GOOD INTENTIONS ARE NOT ENOUGH:

Why Raising New York's Minimum Wage Continues to be a Poor Way to Help the Working Poor

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Introduction

Minimum wage proponents argue passionately that policymakers have a responsibility to protect the working poor. President Clinton said it best: "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 anymore." (Clinton and Gore, 1992) This laudable objective has broad public support. Unfortunately, not all proposals aimed at helping the working poor are equally effective in achieving this social goal. No better example exists of a public policy based on a promise to help the working poor that has historically failed to deliver on that promise than the minimum wage.

Despite mounting evidence that past state minimum wage hikes have failed to reduce state poverty rates or increase the employment rates of low-skilled workers, the New York legislature is once again urging an increase in the state minimum wage to help the working poor. Four years ago, New York State legislators overrode Governor Pataki's veto and increased the New York State minimum hourly wage rate from $5.15 to $7.15. Speaker Sheldon Silver now proposes to increase the minimum wage to $8.25 per hour and permanently index it to the inflation rate (Silver, 2007).[1] While the chief objective of this proposal—helping New York's poor working families—is commendable, scant evidence exists that past minimum wage hikes have, on net, helped the working poor or reduced state poverty rates. Rather the great preponderance of evidence is that they have failed to do so.

Burkhauser and Sabia (2007) examine Census data from 1989 to 2004 and find that state minimum wage increases had no effect on overall state poverty rates, poverty rates among workers, or poverty rates of working single mothers. These findings, consistent with several previous studies (Neumark and Wascher, 2002; Neumark et al., 1999; Card and Krueger, 1995), provide compelling evidence that minimum wage hikes are a poor anti-poverty tool.

There are two key reasons why the minimum wage fails to reduce poverty. First, individuals cannot be lifted out of poverty by a minimum wage increase if such a hike causes them to lose their jobs or have their hours significantly reduced. After more than a decade of reevaluations of minimum wage-induced employment effects following the iconoclastic work of Card and Krueger (1995), the preponderance of the evidence reviewed by Neumark and Wascher (2007) overwhelmingly finds that the least-skilled workers experience the strongest disemployment effects of minimum wage increases. Those workers most harmed are disproportionately young African-Americans, workers without a high school diploma, teenagers, and less-educated single mothers (Burkhauser et al., 2000; Neumark and Wascher, 2007; Sabia, 2007a, b).

The magnitude of adverse employment effects found in the literature—lower bound elasticity estimates are generally around -0.02—are sufficiently large to prevent minimum wage increases from reducing state poverty rates. While some low-skilled workers who remain employed after a minimum wage hike are moved out of poverty, other low-skilled workers are moved into poverty as a result of these adverse employment effects. Recent research shows that on net, state minimum wage increases simply redistribute income among low-income families (Neumark and Wascher, 2002; Sabia, 2007b). Neumark and Wascher (2002) conclude that the winners from minimum wage hikes are outnumbered by the losers.

However, adverse employment effects are not the only reason—or even the central reason— why minimum wage increases fail to reduce poverty rates. In contrast to 1938 when a federal minimum wage rate was first mandated, today, the vast majority of workers who will benefit from a minimum wage increase do not live in poor or even near-poor households. In 1938, many low-wage employees headed poor households. So, it was much more likely that a raise in the minimum wage would transfer dollars to poor families. But since then, the relationship between earning

a low wage and living in a poor family has become weaker and weaker. The vast majority of low-wage workers are second or even third earners in households with incomes that are more than two or even three times the poverty line (Burkhauser and Sabia, 2007).

A series of empirical papers have simulated the distributional effects of a proposed minimum wage increase. These simulations give such a proposed increase its best chance of reducing poverty by assuming it will have no effect on employment or hours worked and then looking at who is helped. The preponderance of evidence from these simulations is that the vast majority of workers helped by minimum wage increases do not live in poor or even near-poor households. Furthermore, they show that the majority of the working poor are not helped because they already earn hourly wages above the proposed minimum (Burkhauser and Sabia, 2004a, b; 2007; Burkhauser and Harrison, 1999; Burkhauser, Couch, and Glenn, 1996; Burkhauser, Couch, and Wittenberg, 1996; Burkhauser and Finegan, 1989). Thus, the poor target efficiency of the minimum wage is a second explanation for the failure of state increases in the minimum hourly wage rate to reduce overall poverty rates or even the poverty rates of workers.

