

## **Reflections on the Minimum Wage and Poverty**

By Bishop Harry R. Jackson, Jr.

Many people assume that “economic justice” will come as a result of massive governmental control over the economy initiated by lawmakers in Washington. Many economists, however, argue that real growth in wages for low-income earners comes from the bottom up.

Let’s look at some specifics about minimum wage for a few moments. Nearly 60 percent of all wage and salary workers are paid at hourly rates. These are the jobs that minimum-wage laws target. In 2004, 520,000 (or 0.7 percent of 73.9 million) workers were reported as earning exactly \$5.15 (minimum wage at that time). That may seem regrettable, but those workers tended to be young, single workers between the ages of 16 and 25. Further, barely two percent of those workers continued to earn minimum wage after age 25.

The U.S. Bureau of Labor Statistics (BLS) gives the most comprehensive analysis of the people receiving minimum wage. The segment of the population earning minimum wage is constantly changing. The BLS concluded that 63 percent of minimum-wage workers receive raises within one year of employment and that after three years, only 15 percent still earned the minimum wage. Few Americans are stuck earning minimum wage indefinitely.

Furthermore, 40 percent of minimum-wage earners live in households with incomes of \$60,000 and higher, and more than 82 percent of minimum-wage earners do not have dependents. This means that these minimum-pay jobs are probably not the main source of income for their household. Only 5.3 percent of minimum-wage earners are from households that are below the official poverty line.

Of course, the American minimum wage tends to be fairly low and, in some cities, is not much of a burden. But even in these

cases, minimum wage can have surprising unintended consequences, as columnist George F. Will recently explained:

Raising the minimum wage predictably makes work more attractive relative to school for some teenagers, and raises the dropout rate. Two scholars report that in states that allow persons to leave school before 18, a 10 percent increase in the state minimum wage caused teenage school enrollment to drop 2 percent.<sup>1</sup>

If Will is correct, a mandated minimum wage can actually work against long-term increases in pay.

In addition, correctly defining an appropriate living wage (as minimum wages are sometimes branded) is highly subjective. The term “living wage” typically means making enough to provide for a family of four. As Thomas Sowell, the well-known author and economist, puts it, “What the so-called living wage really amounts to is simply a local minimum wage....”<sup>2</sup>

The idea of a “living wage” is popular in various communities, churches, and academic institutions. It sounds nice, but Sowell points out that a mandated living wage actually kills jobs because as the living wage soars, job qualifications also rise. Those workers with fewer skills or less experience may become unemployable by the new standards. Sowell poignantly states, “Think about it. Every one of us would be unemployable if our pay rates were raised high enough.”<sup>3</sup> Of course, no one will suggest high minimum-pay rates for doctors and lawyers. Those who suffer from such policies are unemployed workers—those who can least afford it.

We want everyone to be able to avoid poverty. We want everyone to be able to pursue their talents and receive just compensation for their efforts. The question is how to best achieve that goal. Clearly, we should avoid strategies that have not worked in the past. If higher minimum wages could cure poverty, we could end domestic poverty just by setting minimum wage above the

poverty line. And we could end worldwide poverty simply by telling poor nations to legislate a higher minimum wage. It's just not that simple. Instead, we need policies that promote free enterprise, job creation, education, and training. These initiatives, not misguided federal mandates, allow wealth to be created. And only the creation of real wealth will bring the poor out of poverty in the 21st century, as it has done for countless others in the previous two centuries.

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<sup>1</sup> George F. Will, "The Right Minimum Wage," *The Washington Post*, January 4, 2007, p. A17, at <http://www.washingtonpost.com/wp-dyn/content/article/2007/01/03/AR2007010301619.html> (accessed July 20, 2009).

<sup>2</sup> Thomas Sowell, "'Living Wage' Kills Jobs," *Townhall.com*, November 5, 2003 at [http://townhall.com/columnists/ThomasSowell/2003/11/05/living\\_wage\\_kills\\_jobs?page=full&comments=true](http://townhall.com/columnists/ThomasSowell/2003/11/05/living_wage_kills_jobs?page=full&comments=true) (accessed July 20, 2009).

<sup>3</sup> *Ibid.*