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Raising New York's Minimum Wage: A Poor Way to Help the Working Poor

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Executive Summary

State lawmakers in Albany are poised to vote on a staggering 38 percent increase in the state's minimum wage. The increase to $7.10 an hour will not grant the majority of its benefits to poor New Yorkers, but it will deprive these individuals of necessary employment opportunities. This study, conducted by Drs. Richard Burkhauser and Joseph Sabia of Cornell University, finds the claims of lawmakers—that the minimum wage will mainly help individuals in poverty—are deeply flawed.

The majority of beneficiaries from the proposed increase are not living in poverty. According to U.S. government data, New York employees affected by the proposed hike are more likely living in families earning three times above the poverty line than in poor families. Only 14 percent of the benefits from this increase will go to families in poverty. In contrast, 59 percent of the benefits will go to families earning more than two times the federal poverty line. More than one-third of the benefits from this wage hike will go to families earning three times the federal poverty line.

The majority of beneficiaries are not only from non-poor families, but also are not the primary breadwinner for their family. Contrary to the popular belief that minimum wage earners are primarily single parents supporting a family, this study reveals that 60 percent of the beneficiaries are not even the highest earner in their family. They are second and often third earners. Fewer than 20 percent of the employees affected by the proposed hike are actually single parents with children. The remaining 80 percent are either not the primary earner in their family, a single adult, or they have no children.

Not only do the majority of benefits go to families who earn more than twice the poverty line, but the blunt nature of the increase means that most employees in poverty will not benefit. This study found that over 60 percent of employees living in poverty will receive no benefit from the wage increase because they earn more than $7.10 an hour.

The proposed wage hike will cost New York employers and consumers $880 million a year. Of this, only $122 million would go to poor families, while $528 million would go to families earning more than twice the poverty line. The especially poor targeting of this social program makes it a highly inefficient and often ineffective means of combating poverty. This inefficiency becomes even worse when you consider the decades of research proving the negative employment effects resulting from a wage increase. Research cited in this study shows that the job loss is concentrated on the least-skilled and most vulnerable employees. For example, increasing the minimum wage causes four times more employment loss for employees without a high school diploma and African-American young adults than it does for their more educated and non-black counterparts.

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Introduction

Minimum wage fever is spreading among policymakers. In New York State, a bill to raise the state minimum wage from $5.15 per hour to $7.10 per hour has passed the State Assembly. At the national level, the Democratic presidential candidate has called for an increase in the federal minimum wage from $5.15 to $7.00 per hour. The proponents of each proposal insist that these minimum wage hikes will alleviate poverty among the working poor. But, as we will show, even under the best economic assumptions, hikes in the minimum wage will fail to achieve this goal.

> "The majority of the working poor are not helped by an increase in the minimum wage and the vast majority of workers who are helped live in more affluent families."

New York State Assembly Speaker Sheldon Silver has been at the forefront of a movement to raise New York's minimum wage. In March 2004, the Speaker argued:

> "There are tens of thousands of New Yorkers who toil and struggle everyday to make ends meet, despite being employed. The state's failure to institute a minimum wage that lifts families out of poverty has only moved those ends further apart."[1]

Democratic presidential candidate Sen. John Kerry has taken a similar position with respect to the federal minimum wage. On June 18, 2004, he announced his plan, saying:

> "I'm running for President to build a stronger economy that lifts up families and expands opportunity for hardworking Americans. Today, there are workers—many of them working women—struggling to get by on the minimum wage. That's wrong. We can do better. And together, we're going to change it ... I want to build an America where working families can get ahead, where a family working full time does not have to raise their children in poverty. With this increase, we will lift up millions of workers and build a stronger America as a result."[2]

Much of the debate over raising the minimum wage has focused on the tradeoff between ameliorating poverty—as argued above by Speaker Silver and Sen. Kerry—and the potential adverse employment effects caused by increasing the price of labor. But research (Burkhauser and Finegan, 1989; Burkhauser, Couch, and Glenn, 1996;

Burkhauser, Couch, and Wittenburg, 1996; Burkhauser and Harrison, 1999) suggests that even under the assumption of no adverse employment affects, the minimum wage is a poor policy tool to reduce poverty because most individuals earning the minimum wage do not live in families with low incomes.[3]

This recent research confirms what economist George Stigler argued almost 60 years ago. In his seminal 1946 *American Economic Review* article, Stigler wrote:

