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A best way to help low-wage workers?

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It is often argued (and not without justification) that an increase in the minimum wage will reduce overall employment among low-skilled workers. But verifying this hypothesis and, if it is true, measuring the amount by which employment is reduced is not a simple task. Nonetheless, Jeffrey Clemens and Michael Wither tackle this task for the period of the recession of 2007–09 in their paper "The minimum wage and the Great Recession: evidence of effects on the employment and income trajectories of low-skilled workers" (National Bureau of Economic Research working paper 20724, December 2014). In fact, they go even further, breaking down low-wage workers into a number of earnings categories (the number depends on the purpose involved) and investigating the effects of increases in the minimum wage on the wages of workers in each of those categories, as well as on the employment of low-skilled workers and their ability to escape poverty and move into jobs with middle-class earnings. Finally, the authors contrast the effects of increases in the minimum wage with increases in the Earned Income Tax Credit (EITC).

Between July 23, 2007, and July 24, 2009, the federal minimum wage rose from $5.15 to $7.25 per hour. The stated aim of an increase in the minimum wage is to raise the wages of workers with earnings below that level, and Clemens and Withers find that, during the Great Recession, that is exactly what happened for workers earning below $7.50 per hour before the implementation of the $7.25 federal minimum: in states whose minimum wage was below the federal government's at the time, workers who reported earning between $5.15 and $7.25 per hour in any given month during the period in question were almost twice as likely to be within that range in July 2008 than were workers in states that had already raised the minimum wage on their own; by November 2009, workers who had been earning between $5.15 and $7.25 in states without a raised minimum wage were now earning as much as workers in states that had raised the minimum wage. The story, however, was different for those reporting earnings between $7.50 and $10.00 per hour prior to the implementation of the $7.25 federal minimum in states affected by it: these workers saw their wages largely unchanged.

The same two groups also saw different outcomes with regard to employment. Those earning below $7.50 per hour before the implementation of the federal wage increase experienced a 4.3-percentage-point decline in employment from August 2009 to July 2010. Two years later, the situation got worse: the decline increased to 6.3 percentage points. Among those affected in this group of earners were teenagers and food service workers: those two groups combined saw their employment decrease by 2 percentage points 1 year after the federal minimum-wage increase and 3.9 percentage points 2 years later. In contrast, workers earning between $7.50 and $10.00 per hour before the federal increase saw no effect on their employment (as, in fact, did those earning above $10.00 per hour). Clemens and Withers draw the following conclusion from their analysis: although minimum-wage legislation does achieve its stated aim of raising the wages of those at the bottom of the earnings distribution, it also reduces the employment of low-skilled workers by measurable amounts. The latter reference to measurability is what is particularly interesting: the literature is filled with those who argue the issue one way or the other, but few, according to the authors, can claim the robustness achieved by their methodological approach of using monthly individual-level data from the Survey of Income and Program Participation.

Finally, Clemens and Withers' analysis indicates that the increased wages and the decreased employment effectively cancel each other out, so that if one of the purposes of an increase in the federal minimum wage is to raise people out of poverty, then that purpose is not achieved. Similarly, the authors find that a rise in the minimum wage reduces the likelihood that workers earning less than $7.50 per hour will reach earnings of $1,500 per month (a wage many consider to be the threshold value of a lower middle class income) by 4.9 percentage points, or 24 percent. Thus, raising the federal minimum wage reduces the mobility of low-skilled workers significantly. A more efficient way of increasing the purchasing power of these workers, without the side effects of reducing their unemployment, their chances of getting out of poverty, and their likelihood of progressing to a middle-class income level, is the EITC, which the literature has found to increase the employment of low-skilled adults and the income available to their families, to significantly reduce economic inequality and poverty, and even to improve the academic performance of children of recipients.