

A Hype-Free Way to Help Low-Wage Workers

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President Obama declared last week that "it's well past the time to raise [the] minimum wage." Demonstrators at fast-food restaurants in several cities also demanded a higher wage. But hiking the minimum wage is not the right policy to alleviate poverty. A better approach would be to integrate the existing minimum wage with current welfare transfer payments. This would lead to higher incomes for low-wage workers and increased employment.

First consider the downsides of raising the minimum wage. For one, it makes it harder for individuals with low skills and little experience to get or keep a job. When low-skill labor becomes more expensive, employers have a greater incentive to mechanize or outsource their work. Higher wages that are not the result of greater productivity force firms to raise prices to cover their costs—which reduces the demand for the firms' goods and services and thus reduces employment.

Mr. Obama said in his speech that "there's no solid evidence that a higher minimum wage costs jobs." Not so. There are a few statistical studies that find no adverse effect on employment, but there is far more evidence that confirms that higher minimum wages do reduce employment—most recently reviewed by Richard Neumark, of the University of California at Irvine, and his co-researchers. A higher minimum wage leads to a trade-off: Some employees get the higher wage while others lose their jobs.

As an anti-poverty measure, the minimum wage is a crude policy that fails to distinguish between a young person who lives at home and a working mother who is the sole support of her family. That's why there are government programs such as food stamps, housing subsidies and the earned-income tax credit designed in part for the working poor.

The Department of Labor's data indicate that individuals under age 25 account for half of the 1.6 million workers who receive the minimum wage, and teenagers account for more than half of that group. A higher minimum wage would increase the already high unemployment rates in these groups (13% for people under age 25, 20% for teens age 16 to 19), making it even more difficult to acquire the experience and skills that they need to earn higher wages.

Under current law, many workers actually earn less than the \$7.25 federal hourly minimum because of exemptions. The most important is the federal minimum wage of \$2.13 per hour for workers who earn tips—if the employee's combination of wages and tips reaches at least \$7.25. This means the official count of those who earn the minimum wage or less overstates the number of workers with low total earnings. This is particularly true for married women who are counted as low-wage earners but who would not gain from an increase in the minimum wage because they are in tip-receiving occupations.

The Obama administration may have proposed the increase in the minimum wage because it cannot increase tax-financed welfare spending in the current budget environment. A higher

minimum wage is in fact a hidden tax increase—initially on businesses and then on consumers who must pay higher prices for products made by minimum-wage workers.

The White House fact sheet claims that a higher minimum wage would help the economy by increasing the purchasing power of consumers, but this is disingenuous at best. Those workers who lose their jobs or work fewer hours would have less income as consumers. And all consumers would see a fall in their real incomes because of the higher prices that businesses would have to charge to cover their added labor costs.

There is a better way to help those with low skills find employment and raise their incomes: Integrate the existing minimum wage with welfare payments. Consider a woman who receives \$10,000 a year from various transfer programs but can only find occasional part-time work at the \$7.25 minimum wage. Her \$10,000 a year of transfer benefits is equivalent to \$5 an hour based on 2,000 working hours per year. If she had the option of treating up to half of that \$5 as an offset to the minimum wage—just as workers who receive tips can offset part of the minimum-wage floor because of their tip income—she could legally take any job that paid at least \$4.75 an hour. If she finds a job paying \$5 an hour, she might earn an extra \$10,000 a year.

There may be better ways to integrate transfer payments and the minimum wage. But the goal should be to raise incomes while increasing job opportunities for those whose skills are too limited to find work at the minimum wage. Instead of raising the barrier for finding a job, as a minimum wage hike would do, integrating the minimum wage and welfare payments would allow some of today's poor and unskilled to get onto the job ladder. Then they would gain the skills and experience to rise above the minimum wage and their dependence on transfer payments.

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