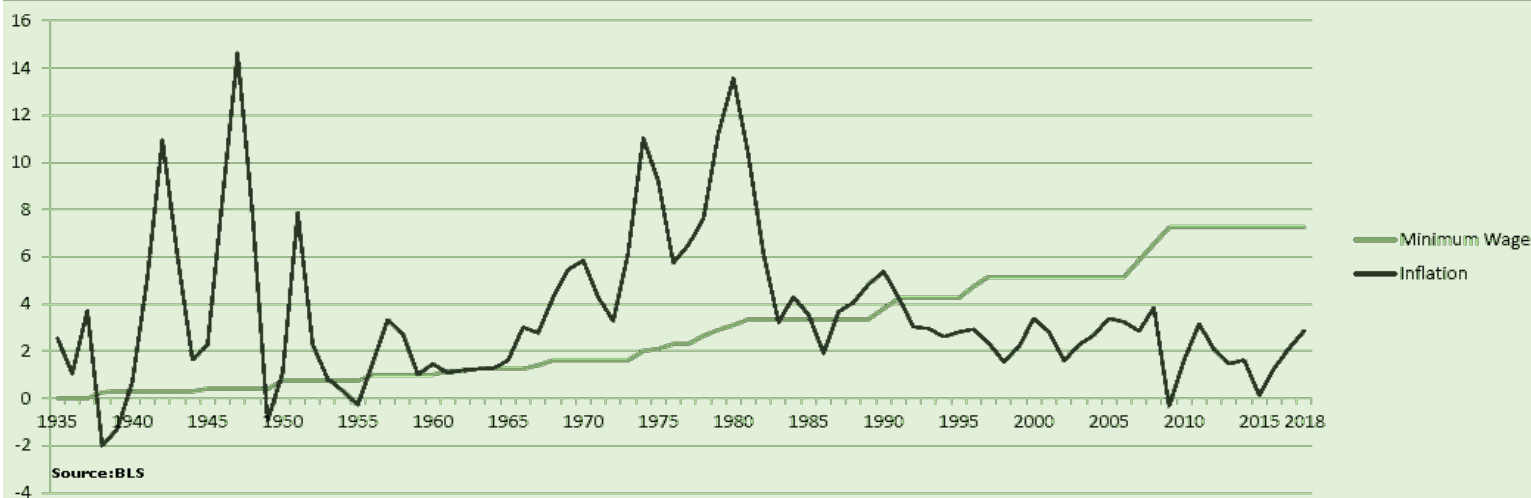
MISCONCEPTION

An important common misconception is that raising the minimum will largely benefit low-wage workers. In actuality, that is not true. A 1989 paper by Richard V. Burkhauser and T. Aldrich Finegan explains how the majority of minimum wage workers live above the poverty line, and are often a part of a family with dual income. Because of this, they discovered that workers who are actually living in poverty received only roughly 11% of the gains from minimum wage increases, while families with incomes three to four times higher received nearly 40% of the gains. Burkhauser revisited these numbers in 2010 with Joseph J. Sabia, once again concluding that 11% of workers who gain from an increased minimum wage come from impoverished households, showing that over time this finding had not changed. In the following chart, each number represents a household's need-to-income ratio, with <1 representing those living in poverty.

Gains Received by Group

■ <1 ■ 1-1.24 ■ 1.25-1.49 ■ 1.5-1.99 ■ 2.00-2.99 ■ >3

Source:BLS

Legend: — Minimum Wage, — Inflation

INFLATION

Many people believe that the minimum wage should be increased due to rises in inflation, and claim that if it were, then the inflation-adjusted minimum wage for today would be $11.22. One problem with this logic is that this may or may not be true depending on the base year that is chosen to adjust for inflation. This claim arises from using 1968 as the base year, the year that the minimum wage's real value peaked. However, this is an arbitrarily chosen year used to find inflation-adjusted minimum wage, often chosen to misconstrue data. If we use 1938 as the base year instead (when the first minimum wage policy was enacted), then the current federal minimum wage should be $7.70. While this does end up being greater than the current federal minimum wage, it is not as high as it is commonly cited. When inflation and minimum wage are put side by side (see the above table), we can see that despite movement in inflation, minimum wage has remained steady, and today's inflation rate is very similar to that of 1938, while having a higher minimum wage.

SOLUTIONS

Unfortunately, there is very little evidence collected or research completed on what problems should be addressed in order to help solve the roots of the living wage problem in America. However, there are several different alternative solutions to raising the federal minimum wage that have been proposed. Some have asserted that the Earned Income Tax Credit should be expanded because it accounts for total family income and the costs are not borne by producers, so employment would not be affected. Others suggest implementing training programs for unskilled and low-skilled workers so they may thrive and move on to higher positions in order to support themselves. Others believe that a tax reduction for small business will allow for the creation of more jobs and the ability to hire more employees. However, none of these proposed alternatives have been implemented on a large scale, so there is little proof that any of them will be more effective than increasing the minimum wage.

Sources

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