Research

Primer: Minimum Wage and Combating Poverty

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Introduction

75 years ago the federal minimum wage was crafted during the Great Depression in response to reports of inhumane child labor in the manufacturing sector. Today, the minimum wage is often called upon to fight poverty and income inequality. With renewed calls for an increase in the minimum wage, it is important to understand the original design, its impact on labor markets, and ultimately how successful it is as an antipoverty tool.

In his February State of the Union address, President Obama called on lawmakers to increase the federal minimum wage to $9 per hour and recently embraced proposals in Congress to increase it to $10.10. State and local governments have also started to take matters into their own hands. In September, California Governor Jerry Brown signed into law an increase in the state minimum wage from $8 to $10 (effective 2016). Recently, New Jersey residents voted to increase the state's minimum wage from $7.25 to $8.25 and amend the state constitution to index minimum wage to inflation. Finally, residents of SeaTac, home of the Seattle area international airport, are split on increasing the minimum wage to $15 per hour for all airport employees, with the ballot initiative only passing by 77 votes.

History

The minimum wage was first introduced by the Fair Labor Standards Act of 1938 (FLSA), and was primarily intended to protect factory workers and children from harsh working conditions and low pay. The Labor Department's Children's Bureau found that almost 25 percent of children were working at least 60 hours per week, with a median weekly wage of only $4.[1] In today's dollars, that's only $65 per week or $1.14 per hour if the child worked 60 hours a week. FLSA imposed harsher restrictions on child labor, mandated a minimum wage, and imposed a maximum work week of 44 hours for production employees.

While FLSA mandated a minimum wage to prevent such dangerous child labor conditions, the initial design of the policy suggests it was never intended to be completely livable or support an entire family on its own. Today's minimum wage laws are vastly different from the one introduced by FLSA both in terms of minimum wage level and coverage, and what it is expected to accomplish. In 1938, FLSA imposed a minimum wage of 25 cents per hour; in today's dollars this is equal to $4.15. FLSA's minimum wage mandate of 25 cents per hour was also only for production workers in manufacturing. The law only applied to half of those production workers and largely excluded all other sectors.[2] Only about 20 percent of the U.S. labor force was covered by the minimum wage law.[3] Low-skill industries, such as agriculture, retail, and services were excluded from the minimum wage requirement due to concerns that it would severely restrict employment in those sectors.[4] It wasn't until the 1960s and 1970s when lawmakers extended minimum wage coverage to agricultural, retail trade, and services industries. By 1975, more than 90 percent of the U.S. workforce was covered by the federal minimum wage.[5]

States have a long history of requiring their own minimum wages. The very first minimum wage law in the United States was passed by Massachusetts in 1912, compliance of which was essentially voluntary. In 1914, Oregon issued the first mandatory minimum wage, requiring employers in the state to pay women at least $8.25 per week.[6] Throughout the 20th Century, states began to set their own minimum wages, often due to lack of action in the federal government.[7] Today, 19 states and the District of Columbia have higher minimum wages than the federal mandate, four states have lower minimum wages, five have no minimum wage law, and 22 have a minimum wage rate equal to the federal $7.25 per hour requirement.[8]

Minimum Wage Today

Those who advocate an increase in the minimum wage argue that it would be an effective antipoverty policy and often cite that a full-time worker earning minimum wage makes $15,080 per year, below the federal poverty line for a family of two. However, the minimum wage assists very few families in poverty today.

An analysis of data from the 2012 Current Population Survey (CPS) March Annual Social and Economic (ASEC) Supplement, which reports information from 2011, reveals that very few people earn the minimum wage. In 2011, 58.9 percent of all wage and salary workers were paid hourly rates. Of those, only 3.2 percent earned at or below the minimum wage of $7.25 per hour. When looking at all wage and salary workers, minimum wage workers accounted for a mere 1.9 percent.

Looking specifically at how minimum wage relates to poverty, only 0.3 percent of people in families with incomes below the relevant 2011 federal poverty lines worked an hourly job and made at or below the minimum wage. The minimum wage does not help people in poverty who actually work. When examining the working poor, only 7.8 percent of all hourly-paid workers in poverty earn at or below the minimum wage (6.3 percent of all wage and salary workers in poverty).

In 2011, only 1.2 percent of people in families with incomes below the federal poverty threshold earned an hourly wage at or below $9 per hour and only 1.5 percent earned a wage at or below $10.10 per hour. Even among all those who work and are in poverty, only 28.5 percent earn at or below $9 per hour and 36.2 percent earn at or below $10.10 per hour. These figures suggest that increases in minimum wage to $9 and $10.10 not only would fail to assist almost 99 percent of all people in poverty, but they would also neglect the vast majority of people in poverty who are actually working.

Since so few working people in poverty actually earn at or near the federal minimum wage, very few would benefit from a minimum wage increase. Sabia and Burkhauser (2010) found no statistical evidence that the minimum wage increases between 2003 and 2007 affected state poverty rates. Only 15.5 percent of the net benefits from the federal minimum wage increase to $7.25 went to workers living in poverty. If the minimum wage were to increase to $9.50 per hour, only 10.5 percent of the net benefits would go to workers in poverty.[9]

Minimum Wage and Income Inequality

A second commonly cited goal of increasing the minimum wage is to combat national income inequality.

