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Raising the Minimum Wage:
Another Empty Promise to the Working Poor

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Overview

This paper provides a historical view of the effect of increases in the federal minimum wage on the working poor with a particular focus on the past 15 years. Since its inception in 1938, increases in the federal minimum wage have become an increasingly weak mechanism for addressing the problem of poverty in America. This continuing deterioration stems from the fact that fewer low-wage employees are supporting a family on a minimum wage income. As poverty becomes more a problem of hours worked and not an individual's wage level, anti-poverty policies that focus on wages will be less efficient than polices that focus on income, such as the Earned Income Tax Credit (EITC).

Wages vs. Income

While wages and income are certainly related, the connection between the two has always been tenuous. In 1946, Nobel prize-winning economist George Stigler commented, "the connection between hourly wages and the standard of living of a family is remote and fuzzy." As this study shows, the fuzzy connection in 1946 has become blurrier over time.

Examining Census Bureau data since 1939, the authors found that fewer low-wage employees live in poor households today than in years past. Specifically, in 1939, 85 percent of low-wage employees[1] were living in poor households. By 2003, only 17 percent of low-wage employees were living in poor households. Consequently, attempting to target poor families by manipulating wages is an inefficient means of addressing the problem.

Even more important than the number of low-wage employees living in poor households is the number of low-wage employees who are the heads of poor households. This stereotypical beneficiary of an increase in the wage floor is the one supporters of minimum wage increases claim represents the typical minimum wage employee. In reality, a small fraction of low-wage employees are the head of a poor household, and this number has decreased significantly over time. In 1939, nearly one-third (31%) of all low-wage employees were the heads of a poor household. By 2003, only 9 percent of low-wage employees were heading a poor household.

These statistics all reveal an underlying point—modern families have multiple workers whose collective earnings make up the family income. Federal anti-poverty policy should adjust accordingly. As more women and teenagers have entered the workforce as second and third earners, the ranks of low-wage employees contain fewer individuals single-handedly supporting a family.

Federal Minimum Wage Increases and Poverty

A byproduct of the aforementioned changes in the composition of family incomes is that the poor make up a small percentage of beneficiaries from a wage hike. Contrary to popular perception, the average minimum wage employee is not in poverty or raising a family on a mini-

mum wage income. Analyzing Census data, the authors found that a beneficiary from a proposed federal minimum wage hike to $7.25 an hour is far more likely to be in a family earning more than three times the poverty line than in a poor family. In total, only 12.7 percent of the benefits from a federal minimum wage increase to $7.25 an hour would go to poor families. In contrast, 63 percent of benefits would go to families earning more than twice the poverty line and 42 percent would go to families earning more than three times the poverty line. The average benefit per household is approximately the same, with poor families receiving a benefit of $1,110 and families earning three times the poverty line earning $1,090—nearly the same benefit, despite a vast difference in family incomes.

While there is strong empirical evidence to suggest that increasing the minimum wage will have adverse employment effects—particularly among young African Americans, young non-high school graduates, and teenagers—the authors assume no disemployment effects associated with the minimum wage hike so as to allow the policy its best chance to achieve the poverty-reducing goals promised by its proponents. While the minimum wage is often promoted as a policy designed to help the poor, minorities, and single mothers, this analysis reveals that only 3.7 percent of the benefits from a $7.25 an hour federal minimum wage would go to poor African-American families. Only 3.8 percent would go to poor single-mother households. Even more troubling, the majority of "working poor" families—families who are working but remain in poverty—receive no benefit from an increase to $7.25 an hour. These families don't benefit because they already earn more than the new federal minimum wage and remain in poverty either because of a low number of hours worked or a large family size. Many of these individuals would benefit far more from an increase in the generosity of federal and state EITC programs.

Work Effort and Poverty

Examining the hours worked by poor employees reveals that increases in work effort could have a significant effect on income. The authors found that the median wage of the highest earner in a poor household was much higher than the proposed federal minimum wage—$9.25 for poor households and $9.60 for poor and near-poor households (up to 150 percent of the poverty line). While this wage should be sufficient to put a family of four out of poverty (even without a second or even third earner), the data reveal that the majority of these individuals are not working full-time.

The median hours worked for the highest earner in a poor family in 2003 was 1,720—significantly less than full time (2,080 hours a year). While including near-poor families in the calculation brings this number up to 1,872 hours, the majority of these individuals are still working less than full time at their current wage. These individuals would receive significantly more benefit from programs that promote increased work effort than they ever would from a minimum wage increase.

Single Mothers and the Minimum Wage

Advocates of increasing the federal minimum wage often insinuate that primary beneficiaries will be single mothers raising a family on a minimum wage income. As was mentioned above, only 3.8 percent of the benefits from an increase to $7.25 an hour accrue to poor single mothers. One of the factors causing this low percentage of benefits is the fact that the majority of poor single mothers (58%) have hourly wages above this level. In addition, only 18.5 percent of the benefits going to single mothers will go to those in poverty. The majority of benefits going to single mothers will go to those earning more than twice the poverty line.

Senator Edward Kennedy (D-MA), the primary sponsor of a federal minimum wage increase to $7.25 an hour, recently stated in support of an increase that "the jobs available to women leaving welfare are often minimum wage jobs." Census data, however, shows this is not the case. From 1995–2000, the time period following welfare reform, the employment rate of single mothers increased by 10.8 percentage points. Many of these single mothers were undoubtedly leaving the welfare rolls and joining the workforce. If Sen. Kennedy's claim is correct, one would expect a significant increase in the number of single mothers holding low-wage or federal minimum wage jobs. In reality, 77 percent of the increase in employment was accounted for by single mothers holding jobs paying more than low wages (50 percent of the average private sector hourly wage rate).

Examining the period over the 1990's business cycle produces similar results. The employment rate of single mothers increased by 14 percentage points, with 64 percent of this increase accounted for by single mothers earning more than low wages. Only 24 percent of the increase can be accounted for by those who held jobs at the prevailing federal minimum wage rate.

Conclusion

The authors calculate that, absent any employment loss, the cost to employers of the proposed increase in the federal minimum wage to $7.25 an hour will be $18.26 billion. Only 12.7 percent ($2.3 billion) of this cost will actually go to poor families, with only 3.7 percent going to poor African-American families. The ability of the minimum wage to target poor families is weaker and decreasing over time. Contrary to the statements of its advocates, fewer and fewer low-wage employees are supporting a family on the minimum wage, with only 9 percent of low-wage employees actually supporting a poor family.

Therefore, effective anti-poverty programs must concentrate on family income and not wages. While most working poor families will not receive any benefit from an increase in the federal minimum wage to $7.25 an hour, the vast majority would receive a benefit from increases in the generosity of federal and state EITC programs. These programs provide targeted assistance to the low-income working families so often cited in support of minimum wage increases—the same families that receive a minority of the benefits from a wage increase.

[1]For the purposes of this study, a low-wage employee is anyone earning less than 50 percent of the average private sector wage.

Raising the Minimum Wage: Another Empty Promise to the Working Poor

I. Overview

> *"It's time to honor and reward people who work hard and play by the rules. ... No one who works full time and has children should be poor any more."*
>
> —Bill Clinton and Al Gore, 1992

Minimum wage increases are supported by those who want to ensure that no one who works hard and plays by the rules lives in poverty. But who really gains from a minimum wage increase? How many of the working poor are actually helped? And are there more effective means of achieving this social goal?

This paper provides a historical view of the effectiveness of Federal minimum wage increases in raising the wages of the working poor, focusing specifically on the 1990s. Despite the recent increase in the employment of single mothers, which reversed the long-term decline in the share of low-wage workers who were heads of households, a Federal minimum wage increase (from $5.15 to $7.25 per hour) along the lines proposed by Senator Edward Kennedy (D-MA) will once again promise much more than it will deliver to the working poor. This mandated wage increase will be an even less target-efficient mechanism for improving the economic well-being of the working poor than was the last federal minimum wage increase (from $4.25 per hour to $5.15 per hour), which was signed into law by President Clinton in 1996. Relative to the 1996 increase, the current proposal, if enacted, will result in an even greater share of its mandated wage gains going to workers who live in higher income households while once again failing to help the vast majority of workers who are poor.

We focus on the growing population of working single mothers (defined as single-female heads of households who work at least 14 hours a week and at least 15 weeks per year and have children under age 18) because it is argued that the growth in their number among the working poor or near-poor has made it even more important to increase the Federal minimum wage. By examining the population of working single mothers before and after the passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), we show that despite political rhetoric to the contrary, the majority of the jobs held by single mothers who live in poor or near-poor households pay an hourly wage that already exceeds $7.25 per hour and hence will not be helped by the proposed increase in the Federal minimum wage. We also show that the vast majority of workers who will gain do not live in poverty.