> The connection between hourly wages and the standard of living of a family is remote and fuzzy. Unless the minimum wage varies with the amount of employment, number of earners, non-wage income, family size, and many other factors, it will be an inept device for combating poverty even for those who succeed in retaining employment.[4]

The "fuzzy" relationship between an individual's hourly wage rate and family income has only become "fuzzier" over time. In 1939, the first year that a minimum wage was enacted in the U.S., the correlation between wages of workers and their families' income-to-needs ratio was 0.207. By 1989, the correlation fell to 0.053.[5] These facts suggest that even assuming there are no employment effects associated with an increase in the minimum wage, the policy may be ineffective at reducing poverty.

In this study, we present evidence on "who gets what" from an increase in the New York State minimum wage. Our findings suggest that (1) the majority of workers who live in poor families have wage rates higher than $7.10 per hour and would not be helped by a minimum wage increase, and (2) workers earning the minimum wage are more likely to live in families with incomes three times the poverty line than in poor families. Hence, the minimum wage is not especially target-efficient and is unlikely to reduce poverty, as Speaker Silver suggests.

"Who Gets What" from a New York State Minimum Wage Hike

We examine "who gets what" from an increase in the New York State minimum wage using a sample of New York workers, aged 16 to 64, taken from the March 2001 to March 2003 Current Population Survey (CPS). We use data from the outgoing rotation groups, which contain information on workers' usual gross weekly earnings in their primary job as well as how many hours per week they usually work in that job. Workers paid by the hour are asked directly for their hourly wage rate. As argued in Burkhauser, Couch, and Glenn (1996), these data are better suited for simulating the effects of a rise in the minimum wage because they do not require workers to recall earnings and hours from the previous year.

Table 1 contains a weighted sample of New York workers aged 16 to 64 that arrays workers' wage rates by the income-to-needs ratios of their families. The income-to-needs ratio is defined as the ratio of total family income to the official poverty line for a given family. For example, in 2003, the poverty line for a family of three was $15,260. Hence, a worker living in a family with three members and a total income of $30,520 would have an income-to-needs ratio of 2.0.

Table 1 Wage Distribution of New York Workers by Income-To-Needs Ratio of Their Family, 2001-2003

	Hourly Wage Categories(%)									
								Percent of		
	$0.01 to $4.99	$5.00 to $5.14	$5.15 to $7.09	$7.10 to $8.99	$9.00 to $14.99	$15.00 and over	Total	All Workers	Workers Earning More Than $5.00 & Less Than $7.10	Total Benefits*
Income-to-Needs Ratio										
Less Than 1.00	8.7	5.0	26.5	19.8	29.1	11.0	100	4.9	13.5	13.9
1.00 to 1.24	7.5	1.1	27.3	16.3	36.7	11.1	100	2.7	6.7	8.4
1.25 to 1.49	5.5	1.5	29.6	17.7	31.4	14.3	100	3.8	10.5	11.0
1.50 to 1.99	3.5	1.6	13.0	16.3	43.6	22.0	100	6.8	8.7	8.1
2.00 to 2.99	2.1	0.9	13.3	12.4	43.2	28.2	100	17.9	22.4	25.2
3.00 or Greater	1.3	0.4	6.4	6.4	27.5	58.0	100	63.9	38.2	33.4
Whole Category Share	2.3	0.8	0.8	9.5	31.9	45.0	100	100	100	100
Approximate Cost of Raising Minimum Wage from $5.15/hr to $7.10/hr (in billions)										$0.88

Source: March 2001, 2002, and 2003 CPS outgoing rotation groups. Weighted sample of workers includes all non-military, non-self-employed workers ages 16-64 in each year. Calculations based on wage reported for currently held job and income reported for 2000, 2001, and 2002, respectively. | * Assumes no change in employment status or hours worked

From Table 1, we find that just over 11 percent of New York workers earned between $5.00 and $7.09 per hour.[6] A small percentage of workers (2.3 percent) reported earning less than $5.00 per hour. Many of these workers may be in jobs uncovered by minimum wage laws.[7] But the vast majority of New York workers (86.4 percent) earn hourly wage rates higher than the proposed new minimum wage of $7.10 per hour.