In our 2004 study of a proposed increase in the New York minimum wage from $5.15 to $7.15 per hour, we found that less than 14 percent of benefits would go to poor workers (Burkhauser and Sabia, 2004a). The conclusions reached by Burkhauser and Sabia (2007; 2004a) confirm what economist George Stigler suggested over 60 years ago in his seminal *American Economic Review* article (Stigler, 1946), the link between hourly wages and familial economic well-being is "fuzzy." This fuzziness comes from the fact that the minimum wage does not vary with other important factors associated with poverty such as family size, non-wage income, and family composition.

It is to this second vein of minimum wage literature that we turn in this paper to simulate the consequences of a proposed increase in the New York State minimum wage from $7.15 to $8.25 per hour. Our results will show that the majority of workers who will benefit from this latest minimum wage increase are not poor; less than 20 percent live in poor households. Over 60 percent live in a household whose income is at least twice the poverty line and nearly half (47.2 percent) live in a household whose income is at least three times the poverty line. Moreover, in sharp contrast to the mythology of minimum wage debates and newspaper editorials, only 13.6 percent of those who will benefit from this minimum wage hike are single mothers (unmarried women with a child under age 18). A major reason for this mismatch between low-wage workers and low-income households is that the majority (58.2 percent) of low-wage workers who will be helped by this minimum wage increase are not their household's highest earners.

Taken together, our findings suggest that raising the New York State minimum wage yet again will do little to alleviate poverty because this minimum wage hike is poorly targeted at New York's working poor. When this finding is added to the national evidence that minimum wage increases have no effect on poverty rates in general or even on the poverty rates of workers, it suggests that New York legislators interested in providing help to the State's working poor should consider other policies.

An alternate state policy that has been consistently shown to deliver on its promise to help the working poor is the New York State supplement to the federal Earned Income Tax Credit (see Schmeiser and Falco, 2006 for a detailed discussion of the New York State EITC). Unlike minimum wage increases, increases in the EITC both increase the employment of low skilled workers living in low income households and reduce poverty rates among single mothers (Schmeiser, 2007; Sabia, 2007b; Schmeiser and Falco, 2006; Hotz and Scholz, 2003; Eissa et al., 2005; Meyer and Rosenbaum, 2001; Ellwood, 2000; Grogger, 2003; Meyer and Rosenbaum, 2000; Hotz et al., 2002; Eissa and Liebman, 1996). Schmeiser (2007) estimates

that an increase in the New York State supplement to the EITC from 30 to 45 percent would increase family income by $84.9 million and decrease poverty by 56,576 persons.

Thus, while we can all agree that those who work hard and play by the rules should not be poor, it is hard to find evidence that minimum wage increases do anything to achieve this social goal. In contrast, it is quite easy to demonstrate that expanding the New York state supplement to the EITC will.

Beneficiaries of a New York State Minimum Wage Hike

We examine who will gain from a New York State minimum wage hike from $7.15 to $8.25 per hour. To do so, we use a sample of New York workers aged 16 to 64 from the March 2005 to March 2007 Current Population Survey (CPS). We use information from the outgoing rotation groups, which contain information on workers' usual gross weekly earnings in their primary job and how many hours per week they usually work in that job. Workers paid by the hour report their hourly wage rate directly. For other workers' hourly wage rates we calculate as the ratio of their usual weekly earnings to their usual weekly hours. As in Burkhauser and Sabia (2004a, b; 2007) and Burkhauser, Couch, and Glenn (1996), we use outgoing rotation group data because they contain more accurate measures of wages than data based on recall of previous year's earnings and hours.