The welfare reforms of 1996, together with other pro-work policies of the 1990s, shifted federal social welfare policy away from programs that discouraged single mothers from working to those that encouraged work. Chief among these was a substantial increase in the Earned Income Tax Credit (EITC), enacted in 1993 but only fully implemented in 1996.[1] Because the EITC targets workers—especially single working mothers—who live in low-income households, rather than low-wage workers regardless of their household's income, the EITC is far more effective in helping the working poor in general and single working mothers in particular than are minimum wage increases. The EITC has not only increased the after-tax wage earnings of workers in low-income households but is a major reason for the dramatic increase in the employ-

ment of former welfare mothers. A further increase in the EITC is a far more effective mechanism for increasing both the employment and income of single mothers than is a further increase in the federal minimum wage. (See: Hotz and Scholz, 2003 for a review of the EITC literature; Burkhauser, Couch and Glenn, 1996 and Neumark and Wascher, 2001 for measures of its target effectiveness relative to minimum wage increases.)

II. Minimum Wage Law and the Working Poor

The federal minimum wage was enacted as part of the Fair Labor Standards Act of 1938 (FLSA). President Roosevelt rallied Congressional support for this legislation with the promise that it would help the one-third of Americans who were "ill-housed, ill-clad, and ill-nourished" (Roosevelt, 1937). This ringing call for social action still echoes in the words of modern-day minimum wage supporters. In his 1995 State of the Union address, President Clinton declared:

> *"I've studied the arguments and the evidence for and against a minimum wage increase. I believe that the weight of the evidence is that a modest increase does not cost jobs, and may even lure people into the job market. But the most important thing is, you can't make a living on $4.25 an hour."*
>
> —Clinton, 1995

Making a similar argument nine years later, Senator Kennedy stated:

> *"[T]he jobs available to women leaving welfare are often minimum wage jobs, and it is difficult, if not impossible, for them to meet the needs of their families and raise their children. Daily life is often harsh for low-income working mothers in all parts of the country, whether or not they have been on welfare. For them, survival is the daily goal. If they work hard enough and their working hours are long enough, they can make ends meet—but only barely. … We must stop asking these families to do it all alone. They are working too many hours for too little pay, without access to the support they need to make ends meet and improve the quality of their lives. One of the most important steps we can take is to guarantee a fair minimum wage."*
>
> —Kennedy, 2004

While the social justice concerns raised by modern supporters of the minimum wage continue to appeal to the vast majority of Americans—who believe that those who work hard and play by the rules should not live in poverty—over the years minimum wage increases have in fact become a weaker and weaker mechanism for achieving this goal.

Current popular support for the minimum wage is based on legal and political precedents set during the first part of the 20th Century (Burkhauser, Couch, and Glenn, 1996). During the 19th and early 20th Centuries, the right to contract was guaranteed under the 14th Amendment to the Constitution, and legislatures could only intervene in the labor market under narrow circumstances (*Lochner v. New York*, 198 U.S. 45 (1905)). However, by 1937, the Supreme Court upheld a state minimum wage law (for women), stating that "the legislature was entitled to adopt measures to reduce the evils of the 'sweating system,' the exploiting of workers at wages so low as to be insufficient to meet the bare cost of living …" (*West Coast Hotel Co. v. Parish*, 300 U.S. 379

(1937)). This decision paved the way for state intervention in the marketplace to correct social inequities.

While the right of States or the Federal Government to use minimum wage increases to help the working poor is now fully established, the effectiveness of minimum wage laws in achieving this goal is not. Stigler (1946), in his seminal article on this topic, formalized two critiques of the minimum wage. First, the impact of raising the minimum wage on the working poor was uncertain. While those workers who kept their jobs and worked the same number hours would see their labor earnings rise, those workers who lost their jobs or had their hours reduced would be harmed. In our analysis, we assume that there are no employment effects associated with an increase in the minimum wage. Hence, our simulations estimate the impact of a minimum wage increase assuming no change in hours worked. (We will discuss this in more detail in Section III.)

Second, Stigler pointed out:

> *"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."*
>
> —Stigler, 1946, p. 363

Stigler's second insight is the motivation for our work. Household income depends on factors beyond an individual worker's wage rate. It depends on the number of hours the person works, the number of workers in the household, their wages and hours worked as well as on income from other sources. As Burkhauser, Couch, and Glenn (1996, p. 67) note, "poverty is gauged by looking at household circumstances, not the earnings of each individual in isolation."

III. The Minimum Wage and Employment

Until the 1990s, a consensus existed among economists that raising the minimum wage caused net employment losses. Wessels (1980); Brown, Gilroy, and Kohen (1982); and Brown (1988) provide reviews of the pre-1992 literature on the minimum wage. Brown (1988) summarizes this literature by concluding that a 10 percent increase in the minimum wage was associated with a 1 to 3 percent reduction in teenage employment (a common indicator of entry-level employment). But in the 1990s, four influential articles argued that minimum wage increases had an insignificant and negative effect or even a significant and positive effect on employment (Katz and Krueger, 1992; Card, 1992a; Card, 1992b; and Card and Krueger, 1994). These studies, together with Card and Krueger (1995), fundamentally challenged the previous consensus, and provided the intellectual underpinnings of President Clinton's 1995 statement that "a modest increase [in the minimum wage] does not cut jobs, and may even lure people into the job market" (Clinton, 1995).

An additional decade of research has discounted the notion that minimum wage increases have positive employment effects and a near consensus has returned to the view that minimum wage increases have significant but relative modest negative effects on the employment of teenagers and other low-skill groups. (See: Abowd, Kramarz, Lemieux and Margolis, 2004; Burkhauser, Couch, and Wittenburg, 2000; Deere, Murphy, and Welch, 1995; Neumark and Wascher, 1994, 2000, 2002, 2004.) Public opinion surveys conducted in 1996 reveal that the median labor economist reported that a 10-percent increase in the minimum wage would

result in a 1-percent decline in the employment of teenagers, consistent with the findings in Brown, Curtis, and Kohen (1983) (Fuchs, Krueger, and Poterba, 1998).

Based on this more recent research, our assumption of no change in the employment or hours of work will, if anything, overstate the gains to low-wage workers from a minimum wage increase.

IV. Low Wages and Poverty

Between 1939 and 2003, the federal minimum wage has fluctuated between 34 and 56 percent of the average private sector wage, defined as the gross average hourly earnings of all production and non-supervisory workers in the private nonfarm sector, based on payroll data reported by employers to the Bureau of Labor Statistics (Burkhauser, Couch, and Glenn, 1996). In 2003, the federal minimum wage was at a historic low (33.6 percent) as a percentage of the average private sector wage.[2,3] Advocates of the minimum wage have generally proposed increases in the minimum wage to around 50 percent of this average.[4] It is this group of low-wage workers (those who earn wages of 50 percent or below the average) on whom we focus in this section.

Early in the 20th Century, the relationship between low wages and low household income was strong, since most households had only one worker and such households could count on few social programs to supplement their wages. However, at the start of the 21st Century, the relationship between being a low-wage worker and living in a poor or near-poor household is even fuzzier than in Stigler's day.

Table 1 builds on the work of Burkhauser, Couch, and Glenn (1996), and Burkhauser and Finegan (1989). It shows how the distribution of low-wage workers over the income distribution has changed since 1939. As in Burkhauser, Couch, and Glenn (1996), we define a low-wage worker as one whose wages fall below 50 percent of the average private sector wage.[5]

The income-to-needs ratio is our measure of economic well-being for these workers. For the years 1949 to 2003, this is defined as the ratio of total household income to the official U.S. Census-determined poverty line, adjusted for household size.[6] So, for example, in 2003, the poverty line for a household of four was $18,810. Therefore, a worker living in a household with four members whose total household income was $37,620 would have an income-to-needs ratio of 2.0. Importantly, we use household income because a worker is not an independent entity with respect to his or her economic well-being. A worker lives in a household and it is the total income of that household, not the worker's wage rate or labor earnings, that affects his or her economic well-being.[7]

Table 1 shows a relatively close relationship between being a low-wage worker and living in poverty in 1939. One reason is that a large share (34 percent) of low-wage workers are household heads (defined here as the head of a household with more than one person) and most (94 percent) headed poor households, so that 31 percent of low-wage workers are poor household heads. Another reason is that households with low-wage workers had fewer other sources of income. So even when low-wage workers are not household heads, they are still likely (85 percent) to live in a poor household. Hence, in 1939, just after the passage of the FLSA, when no other mechanisms for helping the working poor existed, a minimum wage (assuming no negative employment effects) was a relatively target-efficient mechanism for helping the working poor since a large share of low-wage workers lived in poor households.

This relationship between being a low wage worker, especially if one were a household head, and living in a poor household declined steadily over the next 40 years. Hence by 1979

Table 1 The Distribution of Low-wage Workers Across the Income Distribution: 1939–2003 (percentages)

	1939[a]		1949[b]		1959		1969		1979	
Income-to-Needs Ratio	Heads of Household	All Workers	Heads of Household	All Workers	Heads of Household	All Workers	Heads of Household	All Workers	Heads of Household	All Workers
Less than 1.00 (poor)	94	85	77	NA	61	42	45	23	37	20
1.00 to 1.24	3	5	8	NA	11	10	13	9	13	7
1.25 to 1.49	2	3	5	NA	7	10	9	7	9	7
1.50 to 1.99	1	4	6	NA	8	12	11	14	13	12
2.00 to 2.99	0	2	3	NA	9	16	13	20	16	20
3.00 or above	0	0	1	NA	4	10	10	27	12	34
Total	100	100	100	NA	100	100	100	100	100	100
Percent of all low-wage workers who were heads of:										
households	34	–	31	–	29	--	25	--	21	--
poor households	31	–	24	–	18	–	11	--	8	--

	1989		1995		2000		2003	
Less than 1.00 (poor)	37	22	33	14	33	16	31	17
1.00 to 1.24	13	9	11	7	9	6	10	7
1.25 to 1.49	10	8	8	8	7	7	8	8
1.50 to 1.99	12	12	15	14	10	12	13	13
2.00 to 2.99	15	19	16	22	18	22	17	22
3.00 or above	13	30	18	35	21	37	21	34
Total	100	100	100	100	100	100	100	100
Percent of all low-wage workers who were heads of:								
households	22	--	25	--	27	–	29	--
poor households	7	--	8	--	8	–	9	--

Notes:

[a] Income-to-needs ratio in 1939 excludes income from sources other than wages and salaries.

