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Raising the Minimum Wage Hurts Vulnerable Workers' Job Prospects Without Reducing Poverty

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When the government changes the law, individuals respond to those changes. Because of this, the true effects of a law often differ radically from its authors' intentions. For example, Congress created welfare to help the poor in times of need, but instead it created a cycle of dependence trapping low-income Americans in poverty.

Similarly, raising the minimum wage brings with it unintended consequences that run counter to lawmakers' aim of helping the working poor. Like anything else, when the price of labor rises, businesses buy less of it. The role of the minimum wage in raising unemployment is well known and well documented.[1] But even worse, recent research has shown that higher minimum wages reduce teenage education levels and decrease workers' long-term earnings. Studies also show that the minimum wage does not reduce poverty. As always, Members of Congress should look beyond their good intentions and consider the full effects of proposed policies. If they do, they will reject raising the minimum wage.

Minimum Wages Reduce School Enrollment

Contrary to the rhetoric of those who favor raising the minimum wage, most people affected by the minimum wage are actually young workers. Individuals between the ages of 16 and 24 accounted for 53 percent of all minimum wage-earners in 2005.[2] When the minimum wage rises, it increases the incomes of teenagers with minimum-wage jobs, making entering the workforce more attractive. This, in turn, can be expected to cause some students to spend less time in school and more time working. While the overall number of minimum-wage jobs might decrease, if employers prefer to hire teenagers to low-skilled adults, the number of teenagers enrolled in school would drop.

Recent research has confirmed exactly this effect. David Neumark, professor of economics at Michigan State University, and William Wascher, a researcher with the Federal Reserve, found that minimum wage hikes decrease the proportion of teenagers enrolled in school.[3] In states which allow students to drop out of school before they are 18, a 10 percent increase in the minimum wage caused teenage school enrollment to drop by two percent. In states which require students to stay in school until they are 18, raising the minimum wage had no effect. In sum, when students have the option, higher minimum wages motivate some to leave school and start working.

This paper, in its entirety, can be found at:
www.heritage.org/research/economy/wm1176.cfm

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Another recent paper confirms this conclusion. Duncan Chaplin of the Urban Institute, Mark Turner of John Hopkins University, and Andreas Pape of Michigan State University examined teenagers' continuation ratios—the proportion of a school's students in any year who either graduate or progress to the next grade level.[4] They found that higher minimum wages decreased continuation ratios and led teenagers to drop out of school. Again, this result was present only in states where teenagers could drop out of school at younger ages.

Workers need skills and education to get ahead in the economy, and workers without a high school diploma face difficult career prospects. Raising the minimum wage actually motivates teenagers to make choices that may push them into poverty later in life.

Long-Term Effects of Minimum Wages

The fact that minimum wages reduce educational attainment suggests examining their long-term effects. In a recent study, Neumark and Olena Nizalova, of Michigan State University, examined the incomes of adults who had been teenagers when minimum wages rose in their states.[5] They found that minimum wage hikes reduced both the probability of holding a job and the incomes of workers exposed to them *over a decade later*. They also found that this negative effect is larger for African-Americans than for whites, perhaps because more African-Americans hold jobs that pay near the minimum wage.

Raising the minimum wage has these negative long-term effects because it alters the choices that people make today in ways that have long-term consequences. It induces some students to drop out of school, reducing their long-term employability. By raising unemployment and eliminating entry-level jobs, minimum wage hikes also eliminate opportunities for workers to gain valuable experience and skills that prepare them for future jobs. These unintended consequences severely hamper low-income workers' future job and earning prospects.

Minimum Wage Increases Do Not Reduce Poverty

For all the negative unintended effects of the minimum wage, it is perhaps not surprising that the minimum wage does not reduce poverty.[6] Neumark and Wascher found that minimum wage hikes increased the probability that poor families escaped poverty but also increased the probability that previously non-poor families fell below the poverty line. Overall, poverty rates did not change. Neumark and Wascher conclude that raising minimum wages does not reduce poverty:

> On balance, we find no compelling evidence supporting the view that minimum wages help in the fight against poverty. Rather, because not only the wage gains but also the disemployment effects of minimum wage increases are concentrated among low-income families, the various tradeoffs created by minimum wage increases more closely resemble income redistribution among low-

1. See, e.g., Richard Burkhauser, Kenneth Couch, and David Wittenburg, "A Reassessment of the New Economics of the Minimum Wage Literature with Monthly Data from the Current Population Survey," *Journal of Labor Economics*, University of Chicago Press, vol. 18(4), pp. 653-80.
2. Department of Labor, Bureau of Labor Statistics, "Characteristics of Minimum Wage Workers: 2005," June 30, 2006, at http://www.bls.gov/cps/minwage2005tbls.htm#1.
3. David Neumark and William Wascher, "Minimum Wages and Skill Acquisition: Another Look at Schooling Effects," *Economics of Education Review* 22:1-10.
4. Duncan Chaplin, Mark Turner, and Andreas Pape, "Minimum Wages and School Enrollment of Teenagers: A Look at the 1990s," *Economics of Education Review* 22(1): 11-21, February 2003.
5. David Neumark and Olena Nizalova, "Minimum Wage Effects in the Longer Run," National Bureau of Economic Research *Working Paper* No. w10656, June 2004.
6. David Neumark and William Wascher, "Do Minimum Wages Fight Poverty?," *Economic Inquiry*, 2002, v40(3,Jul), pp. 315-333.

income families than income redistribution from high- to low-income families.[7]

On balance, then, the minimum wage leaves low-income Americans no better off in the short term and far worse off in the long term.

Conclusion

Due to unintended effects, a law can achieve the opposite of its supporters' intentions. The minimum wage is such a law. It is intended to reduce poverty, but it does not. Instead it encourages teenagers to drop out of school and reduces low-income workers' future job prospects and earnings. Good intentions are not enough. Congress should not pass a destructive minimum wage hike that will harm the most vulnerable American workers.

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7. Ibid.