In Table 1, we present cross-tabulations of the wage distribution of New York State workers by the income-to-needs ratios of their households. We define a worker as a non-military, non-self-employed individual aged 16 to 64 who reports positive weekly hours and positive weeks worked last year. We weight all percentages to represent the state population. The income-to-needs ratio for each worker is the ratio of the worker's total household income to the official poverty line for a household of that size. For example, in 2006, the federal poverty line for a three person household was $16,600. Therefore, a worker living in three person household with total household income of $33,200 would have a household income-to-needs ratio of 2.0. If total household income was $49,800, the household income-to-needs ratio would be 3.0.

We define five hourly wage categories in constructing Table 1: $0.01 to $6.89, $6.90 to $8.24, $8.25 to $9.99, $10.00 to $14.99, and $15.00 and over. Those earning less than $6.90 per hour are assumed to not be directly affected by minimum wage increases because they are likely to be employed in jobs not covered by state minimum wage law.[2] We estimate the population of uncovered workers in New York to be 3.9 percent of all workers. We define the direct beneficiaries of the NYS minimum wage increase as those covered workers who report hourly wage rates of $6.90 to $8.24 per hour (second column).[3]

Table 1 reveals several important pieces of information. Only 10.1 percent of workers in New York State will directly gain from a minimum wage hike to $8.25 per hour. The rest already earn more than $8.25 per hour (over 86 percent) or are not covered (3.9 percent).

While 43.5 percent of poor workers (workers living in households with income-to-needs ratios less than 1.0) earn between $6.90 and $8.24, an equivalent percentage (43.7 percent) earn wages greater than $8.25. Thus, even among poor workers, the majority are not helped, either because they work in jobs uncovered by the minimum wage or because they earn wages greater than $8.25 per hour.

Finally, and most importantly, most workers who will gain from the proposed minimum wage hike are not poor. The reason is that only 4.6 percent of New York's workers live in poor households. While a disproportional share of minimum wage workers live in these poor households (19.9 percent) or in poor or near-poor households (26.6 percent)—income-to-needs ratios of less than 1.5, the vast

majority of minimum wage workers (62.0 percent) live in households with incomes at least twice the poverty line and 47.0 percent live in households at least three times the poverty line. Far more minimum wage workers live in households with incomes that are at least three times the poverty line than live in poor or near-poor households. Thus, raising the minimum wage from $7.15 to $8.25 per hour most target those well above the poverty line and once again be ineffective in reducing poverty among working New York's families.

The final column of Table 1 presents simulations of the share of total minimum wage hike benefits going to workers across the income-to-needs distribution. This calculation assumes no worker loses their job or must reduce hours worked as a result of the minimum wage hike. This assumption—which contradicts much of the empirical evidence showing that minimum wage hikes have important adverse employment and hours effects among low-skilled workers (see Neumark and Wascher, 2007 for a review of this literature)—gives the minimum wage its best chance of aiding New York's working poor. Nevertheless we find that only 20.9 percent of the benefits accrue to workers in poor households, while nearly 61 percent go to workers in households with incomes at least twice the poverty line and 45 percent go to workers in households with incomes at least three times the poverty line.

These simulations suggest why this new minimum wage hike will do little to alleviate poverty since the minimum wage benefit we calculate is an upper-bound estimate. If employers respond to minimum wage increases by reducing employment or hours worked among low-skilled poor workers, then many of these workers will be harmed rather than helped by minimum wage increases.

And, as noted above, there is substantial empirical evidence that minimum wage increases reduce employment. A review of the recent minimum wage literature by Neumark and Wascher (2007) finds that "few – if any – studies... provide convincing evidence of positive employment effects of minimum wages...and studies that focus on the least-skilled groups provide relatively overwhelming evidence of stronger disemployment effects for these groups."[4,5] For example, Burkhauser, Couch, and Wittenburg (2000a, b) find that young African Americans, young high school graduates, and teenagers are most likely to lose their jobs as a result of a minimum wage hike. Sabia (2007a) finds that a 10 percent increase in the minimum wage reduces teenage employment by 2.8 percent. Moreover, Sabia (2007b) finds that single mothers without a high school diploma are likely to be harmed by minimum wage hikes. A 10 percent increase in the minimum wage causes an 8.8 percent reduction in their employment and an 11.8 percent reduction in their annual hours worked. These adverse employment and hours effects suggest that our optimistic estimates of the benefits of the minimum wage likely dramatically overstate the gains to the working poor from a hike to $8.25 per hour since a significant percentage of them will not be working thereafter.