[b] Data for 1949 are not entirely comparable due to different sampling procedures. Data for all workers and other household members are not available.

[c] Working head-of-households is defined as heads under age 65 in households of size greater than one. Low-wage workers earned less than half of the average private sector wage. Poverty levels for 1939, 1949 and 1959 were formed by extrapolation using the Consumer Price Index. Details may not sum to 100 due to rounding.

[d] Tabulations include all workers aged 17 to 64, whether living alone or in households. The former are classified by the ratio of total personal income to the poverty level for one-person households; workers in households are classified by the ratio of total household income to the size-adjusted poverty level for their household. Comparable data were not gathered in the 1950 census.

Source: Update and compilation of tables from Burkhauser and Finegan (1989) and Burkhauser, Couch, and Glenn (1996).

only 21 percent of low wage workers were household heads and only 8 percent of all low wage workers were poor household heads.All other low-wage workers were either not household heads or did not live in poor households. These numbers remained about the same over the next 10 years.

Hence, between 1939 and 1989 the relationship between earning a low wage and living in poverty became weaker and weaker as low-wage workers increasingly became second or even third workers in non-poor households. Even when they headed households, the labor earnings of other household members, as well as the income from other household sources, usually pushed their household's income above the poverty line. Hence, minimum wage increases that once could be expected to primarily benefit the working poor became less and less likely to do so.

The long term decline in the share of low-wage workers who were heads of households ended in the 1990s. In 1989, 22 percent of low-wage workers were household heads. By 1995 this share had grown to 25 percent. By 2003, it was up to 29 percent, a share not seen since 1959. But importantly, while the share of low-wage workers who are household heads returned to 1959 levels, the share of low-wage workers who are poor household heads did not. In 1959, 18 percent of low-wage workers were poor household heads. In 2003, only 9 percent of low-wage workers were poor household heads. The reason is that in 1959 61 percent of low-wage household heads lived in poor households. In 2003, 31 percent did so.[8]

V. Low-wage Workers and Single Mothers

Table 2 separates the overall increase of 6.8 percentage points (29.1 minus 22.3) in the share of household heads in the low-wage population between 1989 and 2003 into two parts—the percentage point increase caused by the increase in the share of low-wage earning single mothers and the increase in the share of low-wage earners among other types of household heads. The growth is almost equally divided between the two (3.1 and 3.7 percentage points, respectively). The share of low-wage earners who were single mothers rose from 4.9 percent in 1989 to 8.0 percent in 2003. More troubling, Table 3 shows that almost the entire increase in the share of poor low-wage workers who are household heads (1.6 out of 1.8 percentage points) came from the growth in the share of low-wage workers who are single mothers. Their share increased from 2.9 percent in 1989 to 4.5 percent in 2003.

While this increase in the share of poor working household heads who are single mothers is a cause for concern, it must be put into perspective. Table 4 shows that the increase is not caused by an increase in the poverty rate of low-wage single mothers. That rate fell slightly over the period, from 59.5 percent in 1989 to 57.2 percent in 2003. It continues to be the case that a single mother who does not work is far more likely to be in poverty than a single mother who works at a low-wage job (71.9 percent versus 57.2 percent in 2003). Work clearly reduces poverty. The overall poverty rate of all single mothers who work (19.9 percent in 2003), while higher than that of other working heads of households (3.3 percent), is far lower than the poverty rate of single mothers who do not work.

As we will see, it is the dramatic increase in the employment rate of single mothers in the 1990s that is driving their increasing shares in both the low-wage and the higher-wage working populations. Furthermore, as is shown in Table 1, it is still the case that the vast majority of low-wage workers are not household heads (only 29 percent of low-wage workers were household heads in 2003), and an even larger majority are not poor household heads (only

Table 2	Composition of Low-wage Worker Population by Household Type: 1989–2003 (percentages)				
Household Type	1989	1995	2000	2003	Change 1989–2003
All Heads	22.3	24.9	26.8	29.1	6.8
Single Mothers	4.9	6.1	6.9	8.0	3.1
Not Single Mothers	17.4	18.8	19.9	21.1	3.7
Not Household Heads	77.7	75.1	73.2	70.9	-6.8
Total	100.0	100.0	100.0	100.0	–

Source: March Current Population Survey, 1990, 1996, 2001, and 2004.

Table 3	Composition of Low-wage Workers Who Are and Are Not Poor Heads of Household: 1989–2003 (percentages)				
Household Type	1989	1995	2000	2003	Change 1989–2003
All Poor Heads	7.1	7.6	7.9	8.9	1.8
Single Mothers	2.9	3.2	4.1	4.5	1.6
Not Single Mothers	4.2	4.4	3.8	4.4	0.2
Not Poor Household Heads	92.9	92.3	82.1	91.1	-1.8
Total	100.0	100.0	100.0	100.0	–

Source: March Current Population Survey, 1990, 1996, 2001, and 2004.

Table 4	Poverty Rates of Low-wage Household Heads: 1989–2003 (percentages)			
	1989	1995	2000	2003
All Single Mothers	41.4	38.2	32.1	32.1
Single Mothers Working	19.8	19.6	21.6	19.9
Single Mothers Earning Low Wages	59.5	53.7	60.0	57.2
Single Mothers Not Working	82.7	75.6	72.5	71.9
All Other Household Heads	6.6	7.3	6.4	6.7
Other Household Heads Working	3.5	3.6	3.2	3.3
Other Household Heads Earning Low Wages	24.8	23.5	19.4	21.1
Other Household Heads Not Working	26.4	23.0	19.5	19.5
All Household Heads	10.5	11.2	9.3	10.2
All Household Heads Working	5.0	5.3	5.4	5.5
All Household Heads Earning Low Wages	32.5	30.8	29.9	31.0
All Household Heads Not Working	41.6	35.0	26.5	27.5

Source: March Current Population Survey, 1990, 1996, 2001, and 2004.

8.9 percent of low-wage workers were poor household heads in 2003). Thus, despite the increase in the share of single mothers in the low-wage population in the 1990s, the overwhelming majority of low-wage workers continue to be neither household heads nor poor.

Even though single mothers continue to make up a small percentage of the low-wage worker population, it is nonetheless important to understand why their share in this population has grown since 1989. If it were the case, for instance, that "the jobs available to women leaving welfare are often minimum wage jobs," as Senator Kennedy argues, then perhaps the dramatic increase in the employment rate of single mothers will make minimum wage increases more target-efficient today than was the case when Burkhauser *et al*. (1996) did their evaluation of the 1990 minimum wage increase to $4.35 per hour. But do working single mothers hold predominately minimum wage or even low-wage jobs?

Single mothers play a small but important role in the low-wage labor market, and the low-wage labor market plays a small but important role in the entire United States labor market. To more fully understand what happened to both low-wage single mothers in particular and low-wage workers in general over the 1990s, it is useful to observe what happened to all households over this period.

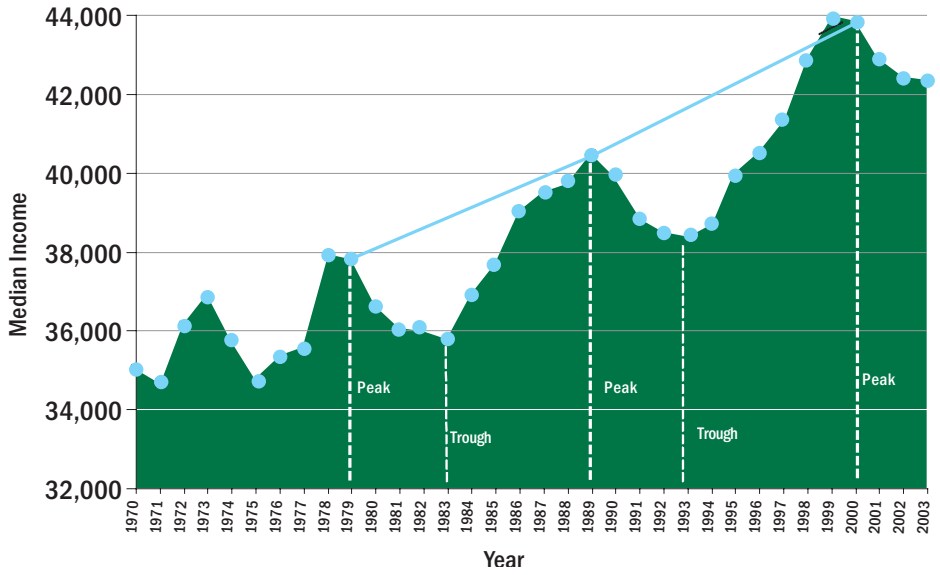
Figure 1 shows how median household income, adjusted for inflation, has changed in the United States since 1970. While there was substantial growth in median household income between 1970 and 2003, median household income fluctuated widely within business cycles over that period. One can roughly divide the last two business cycles of the 20th Century (as defined by peaks in median household income) as 1979–1989 and 1989–2000.

