

BRIEF ANALYSIS

No. 270

For immediate release:
Tuesday, June 9, 1998

Don't Raise the Minimum Wage — The Bar Is Already Too High

There are two ways to think about the minimum wage. The first — but misleading — is how much workers are going to get paid. The second — and correct — is how much people must be able to *earn* if they are going to get or keep a job. So the minimum wage, which is sometimes characterized as a “hand up, not a handout” is neither — it is a hurdle that trips up the least skilled.

With phrases such as “Giving America a Raise” and “Making Work Pay,” the forces behind recent proposals to increase the federal minimum wage beyond its current level of \$5.15 an hour suggest that they are looking out for today’s poor working men and women. Truth be told, however, increasing the minimum wage is a misguided and wrong-headed policy that will do far more to hurt the poor than to help them.

The Minimum Wage and Family Income. Let’s begin with some facts about families, especially poor ones. The figure, which is based on data from the U.S. Census Bureau for the 12 months just prior to the last increases in the minimum wage, provides information on four key aspects of American families.

The first set of bars indicates how families are distributed across the income categories. For example, about 10 percent of families have less than \$10,000 of income and about 32 percent of families have incomes of \$50,000

or more. The second set of bars shows how low-wage workers (i.e., those earning between the old and new minimums) are distributed across the same family income categories. Perhaps surprisingly, *only 15 percent of low-wage workers are in the lowest-income families.*

Evidently most of those who earn low wages are either teen-agers or other secondary earners spread rather evenly across the income distribution. While the single mother trying to support her child on a full-time minimum wage job is a

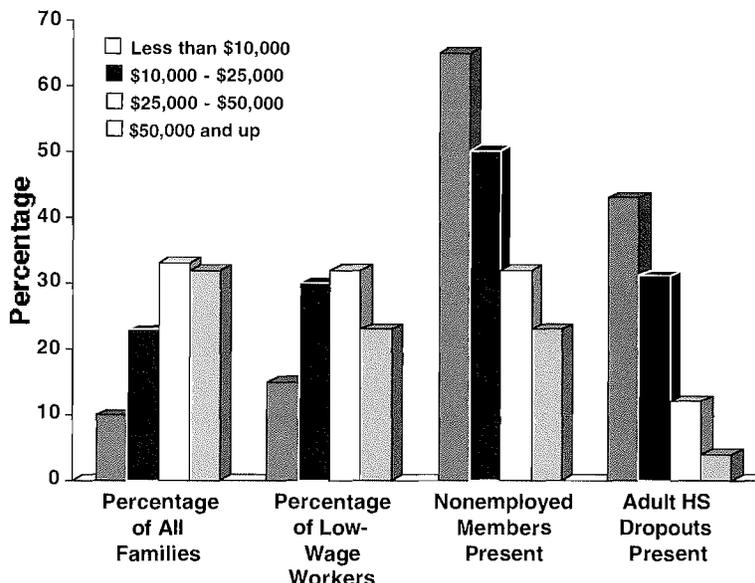
better story, the 16-year-old hamburger-flipping student with college-educated and employed parents is a better fact.

So why do low-income families have low incomes, if not because of low wages? The remaining two sets of bars provide important clues. The third set of bars shows the average percentage of working-age family members in each income category who are not employed. Only 23 percent of persons in the high-

est-income families do not work while 65 percent of the people in families with less than \$10,000 of income do not have a job. The primary cause of low income, then, is no wages — not low wages.

Why are so many of the persons in low-income families out of work? Lack of skills is an important reason. The final set of bars indicates that, on average, over 40 percent of the adults in low-income families never graduated from high school, while fewer than 4 percent of the adults in the highest-income families are high school dropouts.

Characteristics of Families by Income Category



Source: Author's calculations from *Current Population Survey*, Bureau of the Census.

BRIEF ANALYSIS

No. 270

Page 2

The minimum wage, which says “stay home” to people who cannot meet its earnings requirement, certainly seems to be having an effect. Low-income families have few low-wage workers. What they do have are many people without jobs and without the skills to get a job.

To add insult to injury for low-income families, the minimum wage increases the cost of the goods and services produced with low-wage labor — goods and services that are purchased disproportionately by low-income families. Almost one-half of all low-wage workers are employed in the retail sector, which means, for example, that part of what an increase in the minimum wage does is take money from the pockets of the people in front of the McDonald’s counter to put in the pockets of the people behind the McDonald’s counter.

The Minimum Wage and Employment. A long line of research concludes that increasing the minimum wage reduces employment. The 1990-91 increase in the minimum wage from \$3.35 to \$4.25 fits right in. This increase reduced employment by from 3 percent to 11 percent for teen-agers and poorly educated adults. A quick look at the numbers following the 1996-97 increase in the minimum from \$4.25 to \$5.15 shows that teen-age employment has again suffered. Despite the strong economy over the past few years, the employment rate of teen-agers and poorly educated adults in 1997 had yet to achieve the levels of 1989 — the last year of the longest period in recent history without an increase in the minimum wage.

Despite assertions to the contrary, the “value” of the minimum wage is not near historic lows. In thinking about the minimum wage and what it means as a requirement for employment, it is best to consider other wages. Comparing the minimum wage to the hourly wages of 25- to 34-year-olds indicates that the \$5.15 minimum at the end of 1997 was at about the level of the early 1980s and slightly above the level of the early 1990s when it was increased to \$4.25.

The minimum wage reduces employment, and given its current level relative to other wages, a further increase likely would generate a substantial reduction in the employment opportunities of the least skilled. The bar is

already too high — a further increase will prevent an even greater number of low-skill individuals from finding or keeping a job.

The Minimum Wage and Its Supporters. If the minimum wage actually does more harm than good to poor families, why is it such a popular remedy for what ails them? The answer lies not in the patient but in the doctor. From the original legislation establishing a federal minimum wage in 1938, through the 18 additional increases, to the current proposed hike, the goal of minimum wage supporters is to raise the cost of cheap labor that threatens higher-priced workers.

Do you think that Northern legislators were interested in the welfare of Southern workers or in protecting the jobs and wages of their constituents when they passed the first minimum wage? Do you think that unions, only 2.4 percent of whose members stood to benefit from the last increases in the minimum wage and who always favor an increased minimum wage, are more interested in the welfare of nonunion workers or in raising the cost of hiring nonunion workers?

Even the voting in Congress on the most recent increases in the minimum wage reflects this pursuit of self-interest. Those voting to raise the minimum wage were from high-wage states — where workers were about 20 percent less likely to be paid low wages than in the states of those voting against a higher minimum. It apparently is easier to cast a vote reducing employment when the jobs will be lost by someone else’s constituents.

The minimum wage does not prevent everyone from getting any job. But the minimum wage does make it more difficult for those who already have a hard time getting a job — the least skilled — to begin or continue a career. Passing a law that forces people to earn a minimum amount in order to work seems a cruel policy in an already cruel world. Perhaps a better slogan for the pro-minimum wage groups might be “Making Work Pay — If You Can Get It.”

This Brief Analysis was prepared by Donald R. Deere, associate director of the Bush School of Government and Public Service at Texas A&M University.