The Daily Dish

The Minimum Wage and Poverty

DOUGLAS HOLTZ-EAKIN | JANUARY 29, 2014

Last night in the State of the Union address, the President called for a "Year of Action," particularly concerning income inequality. This includes several unilateral actions that the White House will take using executive power and bypassing Congress. This included raising the minimum for some government employees according to USA Today. "Including an order to raise the minimum wage to $10.10 an hour for some federal contract workers, administration officials said." After which "Obama will pledge to work with Congress on legislation to increase the federal minimum wage for all workers from $7.25 to $10.10."

However, AAF recently examined the idea of raising the minimum wage as a means to fight poverty and found that "Evidence indicates that increasing the minimum wage actually increases poverty and income inequality by taking wages from the jobless, who need income the most, and handing them to high-income families who need help the least."

On Thursday morning AAF will be hosting a breakfast briefing on the topic of helping Americans in poverty and whether or not raising the minimum wage is the answer to help those most in need. The conversation will feature AAF's Douglas Holtz-Eakin, Georgetown's Adriana Kugler, Brooking's William Galston, and AEI's Michael Strain. Be sure to RSVP to the event here.

Eakinomics: The Labor Market and President Obama

The president sought to make a splash in the State of the Union (SOTU) address by unilaterally raising the minimum wage for federal contractors, a move that will benefit at most several hundred thousand workers (albeit by making government more expensive for taxpayers). This stands in striking contrast to the harm likely inflicted on 2.3 million part-time workers by the employer mandate in ObamaCare.

The ObamaCare employer mandate was intended to ensure that employers continued to offer health benefits rather than shifting their employees to federally subsidized exchanges. However, because the mandate covers only full-time workers, there is a clear incentive to shift more employees into part-time schedules, reducing their hours below a 30 per week, and inflicting obvious harm to the workers through lower pay and perhaps the necessity of adding additional part-time jobs.

To see how many workers and firms will be affected the University of California-Berkeley's Labor Center studied work schedules at firms of over 100 people across multiple industries and analyzed their average hours worked and insurance status, focusing on those those working 30-36 hours per week who did not have insurance. These are the most likely to be affected by a mandate to provide insurance, as their hours could be reduced to below an average of 30 per week. The result was an estimate of 2.3 million potentially affected workers, concentrated in the restaurant (16.3 percent of the workforce vulnerable), hotel (8.3 percent) and retail (6.5 percent) industries.

SOTU speeches are a tempting occasion to grandstand for any president. The contrast between the minuscule benefits of the president's minimum pay initiative and the ongoing damage of the Affordable Care Act are a lesson in the importance of good economic policy.