Figure 2 shows how the official U.S. Census poverty rate varied over these same years. Yearly poverty rates closely track the business cycle, rising and falling with median and real income. Figure 2 shows that not only did real median income increase between 1989 and 2000, but poverty rates also fell between these two business cycle peaks.

Burkhauser, Couch, Houtenville, and Rovba (2005) show—using these years as approximations of the 1980s and 1990s business cycles—that economic growth over the 1990s business cycle was more equally shared across the income distribution than was the case over the 1980s business cycle. They found that the income of vulnerable populations that had not shared in the economic growth of the 1980s, including single mothers and those households receiving federal welfare benefits, substantially increased in the 1990s. How does this increase in the economic well-being of single mothers square with the increase in their share of all low-wage workers?

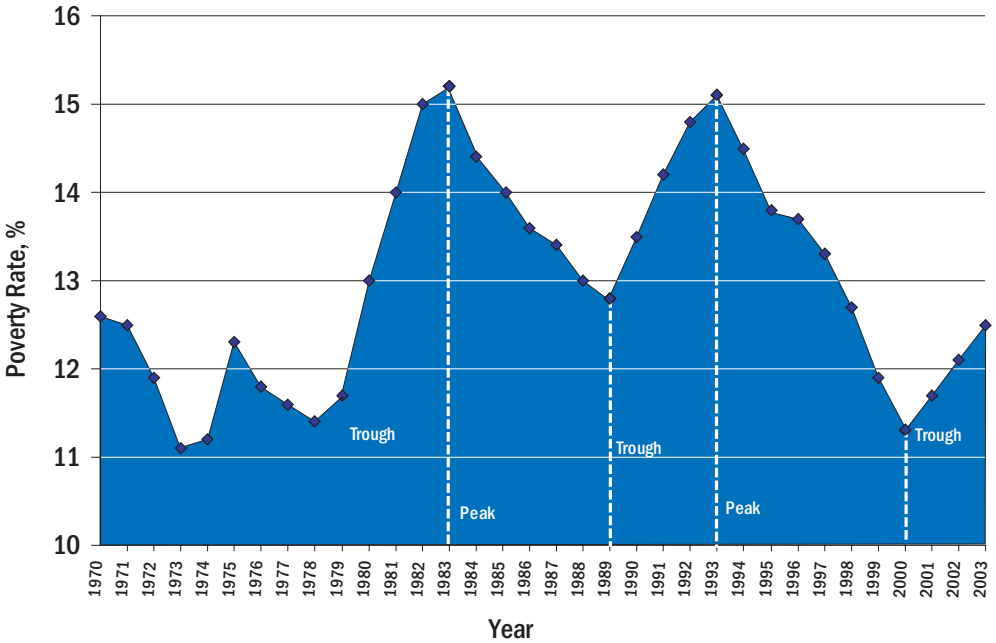
As we saw in Table 2, the share of low-wage workers who were single mothers increased from 4.9 percent to 6.9 percent over the business cycle of the 1990s and continued to increase thereafter, reaching 8.0 percent in 2003. Row 1 of Table 5 reports these values. Row 2 shows that a major part of the reason for the rise in the share of single mothers in this population is that the share of single mothers in the labor force increased dramatically over this period. In 1989 it was 9.4 percent. By 2000 it was 11.8 percent. In 2003, despite three years of slow economic growth, it increased to 12.9 percent. This was not primarily because the share of single mothers in the population increased (row 3) but rather because of the explosion in the employment rate of single mothers over this period, especially after welfare reform in 1996. Row 4 shows that the employment rate of single mothers was 65.9 percent in 1989. It grew to 69.1 percent in 1995 before leaping to 79.9 percent in 2000 and then falling slightly to 76.8 percent in 2003.[9]

Figure 1. Real Median Household Income in the United States: Total Population, 1970–2003 (in 2002 dollars)



Source: U.S. Bureau of the Census based on yearly values from March Current Population Surveys.

Figure 2. Poverty Rate in the United States: Total Population, 1970 to 2003



Source: U.S. Bureau of the Census based on yearly values from March Current Population Surveys.

Table 5	Composition and Employment of Single Mothers and Low-wage Workers: 1989–2004 (percentages)			
Low-wage Worker Groups	**1989**	**1995**	**2000**	**2003**
Single Mothers in Low-wage Population	4.9	6.1	6.9	8.0
Working Household Heads Who Are Single Mothers	9.4	11.0	11.8	12.9
Single Mothers in the Population	4.1	4.5	4.1	4.8
Employment of Single Mothers	65.9	69.1	79.9	76.8
Working Single Mothers Who Earn Low Wages	23.9	26.3	25.9	24.0
All Workers Who Earn Low Wages	18.3	18.6	16.6	16.7

Source: March Current Population Survey, 1990, 1996, 2001, and 2004.

Importantly, it is the increase in the employment rate of single mothers rather than a dramatic downward shift in their wage earnings that is driving the increase in the share of single mothers in the low-wage population observed in row 1. As can be seen in row 5, while the percentage of single mothers who earned low wages increased between 1989 and 1995, it actually declined slightly thereafter, so that the increase in the share of single mothers holding low-wage jobs only grew from 23.9 percent to 25.9 percent over the 1990s business cycle and was 24.0 percent in 2003. Pro-work welfare reform policies, along with a strong economy, dramatically increased the employment of single mothers and hence their shares in both the low-and non-low-wage population of workers. (See Blank, 2002 for a review of the literature on the impact of 1996 welfare reforms on employment of single mothers.) Finally, as can be seen in row 6, the strong economic growth of the 1990s also reduced the percentage of all workers who earned low-wages over this period (from 18.3 in 1989 to 16.6 percent in 2000), which further increased the importance of single mothers as a share of the remaining workers in low-wage jobs.

In Table 6, we more carefully look at the distribution, of single mothers across the wage distribution and thus more carefully consider the argument that single mothers "often move into minimum wage jobs." In so doing, we once again choose the years 1989, 1995, 2000, and 2003. These are particularly useful years to compare with respect to the expected consequences of a federal minimum wage increase on single mothers. The year 1989 preceded the federal minimum wage increases in 1990, and the year 1995 preceded the federal minimum wage increase of 1996. The years 1989 and 2000 are the peak years of the 1990s business cycle, and 2003 is the most recent year of our data and reflects the decline in the economy since 2000.

Table 6, row 1 shows the dramatic decline in the percentage of single mothers not working over the period but especially following welfare reform in 1996. In 1989, 34.1 percent of single mothers did not work. This fell to 30.9 percent by 1995, a decrease of 3.2 percentage points. Between 1995 and 2000, the non-working single mother population fell by 10.8 percentage points. While some of that gain in jobs was lost as the United States moved into recession, in 2003 the non-working percentage of 23.2 was still far below the 1995 level.

How did the number of single mothers change across the wage distribution over this period? First, the vast majority of single mothers did not and do not hold minimum wage jobs or even low-wage jobs. This was true in 1989, just before the minimum wage increase of 1990, when only 6.2 percent of single mothers held minimum wage jobs of $3.45 per hour and another 9.0 percent held low-wage jobs. The majority, 50.9 percent, held jobs that paid more than 50 percent of the average private sector wage rate. It remained true over all the other years reported in Table 6. But how did the share of all single mothers in each of our wage rate groups change over the period? Between 1989 and 1995 most of the gain in employment of single mothers can be accounted for by an increase in the minimum wage and low-wage categories. But this is not the case between 1995 and 2000. In 1995, just prior to the federal minimum wage increase from $4.25 to $5.15 per hour, 8.1 percent of single mothers held minimum wage jobs of $4.25. In 2000, 9.5 percent of the single mothers held minimum wage jobs of $5.15 per hour. This was an increase of 1.4 percentage points (row 2, column 5). As row 3, column 5 shows, there was another 1.1 percentage point increase in single mothers who held low-wage jobs above $5.15 per hour. But the greatest increase between 1995 and 2000 (row 4, column 5) was in single mothers who held jobs above 50 percent of the average private sector wage rate—8.3 percentage points. So of the 10.8 percentage point gain in employment of single mothers between 1995

Table 6	Percentage of Single Mothers in Various Hourly Wage Rate Categories						
Hourly Wage Rate Categories	1989	1995	1989–1995	2000	1995–2000	2003	2000–2003
Not working[a]	34.1	30.9	3.2	20.1	10.8	23.2	+4.1
Earning the federal minimum wage[b]	6.2	8.1	1.9	9.5	1.4	9.0	-0.5
Earning a low wage greater than federal minimum[c]	9.0	9.5	0.5	10.6	1.1	15.0	+4.4
Earning more than a low wage[d]	50.9	51.5	0.6	59.8	8.3	52.8	-7.0

Notes:

a Not working at least 14 weeks last year at an average of 15 hours/week.

b Earning $3.35 or less in 1989, $4.25 or less in 1995, and $5.15 or less in 2000 and 2003.

c The percentages of those "earning the Federal minimum wage" are calculated under the assumption that those earning less than the Federal minimum wage are minimum wage earners. That is, it assumes that all employment is covered under the Federal law. Therefore, the percentage can be interpreted as an upper-bound estimate. A low wage is defined as one-half of the average private sector wage rate.

d Greater than one-half the average private section wage.

