

Do Minimum Wages Help to Alleviate Poverty?

Lifting Children & Families Out of Poverty Task Force

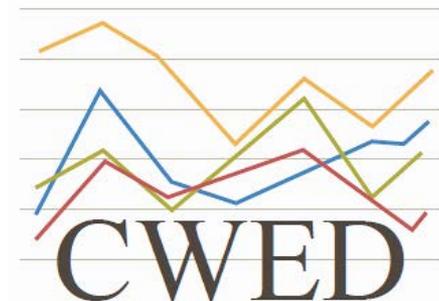
State of California—Health & Human Services Agency
Department of Social Services

July 18, 2018
Sacramento, California

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 @Sly21

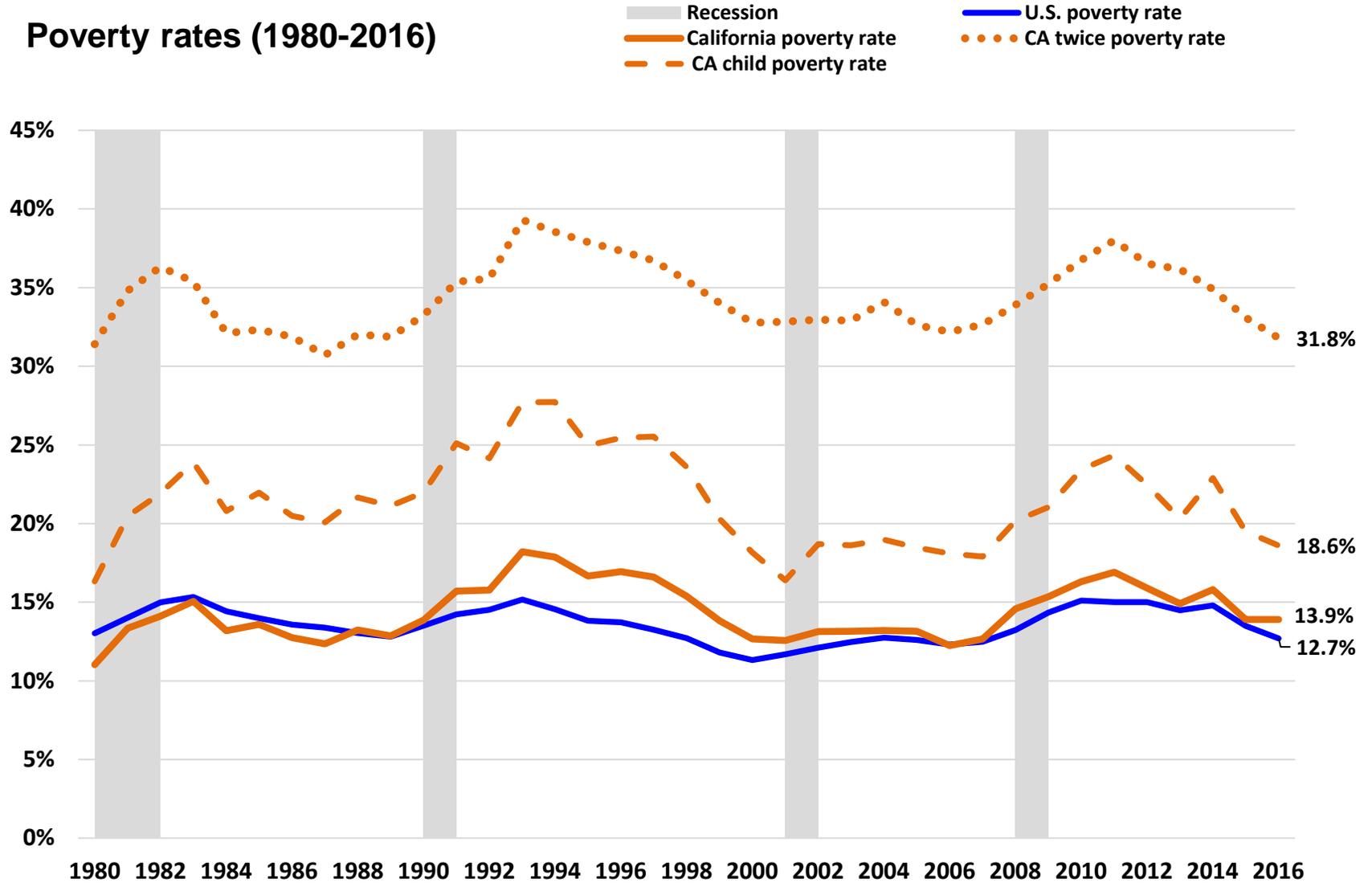
Chair, Center on Wage & Employment Dynamics
University of California, Berkeley



