

Policy Focus

Minimum Wage

RECIPES FOR RATIONAL GOVERNMENT FROM THE INDEPENDENT WOMEN'S FORUM

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WHAT YOU NEED TO KNOW

Raising the minimum wage is promoted as a way to alleviate poverty. However, while a minimum wage hike sounds compassionate, it can backfire on those whom we all want to help.

Minimum wage laws make it illegal for employers to offer someone a job for less hourly pay than the government's mandated minimum. That means that lower-skilled and workers with less experience will find fewer job opportunities as they are priced out of the employment market.

Minimum wage jobs tend to be entry-level jobs, which means that their value is more than just the take-home pay they provide. They are critical skill-building opportunities, allowing workers to gain valuable work experience that will help them start a career and ultimately earn more. In fact, most minimum wage workers receive pay raises so that they are earning more than the minimum after one year.

Less than one quarter of minimum wage earners live in households below the poverty line. More than half are between ages 16 and 24, and most are enrolled in school. One would expect this group to be earning less while they gain needed skills and experience.

The minimum wage is an inefficient way to try to reduce poverty. Other targeted assistance programs are better vehicles for helping those in need than a higher minimum wage which will distort the labor market, making job opportunities more scarce and preventing people from beginning their climb up the economic ladder.

WHY YOU SHOULD CARE

Onerous minimum wage laws backfire on those who they are supposed to help:

- **High Unemployment, Especially for Young Americans, Is Already a Problem:** Although the official unemployment rate was 7.4 percent last month, when those who dropped out of the workforce or work part-time but want full-time positions are included, the unemployment rate exceeds 15 percent. Younger workers have an unemployment rate twice as high as the general population.
- **Wage Mandates Discourage Hiring:** When something is more expensive, people can afford less of it. This is true for customers but also for employers. A higher minimum wages means businesses will be able to hire fewer workers, particularly those at the lowest income levels.
- **The Minimum Wage Is a Poor Way to Alleviate Poverty:** Most minimum wage earners are teens and young adults who are in school and are supplementing their families' income. Less than a quarter of minimum wage earners live in poverty. There are better, targeted ways to assist this group.

A growing economy with plentiful job opportunities is the best way to help make sure workers are well paid.

MORE INFORMATION

Our Minimum Wage Laws

The first federal minimum wage (of \$0.25 per hour) was established during the Great Depression, through the [Fair Labor Standards Act](#). The idea was to protect workers—many of whom were desperate for any paying job—from being taken advantage of by employers. Under the law, employers were required to pay workers in certain occupations at least a set minimum wage.

Since then, the law has been adjusted dozens of times to raise the hourly wage requirement and expand who qualifies as a covered worker. Currently, the federal minimum wage is \$7.25 per hour. Many states also have minimum wage laws that exceed the federal minimum.

[President Obama](#), along with others on the Left, have called to increase the minimum wage to \$9.00 per hour by 2015. Most recently, Congressional Democrats, led by Rep. Nancy Pelosi, made increasing the minimum wage a part of their agenda for women (noting that nearly two-thirds of minimum wage workers are women). Activists also push state and local governments to increase the minimum wage to what they deem a “living wage.”

However, while raising the minimum wage is sold as a way to boost the income of those living in

poverty, a greater understanding of minimum wage workers and the economic impact of changing the minimum wage suggests that such a policy change would backfire on those whom policymakers are seeking to help.

Who Earns the Minimum Wage

When politicians make the case for raising the minimum wage, they often make it sound as though most of those making minimum wage are heads of households working full-time at minimum wage throughout their working lives to support their families. However, that's not an accurate picture of minimum wage workers or their typical work experience. Nearly two-thirds of workers earning minimum wage (64 percent) work part-time. Nearly one-quarter (24 percent) are between the ages 16 and 19, and [more than half](#) are between 16 and 24 years of age.

Indeed, as the Heritage Foundation's [James Sherk](#) details, these young workers who make up the bulk of minimum wage workers contrast starkly with the picture of the beleaguered sole breadwinner struggling to make ends meet. The average family income of the young minimum wage earner is \$65,900 per year, and 62 percent of those workers are enrolled in school. Moreover, most minimum wage workers do not remain minimum wage workers for long. [A study](#) by economists for the Employment Policies Institute found that two-thirds of minimum wage workers

are earning more than the minimum wage within one year.

Of all minimum wage earners, an estimated 23 percent live at or below the poverty line. While this is a significant population, and policymakers should consider policies to help them move up the income ladder, the fact that they constitute a small fraction of minimum wage earners suggests that there are better ways to target assistance to this group.

The Impact on Employment

There is another reason for caution in assuming that boosting the minimum wage will help those living in poverty: Raising the minimum wage impacts the employment market, and particularly impacts the prospects of those with fewer skills. Economist [Thomas Sowell](#) put the relationship between the minimum wage and unemployment plainly: "When you set minimum wage levels higher than many inexperienced young people are worth, they don't get hired. It is not rocket science."