Source: March Current Population Survey, 1990, 1996, 2000, and 2004.

and 2000, 8.3 percentage points (77 percent) was accounted for by an increase in single mothers holding jobs paying more than 50 percent of the average private sector hourly wage rate. These gains were caused by rapid economic growth over the period, and welfare reforms that encouraged welfare mothers to work. It is unlikely that increases in the minimum wage in 1996 played any role in helping the vast majority of single mothers, since they already held jobs that paid in excess of the new federal minimum wage. These above minimum wage jobs were earned in the marketplace without government intervention. Between 2000 and 2003, 3.1 percent more single mothers did not work, but the vast majority of jobs gained since 1995 remain those that pay more than the federal minimum.

The employment rate of single mothers increased by 14.0 percentage points over the business cycle of the 1990s. Fully 64 percent (8.9 percentage points) of the increase in the share of single women who work can be accounted for by the increase in jobs that paid more than 50 percent of average wages. Another 12 percent (1.6 percentage points) can be accounted for by the increase in jobs that paid more than the prevailing federal minimum wage but less than 50 percent of the average wage. Only 24 percent (3.3 percentage points) can be accounted for by those who held jobs at the prevailing minimum wage, despite the fact that the minimum wage was increased twice over the period—from $3.35 to $4.25, and to $5.15 per hour.[10]

VI. Who Gains from Minimum Wage Increases?

We examine who gained from the 1996 increase in the federal minimum wage to $5.15 per hour and who will gain from the proposed minimum wage increase to $7.25 per hour by using a sample of workers aged 17 to 64 taken from the March 1996 and the March 2004 CPS. Wage data is used from the outgoing rotation groups, which include information on workers' usual gross weekly earnings in their primary job and the number of hours per week they usually work in that job.[11]

Table 7 compares poor and near-poor households prior to the actual minimum wage increases in 1989, 1995, and 2003.[12] As can be seen from the first two rows, the share of poor or near-poor households that have at least one worker fell slightly between 1989 and 1995, but in 2003 this share was greater than in 1989. Hence, other things being equal, a greater share of poor families could be helped by work-based programs like the minimum wage or the EITC.

As can be seen in the next three rows of Table 7, however, the vast majority of workers who live in or near poverty levels earned wages above the proposed minimum in the year before enactment and hence were not helped by the subsequent minimum wage increases in 1990 and 1996. The story is the same for the latest proposal to raise the federal minimum. While the share of working poor households that could be helped increased substantially between 1989 and 2003 (from 16.9 percent of working poor households in 1989 to 26.2 percent in 1995, and to 29.3 percent in 2003), a minimum wage increase to $7.25 per hour will still provide no help for the vast majority of the working poor. The same is true if we look at those who are either in or near poverty.

As the final three rows of Table 7 show, the median wage of the highest earner in a poor or near-poor household was well above the proposed minimum, hence putting the highest earner in these households out of the reach of the minimum wage increase. As the next row shows, the median hours of work of these highest earners is well below full-time employment (2,000 hours per year). Increases in their hours of work, rather than a minimum wage hike, would have most effectively increased the

Table 7	Characteristics of Low-income Households: 1989, 1995, and 2003 (percentages)					
	1989 Income-to-Needs Ratios		1995 Income-to-Needs Ratios		2003 Income-to-Needs Ratios	
Household Types	Less than 1 (poverty)	0 to 1.49 (in or near poverty)	Less than 1 (poverty)	0 to 1.49 (in or near poverty)	Less than 1 (poverty)	0 to 1.49 (in or near poverty)
All Households						
No workers	25.7	17.4	26.1	19.7	22.9	17.8
One or more workers	74.3	82.6	73.9	80.3	77.1	82.2
All Working Households						
No minimum wage worker[a]	83.1	84.3	73.8	71.7	70.7	71.6
One minimum wage worker	16.3	14.9	21.7	24.6	27.8	26.9
Two or more minimum wage workers	0.6	0.8	4.5	3.7	1.5	1.5
All Non-Minimum Wage Working Households						
Median wages	$5.50	$6.00	$7.00	$7.11	$9.25	$9.60
Median annual[b]	1,520	1,820	1,680	1,800	1,720	1,872
Median household size	2	2	3	3	4	3

Notes:

[a] A minimum wage worker is defined as making between $3.00 and $4.25 in 1989, $4.00 and $5.14 in 1995, and between $5.00 and $7.24 in 2003.

[b] Highest paid workers in household.

Source: Estimated from the outgoing rotation group of the Current Population Survey, March 1996 and March 2004. Estimates for 1989 from Burkhauser, Couch, and Glenn (1996).

wage earnings of the majority of the working poor. The median number of hours worked per year has increased over the three calendar years shown in Table 7, but so has the average household size of the working poor.

Table 8 presents the same information as Table 7, but focuses solely on poor or near-poor single-mother households.[13] Between 1995 and 2003, the share of poor single-mother households containing a worker increased dramatically from 71.7 percent to 78.3 percent. But even among this subgroup of the working poor, the majority was not helped by the 1996 federal minimum wage increase and will not be helped by the proposed federal minimum wage increase to $7.25 per hour. Only 24.2 percent of poor working single-mother households were helped by the 1996 federal minimum wage increase, and while a greater share of poor working single-mother households will be helped by a federal minimum wage hike to $7.25 per hour (39.6 percent), the majority will not be helped. In contrast, an increase in the EITC would help virtually all of these households. The same is the case if we expand our population to those in or near poverty.

Table 9 provides a closer examination of the relationship between workers' wage rates and the income-to-needs ratio of their households prior to a simulated increase in the federal minimum wage from $4.25 per hour to $5.15 per hour in 1995. Each row shows the wage distribution of workers living in a household with a given income-to-needs ratio.

The last row of Table 9 shows the percentage of all workers in each wage category. An increase in the minimum wage to $5.15 that did not change hours worked would increase the wages of the 8.2 percent of all workers in 1995 who earned between $4.25 and $5.15 per hour. We also assume the 0.4 percent of workers who earned between $4.00 and $4.24 are covered by the federal minimum wage and would be helped. We assume those reporting wage rates below $4.00 per hour are not in federal minimum wage covered employment and would not be helped. Thus, we estimate that the federal minimum wage increase to $5.15 per hour in 1996 only affected 8.6 percent of all workers.

As Table 9 shows, a greater share of workers living in lower income households was helped by this minimum wage increase. That is, there is certainly a connection between low wages and low income—a greater share of those workers who live in poor households held jobs that paid between $4.00 and $5.15 per hour than did workers living in higher income-to-needs households. However, there is substantial variance in the wage earnings of workers within each of our income-to-need categories because most households have more than one worker and many have other sources of income. Hence, even in poor working households (those whose income-to-needs ratio is less than 1), only 27.3 percent of workers (1.4 percent earning between $4.00 and $4.24 and 25.9 percent earning between $4.25 and $5.14) were helped by the minimum wage increase to $5.15 per hour in 1996.

Moreover, as the next to last column shows, the share of all workers who actually live in poor (4.6 percent) or between poor and near-poor households (5.8 percent) is small relative to workers in households that live at three times the poverty line, or $46,707 for a family of four in 1995 (64.1 percent). As can be seen in the last column, we estimate that only a small minority of those helped by the last federal minimum wage increase in 1996 lived in poverty (14.7 percent) or near poverty (15.5 percent). The majority of minimum wage workers (69.8 percent) lived in households well above the poverty line and 40.2 percent lived in households whose income was three times the poverty line or greater.

Table 10 repeats the same exercise done in Table 9 but focuses on working single mothers. As can be seen in the last row of Table 10, the

Table 8	Characteristics of Low-income Single Mothers in 1995 and 2003			
	1995 Income-to-Needs Ratios		2003 Income-to-Needs Ratios	
	Less than 1 (poverty)	0 to 1.49 (in or near poverty)	Less than 1 (poverty)	0 to 1.49 (in or near poverty)
All Households				
No workers	28.3	22.7	21.7	16.5
One or more workers	71.7	77.3	78.3	83.5
All Working Households				
No minimum wage worker[a]	75.8	78.2	62.5	63.1
One minimum wage worker	21.3	19.4	37.4	34.7
Two or more minimum wage workers	2.9	2.4	0.2	2.2

Notes:

[a] A minimum wage worker is defined as making between $3.00 and $4.25 in 1989, $4.00 and $5.14 in 1995, and $5.00 and $7.24 in 2003.

Source: Estimated from the outgoing rotation group of the Current Population Survey, March 1996 and March 2004.