More importantly, the majority of the working poor (60 percent), those living in families with income-to-needs ratios of less than 1, also earn more than $7.10 and will not benefit from such a hike. These workers are not poor because they have low wage rates. Rather, they live in poor families because: (1) they work less than full time, and/or (2) their family size is too large for their hourly wage rate to pull them above the poverty line.[8]

The majority of the working poor are not helped by an increase in the minimum wage and the vast majority of workers who are helped live in more affluent families. The reason is that only 4.9 percent of all New York workers live in poor families and only 17.2 percent of live in near-poor families (those with an income-to-needs ratio between 1.0 and 1.5). In fact more minimum wage workers live in families with incomes three times the poverty line or more (38.2 percent) than live in poor or near-poor families combined (30.7 percent). Hence, raising the minimum wage from $5.15 to $7.10 will be extremely ineffective in reducing poverty among New York's families.

The final column in Table 1 shows the distribution of benefits from the minimum wage hike. The reported benefits assume no behavioral response—that is, workers do not lose their jobs or have their work hours reduced. We find that workers in poor families receive only 13.9 percent of the benefits from an increase in the minimum wage, while workers in families with incomes twice the poverty line or more received 59 percent of the benefits. Hence, of the $880,000,000 in increased prices New York consumers will pay to sustain these higher wages, only $122,000,000 will go to the working poor. Over $528,000,000 will go to workers in families with incomes twice the poverty line or above.

These estimates overstate the benefits of a minimum wage hike for the working poor because some of them will lose their jobs. Evidence by Burkhauser, Couch, and Wittenburg (2000) suggests that young African-Americans, young non-high school graduates, and teenagers are most likely to lose their jobs as a result of a minimum wage hike. A 10 percent increase in the minimum wage causes an 8.5 percent decline in the employment of African Americans (aged 16-24), a 5.7 percent reduction in teenage (aged 16-19) employment, and an 8.5 percent decline in non-high school graduate employment (aged 20-24).

Hence, our estimates of the benefits of the minimum wage are likely upper-bound estimates. We present the best-case scenario for reducing poverty by assuming that workers' employment status and hours remain the same. And even using these optimistic assumptions, we find that the minimum wage is a poor policy mechanism to reduce poverty.

Table 2 Demographic Characteristics of New York Workers Affected by an Increase in the Minimum Wage, 2001-2003: Family Type and Gender

Family Type	Total(%)	Male(%)	Female(%)
Not highest-earner in family	60.35	26.55	33.80
Highest-earner, unmarried female with children younger than 18 years old	13.51	—	13.51
Highest-earner, unmarried male with children younger than 18 years old	5.91	5.91	—
Highest-earner, family size greater than 1, no children	8.47	3.90	4.57
Highest-earner, single, family size equal to 1	11.76	6.50	5.26
Whole category share	100	42.86	57.14

Note: Weighted sample of New York workers includes all non-military, non-self employed workers who earned between $5.00 and $7.10 per hour in March 2001-2003, based on the March 2001-2003 CPS outgoing rotation group.

Table 3 Demographic Characteristics of New York Workers Affected by an Increase in the Minimum Wage, 2001-2003: Age, Gender, Race

Age Group	Total(%)	Male(%)	Female(%)	Non-White(%)	White(%)
16 to 19	22.47	9.63	12.84	4.94	17.52
20 to 25	24.43	12.96	11.47	6.76	17.67
26 to 39	25.24	9.88	15.36	8.28	16.96
Over 40	27.87	10.40	17.47	9.17	18.70
Whole Category Share	100	42.86	57.14	29.15	70.85

Note: Weighted sample of New York workers includes all non-military, non-self employed workers who earned between $5.00 and $7.10 per hour in March 2001-2003, based on the March 2001-2003 CPS outgoing rotation group.

Table 2 shows the demographic characteristics of New York workers affected by an increase in the minimum wage. Over 60 percent are not the highest earner in their families. Most are second-earners, but some are third-earners, often dependent teenagers. Of the 39.7 percent who are high-earners, 11.76 percent live in a single person family. Another 8.5 percent have no children. Only 13.51 percent of those helped by this minimum wage increase are unmarried women with children under the age of 18.

Table 3 shows that while the majority of workers helped by a minimum wage hike are women (57.1 percent), nearly half are under the age of 25 (46.9 percent) and, as Table 2 showed, the majority of women are not the highest earner in their family.