U.S. Poverty 2016

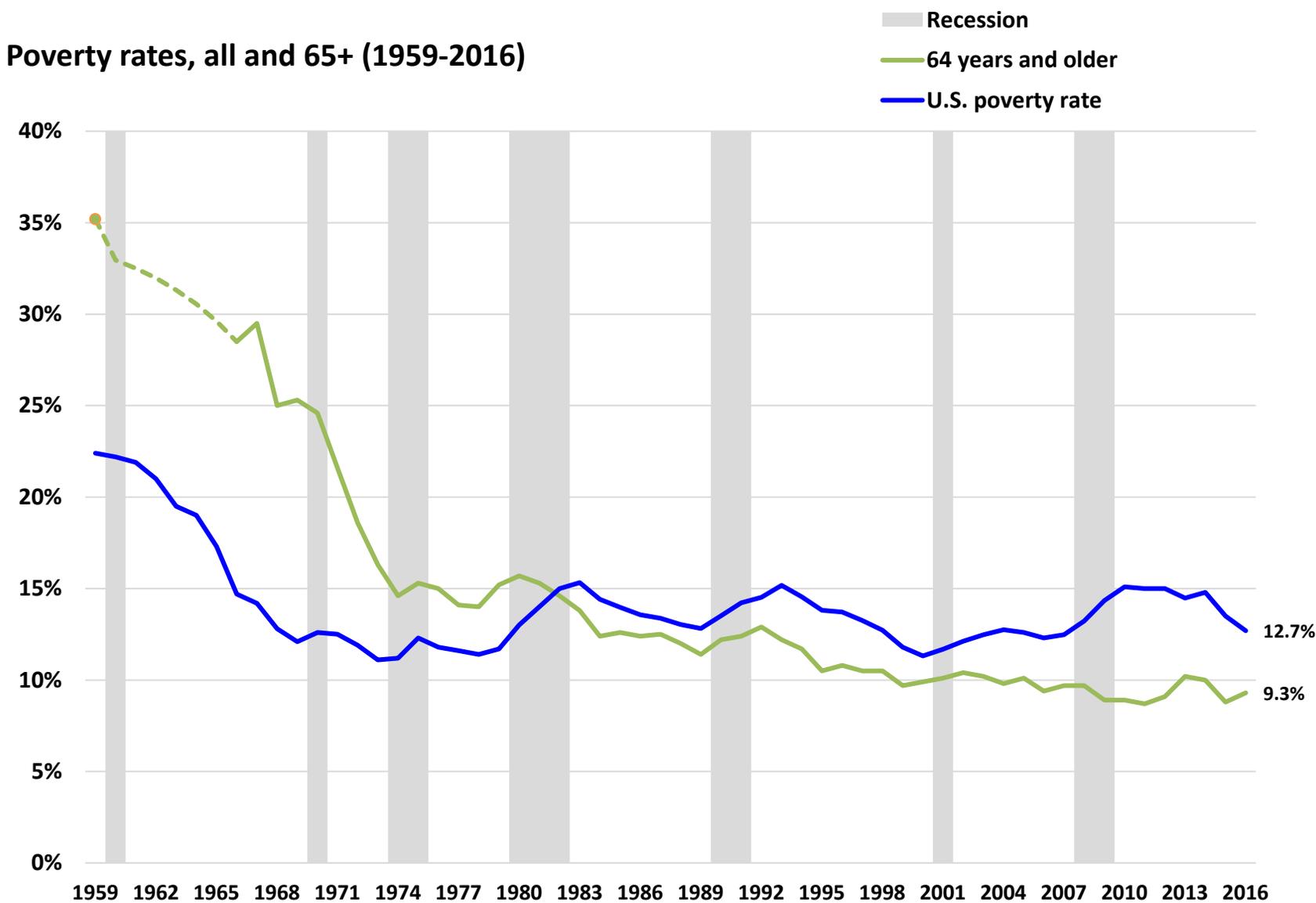
- Poverty rate of 12.7% or 40.6 million
- 7.6 million are working poor
 - 19% of total or 2.4 percentage-points
- Of workers, 4.9% are in poverty
 - Full time: 3.1%
 - Part time: 12.4%
 - Less than HS: 13.7%
 - College grads: 1.4%
- Women, Blacks and Latinos more likely to be poor
- No one policy will effectively fight all poverty