Table 9	Wage Distribution of All Workers by Income-to-Needs Ratio of Their Household in 1995								
	Hourly Wage Categories[a]								
Income-to-Needs Ratio	$0.01 to $3.99	$4.00 to $4.24	$4.24 to $5.14	$5.15 to $7.99	$8.00 to $3.99	$0.01 to $14.99	Total	Percent of All Workers	Percent of Workers Earning More Than $3.99 and Less Than $5.15
Less than 1.00	3.7	1.4	25.9	44.2	21.1	3.7	100.0	4.6	14.7
1.00 to 1.24	5.0	0.8	26.9	36.9	26.6	3.9	100.0	2.5	8.1
1.25 to 1.49	4.1	1.3	17.9	43.7	29.4	3.7	100.0	3.3	7.4
1.50 to 1.99	3.0	0.2	11.4	41.3	37.0	7.1	100.0	7.4	10.1
2.00 to 2.99	2.6	0.3	9.0	29.4	47.0	11.9	100.0	18.1	19.5
3.00 or above	1.1	0.3	5.1	15.1	39.4	39.0	100.0	64.1	40.2
Whole Category Share[b]	1.8	0.4	8.2	22.5	39.1	28.1	100.0	100.0	100.0

Notes:

[a] Hourly wage rates are based on a direct question concerning earnings per hour on their current primary job. All income data used to calculate income-to-needs ratios come from retrospective information from the previous year because that is the period for which it is reported. Wages are in 1996 dollars.

[b] Share of all workers with wage earnings in each category.

Source: Estimated from the outgoing rotation group of the Current Population Survey, March 1996.

Table 10	Wage Distribution of Working Single Mothers by Income-to-Needs Ratio of Their Household in 1995								
	Hourly Wage Categories[a]								
Income-to-Needs Ratio	$0.01 to $3.99	$4.00 to $4.24	$4.24 to $5.14	$5.15 to $7.99	$8.00 to $14.99	$15.00 and Over	Total	Percent of All Workers	Percent of Workers Earning More Than $3.99 and Less Than $5.15
Less than 1.00	4.5	1.3	21.1	51.8	16.9	4.4	100.0	23.7	55.6
1.00 to 1.24	0.0	0.0	6.3	51.9	33.2	8.6	100.0	7.6	5.0
1.25 to 1.49	0.0	0.0	15.7	55.3	26.7	2.3	100.0	10.4	17.2
1.50 to 1.99	0.0	0.0	4.0	33.5	49.4	9.0	100.0	15.3	6.5
2.00 to 2.99	3.4	0.0	5.6	15.7	64.3	11.0	100.0	20.5	12.1
3.00 or above	0.2	0.0	1.5	9.4	46.5	42.4	100.0	22.5	3.6
Whole Category Share[b]	2.4	0.3	9.2	32.4	40.5	15.1	100.0	100.0	100.0

Notes:

[a] Hourly wage rates are based on a direct question concerning earnings per hour on their current primary job. All income data used to calculate income-to-needs ratios come from retrospective information from the previous year because that is the period for which it is reported. Wages are in 1996 dollars.

[b] Share of all workers with wage earnings in each category.

Source: Estimated from the outgoing rotation group of the Current Population Survey, March 1996.

share of working single mothers helped by a minimum wage increase to $5.15 per hour (9.5 percent) is only slightly higher than that of the entire population (8.6 percent). The share of poor single mothers who earn wages between $4.00 and $5.15 is also somewhat greater at all income-to-needs levels. Nonetheless, while the percentage of working single mothers continues to be much higher at lower income-to-needs levels, only 22.4 percent of working single mothers were helped by the last minimum wage increase. However, a much greater share of those single mothers who were helped lived in poor (55.6 percent) and between poor or near-poor households (22.2 percent) (last column) because a greater percentage of all working single mothers live in poor (23.7 percent) and between poor and near-poor households (18.0 percent) (next to last column).

In Table 11, we estimate the yearly cost of increased wages to producers because of a minimum wage increase to $5.15 per hour and how the gains to workers were distributed. But to the extent that markets are perfectly competitive, the costs of higher minimum wages will eventually result in higher prices to consumers for the goods and services they purchase.[14]

Assuming no employment losses or reductions in hours worked, the total cost of the minimum wage hike was $4.79 billion (column 1). While the average benefit per household was approximately the same (column 2) across the income distribution, the share going to the groups was not. As can be seen in column 3, the vast majority of the benefits went to workers in households with income-to-needs ratios greater than 2 (60.6 percent), with 40.1 percent of benefits going to those from households whose incomes were three times the poverty line or greater. Only 14.2 percent of benefits went to workers from poor families. Likewise, the overall gains to vulnerable populations were small—while 4.3 percent of the gains of the 1996 minimum wage hike went to single mother households, only 2.2 percent went to poor single mother households. African-Americans received 15.5 percent of the gains but only 2.9 percent of the benefits accrued to poor African-American workers.[15]

These estimates assume that hours worked and employment status did not change after the 1996 minimum wage hike. But minimum wage increases will cause some workers to lose their jobs. Burkhauser, Couch, and Wittenburg (2000) find 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. They estimated that a 10 percent minimum wage hike results in an 8.5 percent decline in the employment rate of African-Americans aged 16 to 24, a 5.7 percent reduction in teenage employment (aged 16 to 19), and an 8.5 percent decline in non-high school graduate employment (aged 20 to 24). Moreover, work by Neumark, Schweitzer, and Wascher (2004, 2005) shows that minimum wage increases hurt low-wage workers by reducing their employment and their hours worked, and by increasing the proportion of families that are poor or near-poor. The minimum wage hike was therefore probably even less target-efficient than we estimate.

Our estimates of the benefits of the 1996 minimum wage hike are thus likely upper-bound estimates because we assume that workers' employment status and hours worked remained constant following the policy change. Even using these optimistic assumptions, we conclude that the 1996 minimum wage hike did little to improve the economic well-being of poor households. Most workers from poor households were not helped by the 1996 minimum wage increase because they already earned more than $5.15 per hour. Furthermore, we find that the vast majority of workers who were helped lived in higher income households, so the minimum wage increase was also not target-efficient. These findings are consistent with studies (Burkhauser and Finegan, 1989; Burkhauser, Couch and Glenn, 1996;

Table 11 Distribution of Benefits Across Income-to-Needs Categories from a Federal Minimum Wage Increase from $4.25 to $5.15, Based on the 1995 Wage Distribution

			Distribution of Benefits (percentage)			
Income-to-Needs Ratio	Total Benefits (billions of dollars)	Mean Benefit per Household (dollars)	Total	African-Americans	Non-African Americans	Single-Female Headed Households
Less than 1.00	0.68	$527	14.2	2.9	11.3	2.2
1.00 to 1.24	0.39	630	8.2	0.8	7.4	0.4
1.25 to 1.49	0.33	485	6.8	1.1	5.7	0.6
1.50 to 1.99	0.49	532	10.2	3.0	7.2	0.2
2.00 to 2.99	0.98	600	20.5	3.3	17.2	0.7
3.00 or above	1.92	566	40.1	4.4	35.7	0.2
All Households	4.79	538	100.0	15.5	84.5	4.3

Note:

[a] Simulation assumes hours worked in 1995 remained the same under the new minimum wage and those earning below $4.00 per hour were employed in a job not covered by minimum wage rules.

Source: Estimated from the outgoing rotation group of the Current Population Survey, March 1996.

Burkhauser, Couch, and Wittenburg, 1996; and Burkhauser and Harrison, 1999) of previous minimum wage hikes that suggest that even under the assumption of no adverse employment effects the minimum wage is a poor mechanism for helping the working poor.

As Tables 12, 13 and 14 will show, the proposed Kennedy minimum wage increase from $5.15 to $7.25 will be even less effective in targeting the working poor. While it will do slightly better with respect to the percentage of the working poor whose wages will be increased relative to the last minimum wage increase in 1996, once again the vast majority of the working poor will still not be helped by this increase.

Table 12 uses 2003 wage rates and income distributions to estimate the type of workers who would be helped by increasing the federal minimum wage to $7.25 per hour. The percentage of all workers helped (those earning between $5.00 and $7.24) is 9.7 percent. Once again, a greater share of workers in low income-to-needs households earned this amount. But among poor workers only 31.1 percent did so. So only 31.1 percent of all low-wage workers would be helped by a minimum wage increase to $7.25 per hour. This is somewhat higher than the 27.3 percent who were helped by the last minimum wage increase. However, because an even smaller percentage of all workers lived in poor or near-poor households in 2003 than in 1995 (next to last column) a greater percentage of the workers who are helped by the minimum wage do not live in or near poverty. Only 25.2 percent of those helped by the minimum wage lived in poor or near-poor households in 2003 relative to 30.2 percent in 1995. In contrast, 44.8 percent live in households with incomes three or more times the poverty line ($56,430 for a family of four in 2003). Hence, the target-efficiency of this minimum wage increase is even worse than in 1996.

