



# The Minimum Wage Experience in the United States

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***“The trouble with the world is not that people know too little, but that they know so many things that ain’t so.”***

***Mark Twain***



***The Fair Labor Standards Act of 1938* was the centerpiece of President Franklin Roosevelt’s Second Inaugural Address urging Congress to help the one-third of Americans who were “ill-housed, ill-clothed, and ill-nourished.” (Roosevelt, 1937)**



# Senator Edward Kennedy

“The minimum wage was, as it should be, a living wage, for working men and women ... who are attempting to provide for their families, feed and clothe their children, heat their homes, [and] pay their mortgages. The cost-of-living inflation adjustments since 1981 would put the minimum wage at \$4.79 today, instead of the \$4.25 it will reach on April 1, 1991. That is a measure of how far we have failed the test of fairness to the poor.”

(Congressional Record, November 6, 1989, S14707).



# President Bill Clinton

“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.”

(The White House, 1995)

# Assembly Legislation Raises Minimum Wages to \$7.10



“There are tens of thousands of New Yorkers who toil and struggle everyday to make ends meet, despite being employed. The state’s failure to institute a minimum wage that lifts families out of poverty has only moved those ends further apart.” (Silver, March 1, 2004)



# What is and ain't so:

- Minimum wage increases have no effect on poverty rates.
- Minimum wage increases reduce the employment of young low skilled and poorly educated workers.
- Most minimum wage workers do not live in poor or even near poor families.
- Most workers in poor families have wages above the minimum wage.



# Employment and Distribution Effects

The Employment and Distributional Effects of  
Minimum Wage Increases in New York State:  
Evidence from a Natural Experiment

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# Minimum Wage Increases

## **New York State**

1997-2004: Federal rate of \$5.15 per hour

January 1, 2005: \$5.15-\$6.00

January 1, 2006: \$6.00-\$6.75

January 1, 2007: \$6.75-\$7.15

## **Pennsylvania, Ohio, and New Hampshire**

Remained at \$5.15 until 2007



## Natural Experiment Analyses

Compare changes in the employment rates of low skilled workers in New York with similar workers in control States between 2004 and 2006.

Compare changes in the employment rates of low vs. higher skilled workers in New York with those in control States between 2004 and 2006.

Data: March Current Population Survey

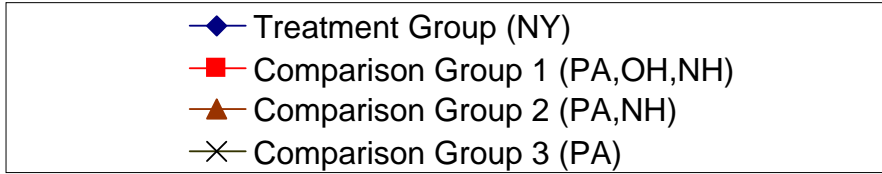
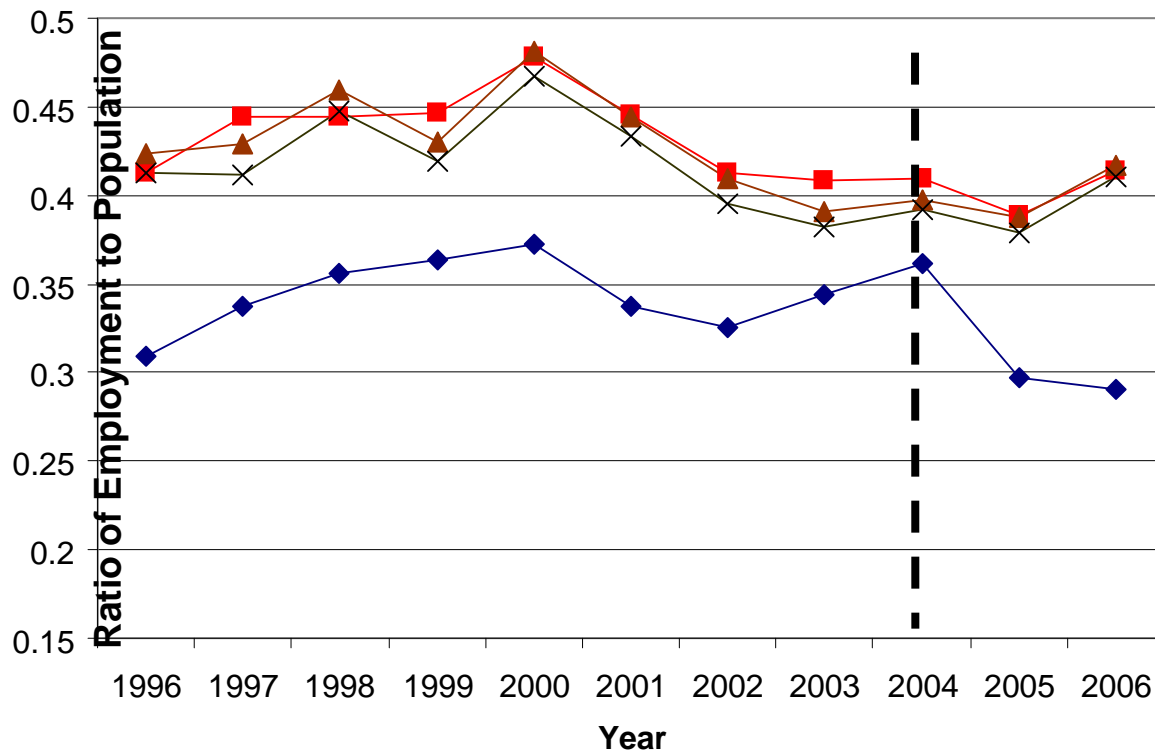