The above results are consistent with our 2004 analysis of the then-proposed New York State minimum wage hike from $5.15 to $7.15 per hour (Burkhauser and Sabia, 2004a). In that study, we found that just 14 percent of the benefits from the 2004 minimum wage accrued to workers in poor households and 33.3 percent went to poor or near-poor households, while 58.6 percent of the benefits went to workers living in households with income at least twice the poverty line.

While the 2008 proposal appears to aid a greater share of the working poor than the 2004 hike (20 percent vs. 14 percent), it is not clear that the 2008 proposal is more target efficient. Only 26.7 percent of the benefits of the current proposal would go to workers in poor or near-poor households (compared to 33.3 percent of the benefits of the 2004 hike) while over 60 percent would go to those in households with incomes over twice the

poverty line. Thus, it is not clear that raising the minimum wage to $8.25 will be any better targeted than was the 2004 increase.

In Tables 2 and 3, we show the demographic characteristics of the potential beneficiaries of the New York State minimum wage hike to $8.25 per hour. Consistent with the findings in Table 1, which show a tenuous link between the minimum wage and living in a poor household, Table 2 shows that the majority of minimum wage workers in New York (58.2 percent) are not the highest earners in their families. Most are second earners, but some are third earners, often dependent children in their teens or early 20s. Of the 41.8 percent who are the highest earner in their household, many are single persons or have no children (9.1 percentage points or around a quarter of highest household earners).

Contrary to the mythology surrounding political debates and newspaper editorials over minimum wage hikes, only 13.6 percent are single mothers (unmarried women with a child under age 18). The primary beneficiaries of this minimum wage hike are neither poor nor single mothers. Table 3 shows that while the majority of New York's minimum wage workers are women (58.0 percent), many are teenagers or young adults (40.1 percent), and, as Table 2 indicates, most of the women who benefit are not the high-earners in their families nor are they single mothers.

In summary, we find little support for the claim that minimum wage increases will help poor working families in New York State. Raising the minimum wage from $7.15 to $8.25 will fail to reduce poverty because most of its beneficiaries are not poor, many poor workers earn wages above $8.25 and will not directly gain from the hike, and adverse employment effects will undermine the collective income gains of the working poor.

An Effective Alternative: The Earned Income Tax Credit

In contrast to the minimum wage, which inefficiently targets poor families, the Earned Income Tax Credit (EITC) program is an effective anti-poverty tool that can help many of New York's low income working families (Schmeiser and Falco, 2006). New York's EITC benefit is one of the most generous wage subsidy programs in the country. For every dollar in wages a worker living in a low-income family with two children earns, the federal government provides a $0.40 subsidy. New York State provides an additional subsidy of 30 percent of the federal credit, equivalent to $0.12 per dollar earned. Thus, a single mother with two children, earning $7.15 per hour could expect an effective take-home hourly wage of $10.87 if she lived in a low-income family.

Evidence by the Congressional Budget Office (2007), Neumark and Wascher (2001), and Burkhauser, Couch, and Glenn (1996) suggests that the EITC will be a more effective means of aiding the working poor than the minimum wage. CBO (2007) finds that while minimum wage hikes fail to help the vast majority of poor workers, expansions in the EITC program will help nearly all poor workers because unlike the minimum wage, which is based solely on a worker's wage rate, the EITC is based on family income. While many workers in poor or near-poor households would not gain from minimum wage hikes because they earn wages too high to directly benefit, most could gain from increased state supplements to the EITC.