Taken together, these findings are consistent with Stigler's assertion of a "fuzzy" relationship between a worker's wage rate and the economic well-being of the family in which the person lives. Raising New York's minimum wage for the purpose of reducing poverty will be largely unsuccessful for two key reasons: (i) most workers in poor families earn more than $7.10 per hour, and (ii) most minimum wage workers live in non-poor families. Thus, even under the best-case scenario, where no workers lose their jobs or reduce their hours worked after a minimum wage hike, the policy will not achieve Speaker Silver's stated goal because it is target inefficient.

The EITC: An Effective Alternative to the Minimum Wage

The Earned Income Tax Credit (EITC) is a far better policy tool than the minimum wage for rewarding low-wage workers who live in poor families. New York's Earned Income Credit is one of the most generous in the United States, and is an effective means of helping the working poor without risk to their jobs. For every dollar in wages a low-income family with two

children earns, the federal government provides a tax credit of 40 cents and New York adds 12 cents to that credit. Thus, after these credits, a low-income minimum wage worker in New York earns $7.83 per hour.

Evidence by Burkhauser, Couch, and Glenn (1996) suggests that, unlike a minimum wage hike, an increase in the EITC primarily benefits workers in poor or near-poor families. The rules of the program ensure this. Unlike the minimum wage, which is based solely on a worker's hourly wage rate, the EITC is based on family income. Hence, all of the families in poor or near-poor families in Table 1 would benefit from the EITC.

A worker earning more than $7.10 per hour but living in a low-income family would gain nothing from a minimum wage hike, but would be eligible for additional EITC benefits. Additionally, because employers do not directly pay for the EITC—as they do for the minimum wage—there will be no reduction in employers' demand for low-skill workers.

Conclusion

The recent proposal to raise New York State's minimum wage from $5.15 per hour to $7.10 per hour is trumpeted by proponents as a means to lift the working poor out of poverty. The perception remains that most minimum wage earners are single mothers living in poor families. But as Mark Twain once noted, "The trouble with the world is not that people know too little, but that they know so many things that ain't so."

The vast majority of New York's minimum wage workers are not the highest-earner in their family—they are second or third-earners. Only 13 percent are single women with young children. Moreover, most workers from poor families earn more than $7.10 per hour and nearly 40 percent of minimum wage earners live in families with income-to-needs ratios greater than 3.00.

Our evidence suggests that raising New York's minimum wage will be ineffective in raising the working poor out of poverty because such a policy is not target-efficient. The minimum wage is an anachronism with respect to redistributing income and protecting workers against poverty. Policymakers wishing to help the working poor should focus on expanding the EITC, a far better mechanism than the minimum wage for helping the working poor.

Appendix A

Average Hours, Weeks, and Potential Wage Increase of New York Workers Affected by the Change in the Minimum Wage Law, 2001-2003

Income-to-Needs Ratio	Average Hours per Week	Average Weeks per Year	Average Difference Between Current Wage and $7.00
Less than 1.00	30.69	39.76	1.07
1.00 to 1.24	30.23	41.77	1.20
1.25 to 1.49	33.63	44.43	1.01
1.50 to 1.99	37.97	45.36	0.78
2.00 to 2.99	30.02	44.56	0.98
3.00 or greater	29.01	43.34	0.91
All Households	30.81	43.32	0.97

Note: Weighted sample of New York workers includes all non-military, non-self employed workers who earned between $5.00 and $7.10 per hour in March 2001-2003, based on the March 2001-2003 CPS outgoing rotation group.

Endnotes

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2. Pickler, Nedra, "Kerry proposes raising minimum wage to $7 per hour by 2007," Associated Press, 18 Jun 2004.
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4. Stigler, George J. 1946. "The Economics of Minimum Wage Legislation," *American Economic Review* 36: 358-365.
5. Burkhauser, Richard V., Kenneth A. Couch, and Andrew J. Glenn. 1996. "Public Policies for the Working Poor: The Earned Income Tax Credit versus Minimum Wage Legislation," *Research in Labor Economics* 15: 65-109.
6. We define workers who earn between $5.00 and $7.09 as minimum wage workers. That is, we assume workers who report earning $5.00 and $5.14 per hour are "covered" workers who have underreported their wage rate. We repeated the analysis excluding these workers and the results were similar to those reported above.
7. Census estimates indicate approximately 5.3 percent of private sector workers are employed in "uncovered" jobs.
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