The dramatic increase in the employment of single mothers has also changed the distribution of wages for that population, but, as Table 13 shows, a great majority of single mothers continue to earn wages well above the proposed minimum wage of $7.25 per hour. Only 13.3 percent of single mothers would be helped by such an increase. While this is larger than the 9.5 percent of single mothers who gained from the last minimum wage increase, it is still a very small share of working single mothers. It is also the case that the share of single mothers earning between $5.00 and $7.25 per hour in lower income-to-needs households is larger than richer single working class mothers. Among poor working mothers, the share who will be helped by a $7.25 per hour minimum wage is 37.8 percent. This is considerably larger than the 22.4 percent of poor working mothers who were helped by the last minimum wage increase, but it is still a minority of all working poor mothers. Furthermore, the dramatic increase in the income of working mothers has reduced the share of all working mothers who live in or near poverty. Thus, the share of working mothers helped by this minimum wage increase who live in poor (18.5 percent) and between poor and near-poor households (13.2 percent) is even smaller than in 1995. As a result, the share of single mothers helped by this minimum wage increase who live in poverty (53.4 percent) or near poverty (27.2 percent) is not much different from the 1996 increase.

Table 14 shows that the total cost of the proposed minimum wage increase will be $18.36 billion. But only 12.7 percent will go to the working poor, an even smaller share than the 14.2 percent from the last round of minimum wage increases. The dramatic increases in the employment of African-Americans and single mothers between 1995 and 2002 will mean that these populations will receive higher shares of the gains, 21.1 percent for African-Americans versus 15.5 percent last time and 8.4 percent for single mothers compared to 4.3 percent last time. But poor African-Americans will only receive 3.7 percent and poor single mothers 3.8 percent of the benefits.

Table 12	Wage Distribution of All Workers by Income-to-Needs Ratio of Their Household in 2003								
	Hourly Wage Categories[a]								
Income-to-Needs Ratio	$0.01 to $4.99	$5.00 to $5.14	$5.15 to $7.24	$7.25 to $8.99	$9.00 to $14.99	$15.00 and Over	Total	Percent of All Workers	Percent of Workers Earning More Than $4.99 and Less Than $7.25
Less than 1.00	4.5	1.2	29.9	24.7	29.0	10.7	100.0	4.2	13.4
1.00 to 1.24	2.7	1.5	22.5	23.2	35.7	14.5	100.0	2.1	5.3
1.25 to 1.49	1.8	1.0	23.8	20.4	38.9	14.1	100.0	2.6	6.5
1.50 to 1.99	2.6	0.6	15.3	21.1	44.5	15.9	100.0	6.4	10.5
2.00 to 2.99	1.7	0.4	11.6	14.3	47.3	24.8	100.0	15.7	19.4
3.00 or above	1.3	0.3	6.0	6.6	28.0	57.8	100.0	69.1	44.8
Whole Category Share[b]	1.6	0.4	9.3	10.2	32.6	45.9	100.0	100.0	100.0

Notes:

[a] Hourly wage rates are based on a direct question concerning earnings per hour at their current primary job. All income data used to calculate income-to-needs ratios come from retrospective information from the previous year because that is the period for which it is reported. Wages are in 2003 dollars.

[b] Share of all workers with wage earnings in each category.

Source: Estimated from the outgoing rotation group of the Current Population Survey, March 2003.

Table 13	Wage Distribution of Working Single Mothers by Income-to-Needs Ratio of Their Household in 2003								
	Hourly Wage Categories[a]								
Income-to-Needs Ratio	$0.01 to $4.99	$5.00 to $5.14	$5.15 to $7.24	$7.25 to $8.99	$9.00 to $14.99	$15.00 and Over	Total	Percent of All Workers	Percent of Workers Earning More Than $4.99 and Less Than $7.25
Less than 1.00	4.4	1.3	36.5	29.0	23.3	5.5	100.0	18.5	53.4
1.00 to 1.24	0.5	1.9	26.9	28.7	36.6	5.5	100.0	6.8	15.0
1.25 to 1.49	2.9	0.0	24.8	22.1	39.4	10.9	100.0	6.5	12.2
1.50 to 1.99	3.6	0.0	3.2	17.4	64.1	11.8	100.0	14.3	3.4
2.00 to 2.99	1.8	0.0	6.2	6.9	59.2	25.8	100.0	22.9	10.9
3.00 or above	0.9	0.0	2.1	6.0	25.9	67.6	100.0	31.0	5.1
Whole Category Share[b]	2.2	0.4	12.8	14.7	40.1	29.9	100.0	100.0	100.0

Notes:

[a] Hourly wage rates are based on a direct question concerning earnings per hour at their current primary job. All income data used to calculate income-to-needs ratios come from retrospective information from the previous year because that is the period for which it is reported. Wages are in 2003 dollars.

[b] Share of all workers with wage earnings in each category.

Source Estimated from the outgoing rotation group of the Current Population Survey, March 2003.

Table 14 Distribution of Benefits Across Income-to-Needs Categories from a Federal Minimum Wage Increase from $5.15 to $7.25, Based on the 2003 Wage Distribution

			Distribution of Benefits (percentage)			
Income-to-Needs Ratio	Total Benefits (billions of dollars)	Mean Benefit per Household (dollars)	Total	African-Americans	Non-African Americans	Single-Female Headed Households
Less than 1.00	2.33	$1,110	12.7	3.7	9.0	3.8
1.00 to 1.24	1.16	1,392	6.3	1.7	4.6	1.3
1.25 to 1.49	1.34	1,298	7.3	2.3	5.0	1.1
1.50 to 1.99	1.91	1,151	10.4	2.6	7.8	1.0
2.00 to 2.99	3.95	1,289	21.5	3.8	17.7	0.8
3.00 or above	7.67	1,090	41.8	7.0	34.8	0.4
All Households	18.36	1,167	100.0	21.1	78.9	8.4

Note:

[a] Simulation assumes hours worked in 2003 remained the same under the new minimum wage and those earning below $5.00 per hour were employed in a job not covered by minimum wage rules.

Source: Estimated from the outgoing rotation group of the Current Population Survey, March 2003.

VII. Conclusions

Minimum wage increases have become a weaker and weaker policy tool for increasing the household income of the working poor. While a somewhat higher percentage of the working poor will be helped by the proposed Federal minimum wage increase to $7.25 per hour than were helped by the last Federal minimum wage increase in 1996, the percentage helped is still small—31.1 vs. 27.3 percent. Furthermore, the target-efficiency of this increase is worse, as an even larger percentage of those who are helped do not live in or even near poverty—74.8 vs. 69.8 percent. This is true despite the increase in the share of low-wage workers who were household heads between 1989 and 2003. While the post-1996 rise in the labor force participation rates of single mothers increased the share of the gains they will receive from a minimum wage hike, even among this more vulnerable population, the majority of working poor mothers will not gain from the proposed $7.25 minimum wage increase. So even the growth in the share of single mothers in the low-wage population has not changed the downward spiral in the target-efficiency of minimum wage increases. Neither will the vast majority of the working poor be helped by this latest proposed increase.

Even the small gains that we find among the working poor probably overestimate the actual gains of the proposed legislation to the working poor since, for purposes of this paper, we assume that minimum wage increases will have no negative employment effects. In fact, the preponderance of evidence suggests that teenagers, young African-Americans and young high school dropouts will experience reductions in their employment rates when minimum wages are increased.

An effective policy alternative to the minimum wage is the Earned Income Tax Credit (EITC). The federal EITC program provides a tax credit of 40 cents for every dollar in wages earned by a worker in a low-income family with two or more children, and a credit of 34 cents per dollar earned for a worker in a poor family with one child. Thus, workers living in poor, one-child families and earning the current federal minimum of $5.15 per hour have an effective minimum wage of $6.90 per hour, and workers living in poor families with two or more children have an effective minimum wage of $7.21 per hour. In some states federal EITC programs are supplemented by state programs and provide even greater benefits to the working poor. (See Burkhauser and Sabia, 2004 for a discussion of the New York EITC supplement in the context of minimum wage policy.)

In contrast to the minimum wage, which is based solely on a worker's wage rate, the EITC is based on family income. Thus, a worker earning $7.25 or more per hour and living in a poor family would not benefit from the proposed minimum wage hike, but would be eligible for EITC benefits. Most poor or near-poor households—especially single mothers—would benefit from the EITC, while only a minority would gain from a minimum wage hike. Moreover, because EITC costs are not borne by employers, there will be no reduction in employers' demand for low-skill workers, as is the case with a minimum wage increase.

The minimum wage makes little sense in 21st Century labor markets, where multiple workers living in a single household is the rule rather than the exception and being a low-wage worker is only fuzzily connected to living in poverty. Policymakers should focus on expansions in the EITC rather than increases in the minimum wage to ensure that those who work hard and play by the rules do not live in poverty. The fact that welfare reforms have increased the share of single mothers in the low-wage population has not changed this reality.