Moreover, an additional advantage of the EITC over the minimum wage is that minimum wage increases cause adverse employment effects due to the increased price of labor employers face, while EITC expansions do not because its costs are not borne by employers. There is substantial

evidence that unlike minimum wage increases, expansions in the EITC actually attract low-skilled workers into the labor market, particularly single mothers (Hotz and Scholz, 2003; Eissa et al., 2005; Meyer and Rosenbaum, 2001; Ellwood, 2000; Grogger, 2003; Meyer and Rosenbaum, 2000; Hotz et al., 2002; Eissa and Liebman, 1996). Sabia (2007b) finds that while minimum wage hikes reduce employment among single mothers without a high school diploma, expansions in the EITC significantly increase their employment rates.

Using labor supply estimates from the above literature, Schmeiser (2007) estimates that an increase in the New York State EITC supplement from 30 to 45 percent would increase employment by an additional 14,244 persons, increase labor earnings by an additional $95.8 million, increase family income by an additional $84.9 million, and decrease poverty by an additional 56,576 persons. He estimates the costs to New York State of such an expansion at approximately $29.6 million. Taken together, this evidence suggests that expanding state supplements to the EITC is a far more effective way of helping the working poor in New York State than raising the minimum wage.

Conclusions

Speaker Sheldon Silver's recent proposal to raise New York's minimum wage from $7.15 to $8.25 per hour is based on the belief that it will help reduce poverty among New York's working families. It is argued that vulnerable workers, particularly single mothers, deserve a raise to help keep them up with rising costs of living. But, good intentions do not necessarily make good policy.

Our analysis of who would gain from an increase in the minimum wage to $8.25 per hour in New York State suggests that it will do little to help the working poor. The vast majority of minimum wage workers are not the highest earners in their families; they are second- or third-earners in families with incomes at least twice the poverty line. Nearly one half live in households whose income is at least three times the poverty line. Less than 14 percent are single mothers. Moreover, a substantial share of poor or near-poor workers already earn wages greater than $8.25 per hour and will not directly benefit from a minimum wage hike.

Thus another increase in the minimum wage will be just as ineffective an anti-poverty tool for New York's working poor as other such wage hikes because it is so poorly targeted. But even the meager gains that it provides for those working poor who keep their jobs will be offset by others who fall into poverty because they do not. Expansions in state supplements to the EITC will be a far more effective strategy in helping New York's working families.

TABLE 1. Wage Distribution of New York State (NYS) Workers by Income-to-Needs Ratio of Their Household, 2005-2007[a]

	Hourly Wage Categories								
							Percent of		
	$0.01 to $6.89	$6.90 to $8.24[b]	$8.25 to $9.99	$10.00 to $14.99	$15.00 and over	Total	All Workers	Workers Earning Between $6.90 per hour and $8.24 per hour	Total Benefits
Income-to-Needs Ratio									
Less than 1.00	12.9	43.5	15.2	18.3	10.2	100.0	4.6	19.9	20.9
1.00 to 1.24	23.4	19.9	16.0	34.6	6.1	100.0	1.9	3.7	4.1
1.25 to 1.49	14.6	14.1	11.9	36.3	23.2	100.0	2.1	3.0	1.7
1.50 to 1.99	6.6	19.1	20.7	31.7	21.8	100.0	6.1	11.5	12.1
2.00 to 2.99	4.2	11.2	13.2	30.8	40.6	100.0	13.3	14.8	15.9
3.00 or above	2.3	6.6	5.3	19.9	65.9	100.0	72.0	47.2	45.0
Whole Category Share[c]	3.9	10.1	8.1	22.6	55.3	100.0	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 nominal dollars. Sample restricted to 16-64 year-olds who report positive weeks and weekly hours worked in previous year.

[b] This wage category corresponds to March 2007. For March 2006, when the NYS minimum wage was $6.75 per hour, this wage category also includes those earning wages of $6.50-$6.89 per hour. In March 2005, when the NYS minimum wage was $6.00 per hour, this wage category also includes those earning wages of $5.75-$6.89 per hour.

