April 2015

The Non-Working Poor and a $15 Minimum Wage

One of the most cited reasons for increasing the minimum wage is that it's necessary in order to reduce poverty rates. New York Governor Andrew Cuomo declared that his $15 wage proposal – now an impending reality for many in the state – "will lift more than 250,000 New Yorkers out of poverty."

Skeptics of the policy have highlighted the potential for job loss among employees that a $15 minimum wage is designed to help. But Census Bureau data show that the policy faces a more fundamental problem: A majority of Americans in poverty don't work, and thus won't be affected by the raise.

In a 2010 paper published in the *Southern Economic Journal*, economists from American and Cornell University examined poverty data from the 28 states that raised their minimum wages between 2003 and 2007. They found that these states saw no associated reduction in poverty from their higher wages. The authors attributed this to the fact that increases were not well-targeted to families in poverty. Recent Census data, for instance, show that over 60 percent of individuals in poverty don't work.

The Employment Policies Institute used data from the 2013-2015 March supplements to the Current Population Survey to study the working age population (18 to 64-year-olds).Living in poverty in each state. In 41 of the fifty states plus Washington D.C., more than 50 percent of the working age population living in poverty is not employed (Table 1).

This finding holds unique relevance for states that recently made the decision to adopt $15. In New York, 68 percent of those living in poverty lack work, and a higher minimum wage is likely to put it further out of reach. In California – where a $15 wage has also been approved – over 60 percent of individuals in poverty don't work. (Note: Some of these non-working individuals are considered disabled, which might prevent them from working. Across the 50 states and DC, an average of 26 percent of the non-working poor are considered disabled.)

Alternative Measures to Alleviate Poverty

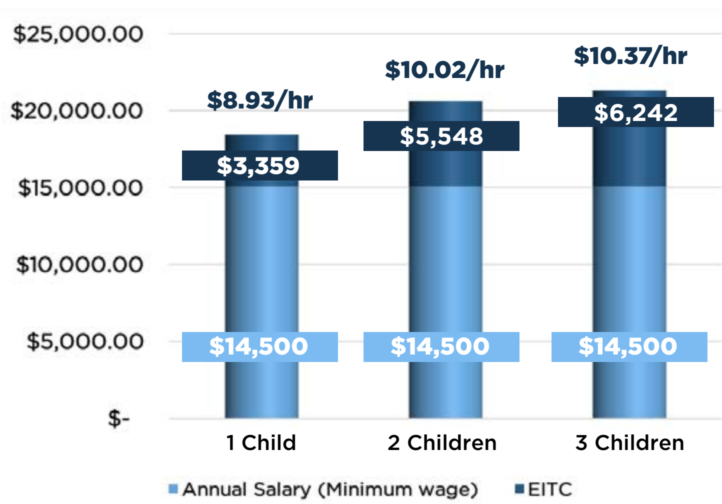
A recent survey conducted by the University of New Hampshire found that the majority of surveyed economists (71%) believe that the Earned Income Tax Credit (EITC) is a very efficient way to address the income needs of poor families. Only five percent believe a $15.00 per hour minimum wage would be very efficient.

By targeting recipients through the tax code, the federal EITC is able to supplement the income of low income households without creating additional burdens on employers. An earners maximum credit depends on several factors including earned income, marital status, and number of children (Twenty-six states and the District of Columbia offer credits to supplement the federal EITC).

More importantly, because receipt of the EITC is conditioned on earning income, the policy has been shown to boost employment, particularly among single mothers--creating an incentive for those not currently in the workforce to enter it.

The graph below illustrates the monetary benefit the EITC has for a single federal minimum wage earner.

Graph 1. EITC Benefit for a Single Minimum Wage Earner



Note: Annual salary reflects 50 weeks worked, 40 hours per week.

Sources: Earned Income Tax Credit Estimator (Tax Year 2015) www.eitcoutreach.org

TABLE 1. Percent of working age poor who don't work, by state.

STATE	PERCENT NON WORKING POOR
West Virginia	72.90%
District of Columbia	71.80%
Mississippi	69.30%
New York	67.60%
New Jersey	66.60%
Hawaii	66.40%
Rhode Island	65.40%
South Carolina	65.20%
Alabama	64.70%
Virginia	64.70%
Florida	64.60%
Maryland	64.00%
Pennsylvania	62.60%
Massachusetts	62.40%
Louisiana	62.30%
Arizona	61.80%
Tennessee	61.70%
Connecticut	61.30%
Oklahoma	61.10%
California	60.90%
Kentucky	60.90%
Nevada	60.60%
New Hampshire	60.50%
Arkansas	60.30%
North Carolina	60.30%
Georgia	60.20%
Delaware	59.70%
Indiana	59.70%
Michigan	59.20%
Oregon	59.00%
Ohio	58.30%
Alaska	57.80%
New Mexico	57.80%
Illinois	57.70%
Vermont	57.50%
Texas	55.80%
Montana	54.60%
Kansas	54.40%
Maine	54.10%
Utah	53.80%
Washington	53.10%
Missouri	52.20%
North Dakota	49.80%
Colorado	49.70%
Wisconsin	49.10%
Idaho	48.50%
Wyoming	47.90%
Minnesota	46.10%
Iowa	45.80%
Nebraska	43.20%

Sources:

Meyer, B. D. (2010). The Effects of the Earned Income Tax Credit and Recent Reforms. In J. R. Brown (Ed.), Tax Policy and the Economy (Vol. 24, NBER Book Series Tax Policy and the Economy). The University of Chicago Press. Retrieved from http://www.nber.org/chapters/c11973.pdf

Sabia, J. J., & Burkhauser, R. V. (2010). "Minimum Wages and Poverty: Will a $9.50 Federal Minimum Wage Really Help the Working Poor?" *Southern Economic Journal*, 76(3), 592-623. doi:10.4284/sej.2010.76.3.592

The University of New Hampshire Survey Center (2015, November) "Survey of US Economists on a $15 Federal Minimum Wage." Retrieved from https://www.epionline.org/studies/survey-of-us-economists-on-a-15-federal-minimum-wage/