

WebMemo



Published by The Heritage Foundation

No. 1187
August 4, 2006

Low-Income Workers May Be Worse Off if Congress Increases the Minimum Wage

Rea S. Hederman, Jr., and James Sherk

Many in Congress consider raising the minimum wage to be an effective means of helping the poor, but an artificial wage increase will not significantly help the workers whom its supporters hope to reach. Low-income workers who rely on government subsidies and earn the minimum wage will see their total incomes rise only slightly, and in some cases decrease, because a hike in the minimum wage would reduce their benefits under other government programs.

An increase in the minimum wage may reduce government benefits to workers who receive them. Government subsidies like Temporary Aid to Needy Families (TANF), Medicaid, child care, housing assistance, and food stamps are aimed at helping needy families.¹ As individuals earn more income, most benefits are reduced because of income phase-outs. For certain families, more earnings can result in only a small improvement in total income (cash plus the value of public benefits) due to benefit reductions. This reduces the incentive to work and, as a result, keeps low-income workers from advancing up the income scale.

Low-income minimum wage-earners who do not lose their jobs due to employment losses associated with the minimum wage² will at most see a slight improvement in their total incomes because they will likely lose government benefits. The combined effects of reduced benefits with only a minimal gain in income clearly do not provide the total impact on poverty that some claim an increase in the minimum wage will bring.

In addition to the many negative effects of raising the minimum wages—such as lower levels of employment,³ higher dropout rates for high school students,⁴ and a long-term reduction in wages⁵—an increase in the minimum has been shown to reduce benefits in some states among those most in need. (See Chart 1, next page.)

Contrary to the arguments of those who would raise the minimum wage, a wage hike will not significantly help the poor. A wage hike will reduce the amount of government benefits for many workers, resulting in a modest improvement in income at best. In some cases, low-income workers may suffer a reduction in total income.

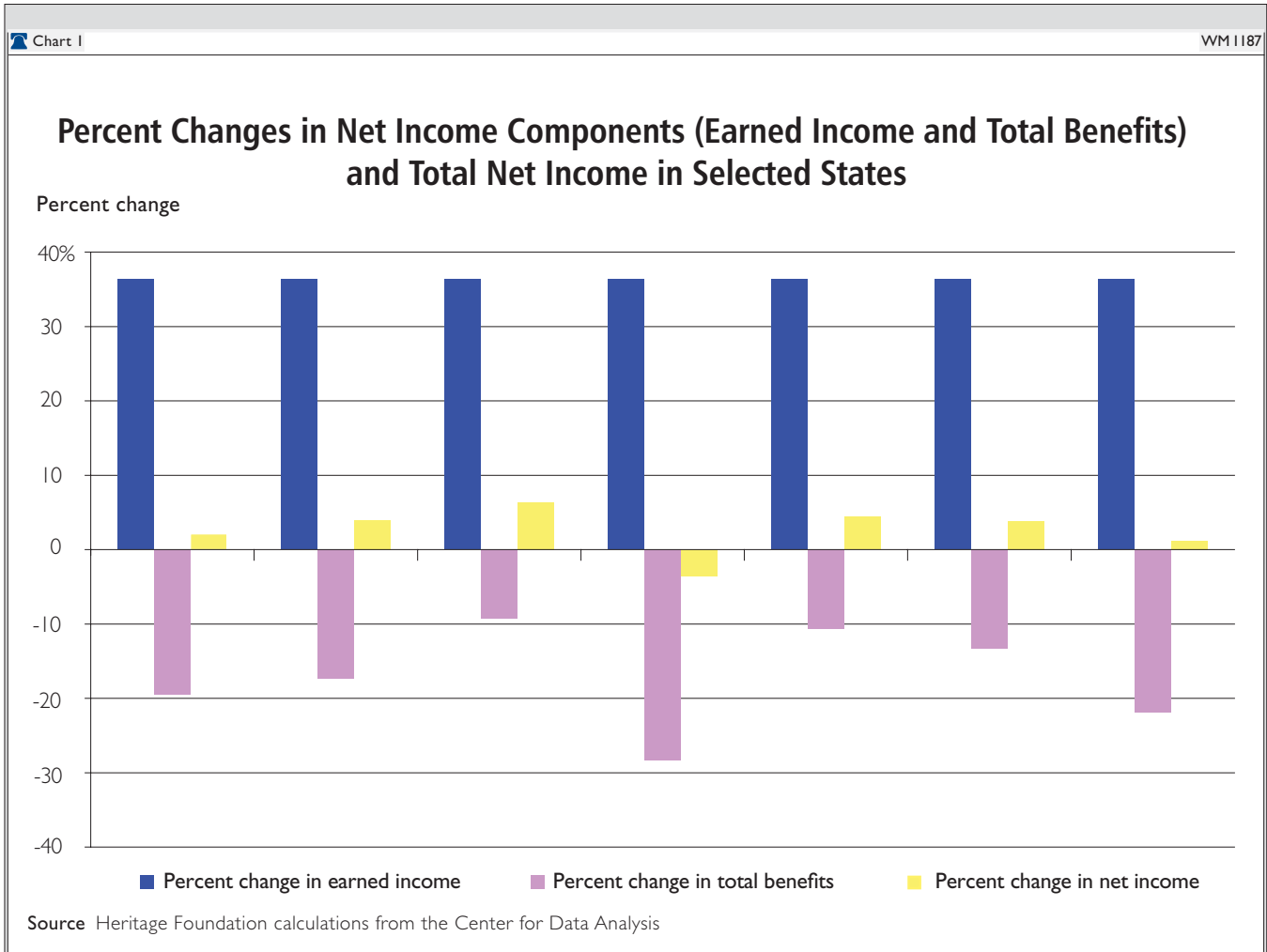
Rea S. Hederman, Jr., is Senior Policy Analyst, and Samuel Hyman is Research Assistant, in the Center for Data Analysis at The Heritage Foundation.

This paper, in its entirety, can be found at:
www.heritage.org/research/economy/wm1187.cfm

Produced by the Center for Data Analysis

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002-4999
(202) 546-4400 • heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.



1. This is just a snapshot of a few of the most widely used government welfare programs. Many other government programs are available to low-wage workers such as job training, Pell grants, child care, etc.
2. 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.
3. Ibid.
4. David Neumark and William Wascher, "Minimum Wages and Skill Acquisition: Another Look at Schooling Effects," *Economics of Education Review* 22:1-10.
5. David Neumark and Olena Nizalova, "Minimum Wage Effects in the Longer Run," National Bureau of Economic Research *Working Paper* No. w10656, June 2004.