However, a look at the data reveals that a disproportionate number of people who earn minimum wage are teenagers in families that have incomes well above the national average.

According to CPS data, in 2011 36.6 percent of people who worked an hourly job and earned at or below the federal minimum wage were young adults living with their parents. Those families with young adults earning minimum wage had average incomes of $103,964.30, well above the 2011 national average of $75,203.78. So instead of combating income inequality, an increase in the minimum wage may actually enlarge the income gap by limiting earnings from those who need them most (the jobless) and directing them to those who need it least, the top 20% of earners.

Table 1: Minimum Wage Earners[10]

Family Member	Percent of Minimum Wage Earners	Average Family Income
Young Adult	36.6	103,964.30
Head of Household	21.3	48,660.49
Spouse	10.3	64,815.38
Single	13.7	22,998.29
Other	18.4	40,000.03
National Average	n/a	75,203.78

Examining the other family categories for minimum wage earners reveals that much smaller proportions of minimum wage earners are those actually responsible for supporting a family. In 2011, 21.3 percent of minimum wage earners were the head of the household; 10.3 percent were a spouse; 13.7 percent were single; and 18.4 percent were other relatives, including grandchildren, parents, siblings, and foster children. Table 1 does reveal the average family incomes of these groups were smaller than the national average. However, table 2 demonstrates that those incomes were all well above the 2011 HHS federal poverty thresholds for families of up to six people. Even single people earning minimum wage had average incomes well above the federal poverty thresholds for families with one person.

Table 2: 2011 HHS Poverty Guidelines[11]			
Persons in Family	**48 Continental States and D.C.**	**Alaska**	**Hawaii**

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1	10,890	13,600	12,540
2	14,710	18,380	16,930
3	18,530	23,160	21,320
4	22,350	27,940	25,710
5	26,170	32,720	30,100
6	29,990	37,500	34,490
7	33,810	42,280	38,880
8	37,630	47,060	43,270

Given that minimum wage disproportionately goes to families with already high incomes, it should not be surprising that 78.7 percent of minimum wage earners in 2011 were not in poverty.

Minimum Wage and Labor Markets

Why does minimum wage fail to help those in poverty? It fails to address joblessness.

According to CPS data, in 2011 only 6.6 percent of people with a job were in families with incomes below federal poverty levels. Meanwhile, 27.5 percent of those who were unemployed were also in poverty. This means that if a person is unemployed and currently looking for work, he or she is over four times more likely to be in poverty than those who are employed. It is important to note, that this also does not account for unemployed people who stopped looking for work and dropped out of the labor force entirely.

Table 3: Employment, Poverty, and Income[12]		
Employment Status	**Percent in Poverty**	**Average Family Income ($)**

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Employed	6.6	88,233.41
Unemployed	27.5	50,809.28
United States	15.5	75,203.78

Table 3 reveals that the family income benefits are substantial for those who are employed. While average family income of an employed person is well above the national average of $75,203.78 at $88,233.41, average income of an unemployed person is significantly below the national average at $50,809.28.

To make matters worse, there is mounting evidence in academia that the minimum wage ultimately decreases employment. Neumark and Wascher (2006) perform an extensive literature review of over 100 academic papers published since 1990. Although the papers they reviewed have a wide range of estimates, the authors find that almost two-thirds conclude that minimum wage has a negative effect on employment.[13]

While there is ongoing debate regarding the effect of minimum wage on the *level* of employment, new research by Meer and West (2013) suggests that a negative impact of the minimum wage can be isolated by focusing on employment *dynamics*. Specifically, they find that a 10 percent increase in the real minimum wage is associated with a 0.53 percentage point decrease in the net job growth rate.[14] In an earlier analysis, AAF applied Meer and West's work to current proposals to raise the minimum wage to $9 per hour and $10 per hour, finding that these policies would cost 1.4 million and 2.3 million jobs nationwide respectively.[15], [16]

Conclusion

From its inception in 1938, the minimum wage was never intended as an antipoverty tool. Today, the minimum wage assists very few people in need and increasing it would simply increase the cliff facing the poor and unemployed. 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.

Instead of increasing the minimum wage, lawmakers should focus on further improving policy tools, such as the earned income tax credit (EITC). In 2011, while 16.1 percent of all people in poverty received the EITC, only 0.3 percent earned less than the minimum wage. Even more drastic, 56.1 percent of all employed persons in poverty received the EITC, compared to the 6.3 percent earning minimum wage.[17]

[1] Jonathan Grossman, "Fair Labor Standards Act of 1938: Maximum Struggle for a Minimum Wage," U.S.

Department of Labor, originally appeared in the *Monthly Labor Review* of June 1978, available at http://www.dol.gov/dol/aboutdol/history/flsa1938.htm