

POLICY BRIEF: What's Best At Reducing Poverty?

New Study Examines What Is Most Effective At Reducing Poverty

Advocates of federal- and state- minimum wage increases frequently cite the policy's importance in helping poor working Americans. But new research from the Employment Policies Institute (EPI) demonstrates that other labor market policies are more effective at reducing poverty.

Economists John Formby and Hoseong Kim, from the University of Alabama, and John Bishop, from East Carolina University (FBK), measured the associated reduction in poverty due to the 40 percent minimum wage increase between July 2007 and July 2009. They then compared these results to two other poverty-reducing policies: increases in the Earned Income Tax Credit (EITC) and a rebate of Federal Insurance Contributions Act (FICA) taxes to low-income families.

FINDINGS

In 2009, for families at 100 to 150 percent of the federal poverty line, an EITC increase would provide an income boost of \$144—94 percent greater than the most recent federal minimum wage increase in July 2009. A FICA rebate would provide a \$126 boost, or 70 percent more income than the recent wage increase.

FBK also measure the number of low-income Americans who would escape poverty by each of these three labor market policies. They found that the increase in the minimum wage lifted 780,000 Americans out of poverty, while an expansion of the EITC would have raised 1.95 million people—2.5 times more than the minimum wage—out of poverty. The FICA rebate would have helped raise 1.65 million people out of poverty.

The study concludes that the poverty-reducing effects of the minimum wage are small compared to alternative policies because most of the benefits go to families that aren't poor.

In 2009, 34.83 million poor families—85.5 percent of all poor families—received no benefit from the increase in the federal minimum wage.

By contrast, Americans in the middle income bracket received almost 10 percent more monetary benefit from the most recent wage hike than did the poorest Americans.

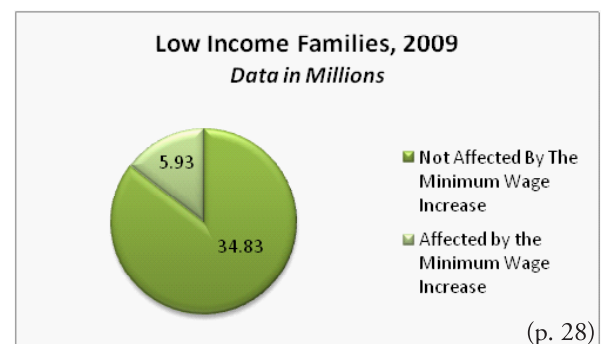
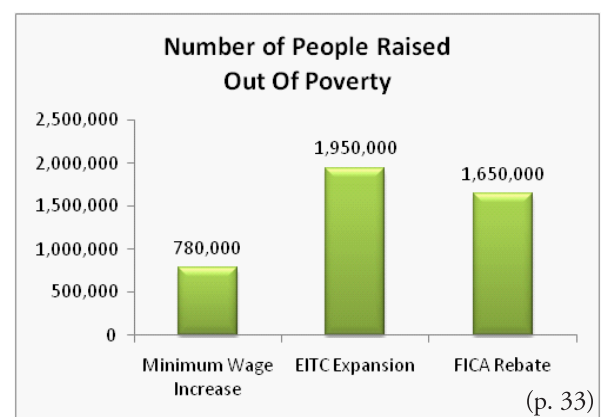
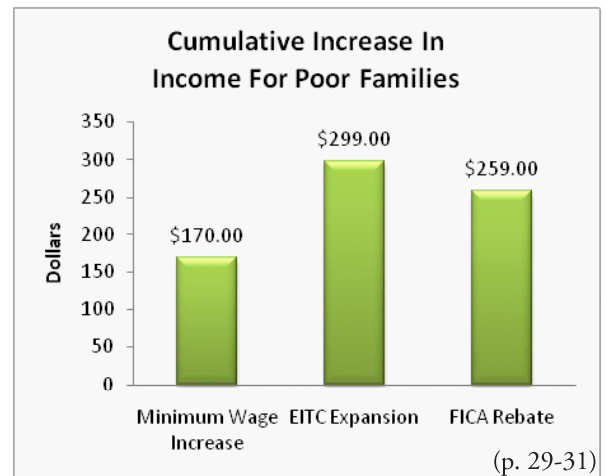
COSTS

FBK point to the indirect cost of employment loss that's associated with a minimum wage increase.

The study says that an increase in the federal minimum wage makes it more difficult for employers to hire entry-level workers, and results in fewer hours or lost employment opportunities. They cite particularly strong unemployment effects among minority teens; a 10 percent increase in the minimum wage is associated with a 6.5 percent decrease in employment amongst these teens.

CONCLUSION

As policymakers continue to study the best way to assist poor Americans, this study makes clear that an expansion of the EITC or a rebate of FICA taxes would provide the greatest benefit to poor working Americans, without the unintended consequence of additional employment loss.



The Employment Policies Institute is a non-profit research organization dedicated to studying public policy issues surrounding employment growth. In particular, EPI focuses on issues that affect entry-level employment.