Indeed, if we were discussing essentially any other good or service, the relationship between price and demand would be considered settled. When you raise the price of something, people can and will buy less of it.

In fact, this logic is used to justify many other policies advanced by the Left, such as higher taxes on cigarettes, gasoline, alcohol, and other items they want to discourage people from buying.

Sometimes such taxes are ineffective if people have a strong preference (or even addiction) to a particular product (like cigarettes), and such taxes can backfire in other ways (by disproportionately impacting lower-income Americans, leading to job loss, or creating a black market for the good). However, the basic idea behind such “sin taxes” is sound: If something becomes more expensive to buy, people generally buy less of it.

Employers face the same constraints that people do. When a business cost goes up, they have to figure out ways to adjust. For example, when energy costs increase, business find ways to consume less energy, raise prices charged to consumers, or find other ways to cut costs to make up the difference.

This also applies to employment costs. When employment costs rise, employers compensate by reducing the number of workers, hours worked, or by passing costs on to consumers. Since the minimum wage most directly affects those workers at the lowest end of the earnings scale, they are also the group most likely to be impacted, as businesses seek to minimize the number of low-skilled workers they need.

While some studies have come to the counter-intuitive conclusion that raising the minimum wage has no impact on the number of minimum wage jobs available or even encourages hiring, the bulk of the economic literature confirms that higher employment costs reduce demand for workers. For

example, economists David Neumark and William Wascher published a paper in the National Bureau of Economic Research that reviewed the literature on the relationship between minimum wage and employment and concluded:

...the oft-stated assertion that recent research fails to support the traditional view that the minimum wage reduces the employment of low-wage workers is clearly incorrect. A sizable majority of the studies surveyed in this monograph give a relatively consistent (although not always statistically significant) indication of negative employment effects of minimum wages. In addition, among the papers we view as providing the most credible evidence, almost all point to negative employment effects...

Particularly given the current employment situation—with millions of Americans out of work, under-employed, or having exited the job market entirely because of lack of opportunities—creating another barrier to job creation seems the exactly wrong tact to take.

Better Ways to Help Low-Income Workers and Women

If the real goal of the minimum wage is to boost the income of those living in poverty or women struggling to make ends meet, there are far better ways to accomplish it.

First, it's important to note that the biggest reason that people live in poverty is not because they are in a low paying job. It is because they do not have paying work consistently. As [Sherk](#) highlights, less than one in ten (9 percent) of those over age 16 living in poverty worked full-time, year round. More than two-thirds (67 percent) did not work at all.

That's why a growing economy with plentiful job opportunities is the real key to helping those in poverty or with tight budgets. This will help unemployed people obtain paying jobs, and then also boost the prospects of those currently working for low wages. When jobs are plentiful, workers have greater bargaining power, which leads to rising wages and a greater variety of work options.

That's particularly important for women, many of whom take time out of the workforce to care for children and transition back into the labor market with part-time jobs. Reducing the cost of hiring workers so that jobs become more plentiful would be a first step to improving workers' prospects.

Government has other programs to help boost the income of those struggling to make ends meet—from the Earned Income Tax Credit to food stamps, Medicaid, and other forms of direct aid. These programs all have their own drawbacks, but have the virtue of doing less to distort the employment market.

Raising the minimum wage may sound like a compassionate policy, but there is nothing

compassionate about decreasing the number of entry-level jobs and making it harder for people to begin their climb up the economic ladder.

The Importance of First Jobs

Some advocates of a higher minimum wage may argue that it's better to have a higher minimum wage, even if that means that there are fewer entry level jobs available.

However, this overlooks the important role that those jobs play in terms of long-term earnings. Minimum wage jobs are often first jobs for workers—particularly young, lower-skilled workers or women who have taken time out of the workforce—looking to gain entrance (or reentrance) into the workforce.

The value of having that first job often exceeds the take home pay: It teaches young workers the importance of showing up on time, working hard, and having good manners. It allows those who have been out of the workforce to add a needed new line on a resume, refresh skills, and start a work history that will demonstrate to a future employer that they are a worthy candidate for hire at a higher wage.

Making it harder for people to get a first low-paying job makes it harder for them to begin the climb up the economic ladder.

WHAT YOU CAN DO

You can help prevent counterproductive minimum wage laws that destroy work opportunities!

- **Get Informed:** Learn more about Title! Visit:
 - [Independent Women's Forum](#)
 - [The Heritage Foundation](#)
 - [Employment Policies Institute](#)
- **Talk to Your Friends:** Help your friends and family understand these important issues. Tell them about what's going on and encourage them to join you in getting involved.

● **Become a Leader in the Community:**

Get a group together each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.

- **Remain Engaged:** Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

ABOUT THE INDEPENDENT WOMEN'S FORUM

The Independent Women's Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility.

IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.

We rely on the support of people like you! Please visit us on our website www.iwf.org to get more information and consider making a donation to IWF.

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