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

TABLE 2. Demographic Characteristics of New York Workers Affected by an Increase in the Minimum[a] Wage, 2005-2007: Family Type and Gender

Family Type	Total (%)	Male (%)	Female (%)
Not highest-earner in family	58.2	24.0	34.3
Highest-earner, unmarried female, children under 18 years old in family	13.6	--	13.6
Highest-earner, unmarried male, children under 18 years old in family	7.5	7.5	--
Highest-earner, married with children under 18 years old in family	11.6	5.6	6.0
Highest-earner, family size greater than 1, no children	5.1	2.1	3.0
Highest-earner, family size equal to 1	4.0	2.8	1.2
Whole Category Share	100	42.0	58.0

Notes:

[a] Weighted sample of New York workers includes all non-military, non-self employed workers who earned between $6.90 and $8.24 per hour in March 2007, between $6.50 and $8.24 per hour in March 2006, and between $5.75 and $8.24 per hour in March 2005, based on the March 2005-2006 CPS outgoing rotation group.

TABLE 3. Demographic Characteristics of New York Workers Affected by an Increase in the Minimum Wage, 2005-2007: Age, Gender, Race[a]

Age Group	Total (%)	Male (%)	Female (%)	Non-White (%)	White (%)
Age 16 to 19	14.1	7.8	6.4	2.8	11.3
Age 20 to 25	26.1	13.2	12.9	8.4	17.7
Age 26 to 39	26.4	9.3	17.0	8.7	17.7
Age 40+	33.5	11.7	21.8	10.9	22.5
Whole Category Share[b]	100	42.0	58.0	30.7	69.3

Notes:

[a] Weighted sample of New York workers includes all non-military, non-self employed workers who earned between $6.90 and $8.24 per hour in March 2007, between $6.50 and $8.24 per hour in March 2006, and between $5.75 and $8.24 per hour in March 2005, based on the March 2005-2006 CPS outgoing rotation group.

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Endnotes

1. Several national leaders have recently proposed increasing the federal minimum wage. Presidential candidates Barack Obama and John Edwards have each called for a federal minimum wage increase to $9.50 per hour, hoping that such a hike would alleviate poverty in America (*Washington Times*, December 2, 2007). And New York's own presidential candidate, Senator Hillary Rodham Clinton, has already introduced legislation to raise the federal minimum wage (Clinton, 2007).

2. Some versions of the New York State minimum wage hike have also proposed raising the "tip wage" from $4.60 to $5.30, which could affect some of these lowest wage workers. However, even if we counted all of these workers as beneficiaries of the minimum wage hike, the distribution of benefits reported would be qualitatively similar to what we report in the table due to the small share of workers in New York State who earn wages less than $6.90 per hour.

3. We define workers who earn between $6.00 and $8.24 as minimum wage workers. We assume workers who report earning between $6.90 and $7.15 are "covered" workers who have underreported their wage rates. We repeated the analysis excluding these workers and the results are similar to those reported in Table 1. Moreover, because the minimum wage in New York State was $6.00 per hour in March 2005 and $6.75 per hour in March 2006, minimum wage workers also include those earning between $5.75 and $6.89 in March 2005 and $6.50 and $6.89 in March 2006.

4. See, for example, Campolieti et al., 2006; Campolieti et al., 2005; Burkhauser, Couch, and Wittenburg, 2000a, b; Deere, Murphy, and Welch, 1995; Neumark, 2001; Neumark and Wascher, 1992, 2002; Neumark et al., 2004, 2005; Partridge and Partridge, 1999; Currie and Fallick, 1996; Williams, 1993; Couch and Wittenburg, 2001; Sabia, 2007a, b.

5. This review suggests that the positive employment effects found in some studies (see Card and Krueger, 1992, 1994, 1995) are outliers. While it is possible for minimum wage increases to have a positive effect on employment—for instance, if labor markets are characterized by monopsony power—Aaronson and French (2006; 2007) find little evidence of monopsonistic markets when examining the effects of minimum wage increases on output prices.

Employment Policies

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