## Young High School Dropouts (Aged 16-29)

- Tables 2 and 3 show the New York State minimum wage raised the hourly wages of this population of workers between 2004 and 2006.
- Share of workers earning between \$5.15-\$6.74 fell 11.2 percentage points more in New York than in control States.



**Figure 1. Employment Trends of 16-to-29 Year-Olds without High School Diploma, 1996-2006**





# Employment Effects of Minimum Wage Hike

**Table 4:** Depending on State control group a **10** percent increase causes a **5.9** to **8.3** percent **decline** in employment of high school dropouts.

**Table 5:** Depending on non-affected within State control group (college degree, high school degree or better, older) a **10** percent increase causes a **7.4** to **12.9** percent **decline** in employment of high school dropouts.



## Falsification Test

Table 7 looks at changes in employment rate of high school dropouts using same controls but for years 2002-2004 when minimum wage was the same in all States.

No significant difference in change in employment rate of high school dropouts found regardless of control groups.



**“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)

$$\frac{I}{N} = \left( \frac{W_1 L_1 + W_2 L_2 + W_n L_n + NWI}{N} \right)$$



# Table 8

**Table 8. Simulated Employment Losses of Proposed NYS Minimum Wage Increase from \$7.15 per hour to \$8.25, by Household Income-to-Needs Ratio**

	Percent of Workers Earning Between \$6.90 per hour and \$8.24 per hour <sup>a,b</sup>	Number of Workers	% Job Loss (e = -0.2)	% Job Loss (e = -0.6)	% Job Loss (e = -0.9)
<i>Income-to-Needs Ratio</i>					
Less than 1.00	21.4	174,887	-2.2	-6.4	-9.7
1.00 to 1.24	3.7	30,181	-2.0	-6.1	-9.2
1.25 to 1.49	2.7	22,439	-1.4	-4.3	-6.4
1.50 to 1.99	10.6	86,640	-1.9	-5.7	-8.6
2.00 to 2.99	15.1	123,824	-1.7	-5.2	-7.8
3.00 or above	46.5	380,380	-2.1	-6.2	-9.3
Total	100	818,351	-2.0	-6.0	-9.0





# Table 9

**Table 9. Simulated Monthly Net Benefits from Proposed NYS Minimum Wage Increase from \$7.15 per hour to \$8.25, by Household Income-to-Needs Ratio and Various Employment Elasticities**

	Net Benefits in Millions \$ (e = 0)	% Net Benefits (e = 0)	Net Benefits in Millions \$ (e = -0.2)	Net Benefits in Millions \$ (e = -0.6)	Net Benefits in Millions \$ (e = -0.9)
<i>Income-to-Needs Ratio</i>					
Less than 1.00	14.3	21.2	11.1	4.64	-0.20
1.00 to 1.24	2.82	4.2	2.17	0.88	-0.08
1.25 to 1.49	1.21	2.4	0.94	0.40	-0.01
1.50 to 1.99	7.97	11.8	6.18	2.60	-0.08
2.00 to 2.99	10.1	15.0	7.87	3.33	-0.07
3.00 or above	30.6	45.4	23.7	9.91	-0.43
Total	67.3	100	52.1	21.8	-0.86



# Conclusions

## Minimum wage increases don't reduce poverty

- An increase in the minimum wage will reduce the employment of the most vulnerable workers.
- Most minimum wage workers do not live in poor or even near poor families.
- Most workers in poor families have wages above the minimum wage.
- The Earned Income Tax Credit is a far more effective way of increasing the income of the working poor