Appendix Table 1A	Wage Distribution of All Workers by the Income-to-Needs Ratio of Their Household, 2003[a]								
	Hourly Wage Categories[a]								
Income-to-Needs Ratio	$0.01 to $4.99	$5.00 to $5.14	$5.15 to $6.24	$6.25 to $8.99	$9.00 to $14.99	$15.00 and Over	Total	Percent of All Workers	Percent of Workers Earning More Than $4.99 and Less Than $6.25
Less than 1.00	4.4	1.1	11.8	42.2	29.6	11.0	100.0	4.4	14.2
1.00 to 1.24	2.7	1.7	9.8	36.8	36.5	12.6	100.0	2.3	6.6
1.25 to 1.49	1.8	1.1	8.2	33.6	39.6	15.8	100.0	2.5	5.9
1.50 to 1.99	2.9	0.5	6.0	29.3	45.2	16.1	100.0	6.8	11.1
2.00 to 2.99	1.6	0.4	4.5	20.6	47.3	25.6	100.0	16.1	19.8
3.00 or above	1.3	0.3	2.2	10.3	27.8	58.2	100.0	67.9	42.4
Whole Category Share[b]	1.7	0.4	3.6	15.8	32.7	45.9	100.0	100.0	100.0

Notes:

[a] Hourly wage rates are based on a direct question concerning earnings per hour at their current primary job. All income data used to calculate income-to-needs ratios come from retrospective information from the previous year because that is the period for which it is reported. Wages are in 2003 dollars.

[b] Share of all workers with wage earnings in each category.

Source: Estimated from outside rotation group of the March 2004 Current Population Survey.

Appendix Table 2A	Wage Distribution of Single Mother Households by the Income-to-Needs Ratio of Their Household, 2003[a]								
	Hourly Wage Categories[a]								
Income-to-Needs Ratio	$0.01 to $4.99	$5.00 to $5.14	$5.15 to $6.24	$6.25 to $8.99	$9.00 to $14.99	$15.00 and Over	Total	Percent of All Workers	Percent of Workers Earning More Than $4.99 and Less Than $6.25
Less than 1.00	4.2	1.2	16.7	48.7	23.7	5.4	100.0	19.1	65.2
1.00 to 1.24	2.2	1.7	8.5	42.4	39.6	5.6	100.0	7.5	14.6
1.25 to 1.49	3.2	0.0	7.9	36.6	41.3	10.9	100.0	6.1	9.1
1.50 to 1.99	4.1	0.0	0.7	19.0	61.9	14.3	100.0	14.8	1.9
2.00 to 2.99	1.9	0.0	2.1	11.2	59.3	25.6	100.0	22.5	9.1
3.00 or above	0.6	0.0	0.0	8.0	24.4	67.1	100.0	30.1	0.0
Whole Category Share[b]	2.4	0.4	4.9	22.4	39.8	30.1	100.0	100.0	100.0

Notes:

[a] Hourly wage rates are based on a direct question concerning earnings per hour at their current primary job. All income data used to calculate income-to-needs ratios come from retrospective information from the previous year because that is the period for which it is reported. Wages are in 2003 dollars.

[b] Share of all workers with wage earnings in each category.

Source: Estimated from outside rotation group of the March 2004 Current Population Survey.

Appendix Table 3A — Distribution of Benefits Across Income-to-Needs Categories from a Federal Minimum Wage Increase from $5.15 to $6.25, Based on the 2003 Wage Distribution

			Distribution of Benefits (percentage)			
Income-to-Needs Ratio	Total Benefits (billions of dollars)	Mean Benefit per Household (dollars)	Total	African-Americans	Non-African Americans	Single-Female Headed Households
Less than 1.00	$0.61	$661	13.0	3.9	9.1	3.2
1.00 to 1.24	0.35	818	7.5	2.8	4.7	1.5
1.25 to 1.49	0.29	777	6.3	1.9	4.4	0.8
1.50 to 1.99	0.53	742	11.4	3.2	8.2	0.1
2.00 to 2.99	1.02	803	21.9	3.6	18.3	0.8
3.00 or above	1.86	698	39.8	8.5	31.3	0.0
All Households	4.67	722	100.0	23.9	76.1	6.4

Notes:

[a] Hourly wage rates are based on a direct question concerning earnings per hour at their current primary job. All income data used to calculate income-to-needs ratios come from retrospective information from the previous year because that is the period for which it is reported. Wages are in 2003 dollars.

[b] Share of all workers with wage earnings in each category.

Source: Estimated from outside rotation group of the March 2004 Current Population Survey.

Appendix Table 4A	Proportion of All Low-Wage Household Heads, by Household Size, 1989–2003			
	Year			
Household Size	1989	1995	2000	2003
1	7.2	7.3	8.3	7.7
2	24.1	24.0	23.3	22.3
3	23.8	23.4	22.4	23.0
4	23.7	23.2	22.7	23.9
5+	21.3	22.0	23.4	23.1

Source: Estimated from the outgoing rotation group of the March 2004 Current Population Survey.

Appendix Table 4B	Proportion of Low-Wage Household Heads Living in Poverty, by Household Size, 1989–2003			
	Year			
Household Size	1989	1995	2000	2003
1	16.8	14.7	15.6	14.4
2	19.3	19.5	19.7	20.1
3	18.4	19.5	20.4	20.2
4	20.4	18.9	19.9	22.8
5+	21.1	27.4	24.4	23.6

Source: Estimated from the outgoing rotation group of the March 2004 Current Population Survey.

Endnotes

1. The EITC was enacted in 1975 as a means of offsetting Social Security payroll taxes paid by workers in poor households. However, in 1975, the EITC offered a relatively small maximum benefit of $400 with a 10 percent credit rate. Important changes in the EITC in 1993 raised the 1994 credit rate to 26.3 percent for a working family with one child, with a maximum benefit level of $2,030 and established a series of further increases through 1996. In 2003, these parameters were 34 percent and $2,547, respectively.

2. In 2003, 12 states had minimum wage levels higher than the Federal minimum wage of $5.15 per hour. These higher state minimum wages are imbedded in our analysis on the impact of increasing the Federal minimum wage, since workers' wage rates will already reflect their state's minimum wage. That is, we are estimating the impact of an increase in the current Federal minimum wage, given the current structure of state minimum wages.

3. While it is true that the Federal minimum wage is now at an historic low relative to the average private sector wage, the total "income floor" provided by both the minimum wage and the Earned Income Tax Credit (EITC) remains relatively generous. That is, Federal policy not necessarily become more "stingy," but rather has shifted away from minimum wage hikes and toward expansions in the EITC as a mechanism for increasing the earnings of low-skill laborers.

4. The AFL-CIO has consistently argued that "[f]airness to the working poor demands that the federal minimum wage should not be less than 50 percent of average annual earnings of non-supervisory workers and production workers in the non-farm private economy" (see, for example, AFL-CIO Reviews the Issues, "Restore the Floor … It's Time to Raise the Minimum Wage," Report No. 86: October 1995).

5. For data presented from 1939 through 1979, the Decennial Census is used to calculate wage data. Thereafter, wages are calculated using retrospective data from the Current Population Survey (CPS). A fuller discussion of the use of the Census and CPS data appears in Burkhauser, Couch, and Glenn (1996).

6. For 1939, the income-to-needs ratio is given by the ratio of the household's wage or salary earnings to its poverty level because data were not available on non-wage or non-salary income.

7. Furthermore, work by Neumark, Schweitzer, and Wascher (2004) finds that low-wage workers are harmed by minimum wage increases.

8. In our income calculations, we are using CPS-based pre-tax, post-transfer increase. This is consistent with how official U.S. Census poverty measures are calculated. But this measure ignores the income that working household heads receive from EITC benefits. Including EITC benefits would lower the share of poor working heads, especially of working single mothers in poverty.

9. Individuals are defined as working if they worked at least 14 hours per week and at least 15 weeks per year in the previous year.

10. Note that we use cross-sectional data to measure gross changes in the distribution of all single mothers who held no jobs or held jobs at various wage rates across these years. We are not directly measuring the wage distribution of those who left the welfare rolls over time. To do so, one would need longitudinal data that would show the actual hourly wage rates of single mothers who worked after leaving the welfare rolls. But our analysis does show that increases in the share of higher wage jobs account for the majority of the gross increases in the share of single mothers who hold jobs across these years.

11. Workers paid by the hour directly report their hourly wage rate. As argued in Burkhauser, Couch, and Glenn (1996) and Burkhauser and Harrison (1999), 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.

12. Wages calculated in Tables 7–14 come from estimates using the outgoing rotation group of the CPS.

13. Data on median annual hours worked and median wage rates for working single mothers in poverty that earn more than the proposed minimum wage ($5.15 in 1995 and $7.25 in 2003) are not presented due to small sample sizes.

14. In this analysis we do not attempt to measure the general equilibrium effects of minimum wage

increases on the poor. Macurdy and McIntyre (2001) argue that because poor families are likely to have a smaller share of their income come from employment and are more likely to purchase goods and services that are produced by low skilled labor, a disproportionate amount of the cost of minimum wage increases will be borne by the poor.

15. The share of benefits from a minimum wage hike that accrue to workers in poor (non-poor) households is not necessarily equivalent to the share of minimum wage workers in poor (non-poor) households. For example, in 1995, 14.7 percent of minimum wage workers lived in poor households (see the first row of the final column in Table 9). However, as the first row of the third column in Table 11 shows, workers in poor families gained only 14.2 percent of the benefits from the minimum wage hike. The difference in these percentages arises because benefits are calculated based upon hours worked per year, weeks worked per year, and the difference between the proposed minimum wage and the worker's current wage. Thus, if workers in poor households work fewer hours, fewer weeks, or have wage rates closer to the proposed minimum wage than workers in non-poor households, we would expect the share of benefits they receive to be less than the percentage of workers they represent.

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