Poverty rates (1980-2016)



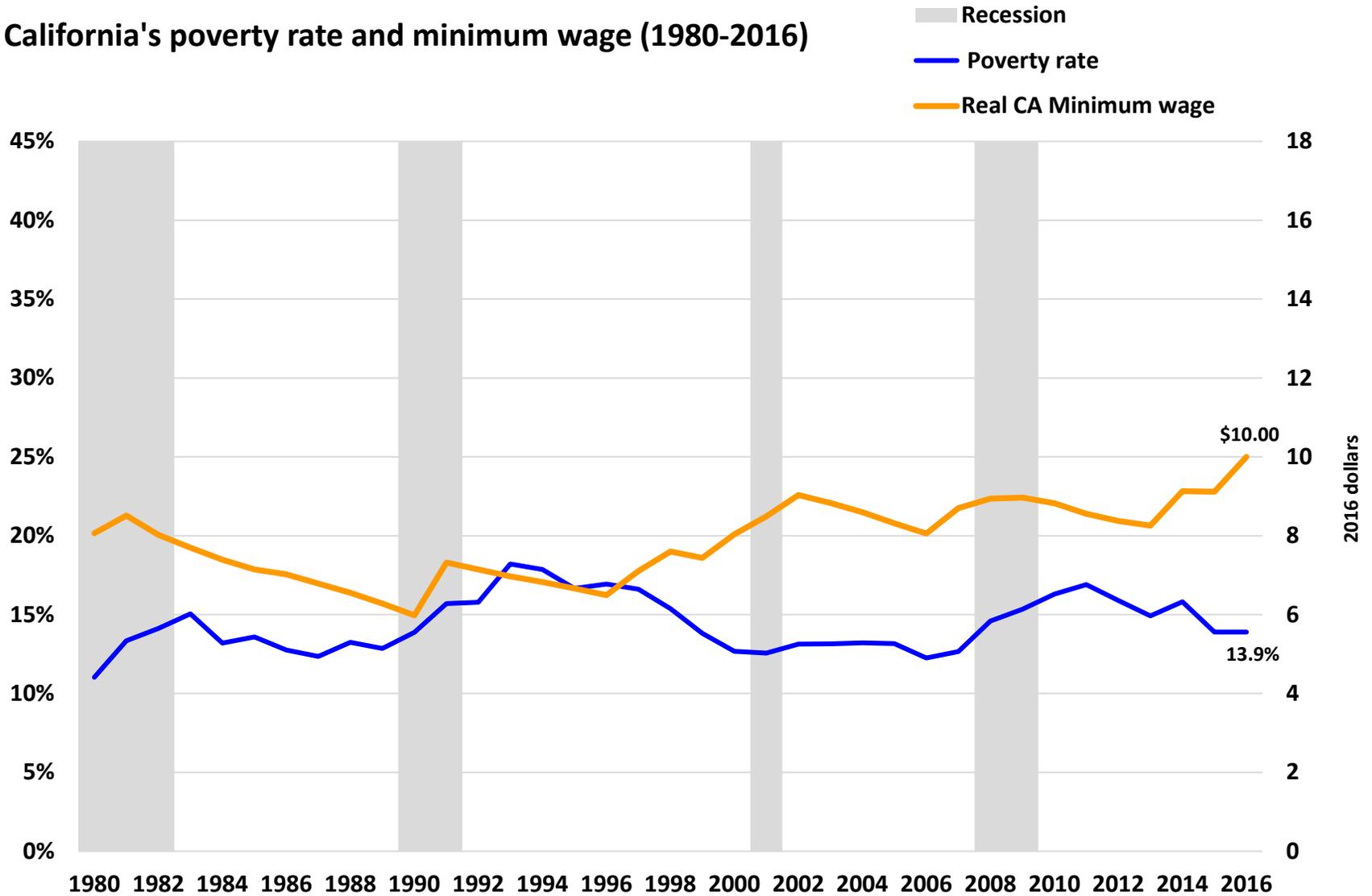
Source: U.S. Census Bureau.

Poverty rates, all and 65+ (1959-2016)



Source: U.S. Census Bureau.

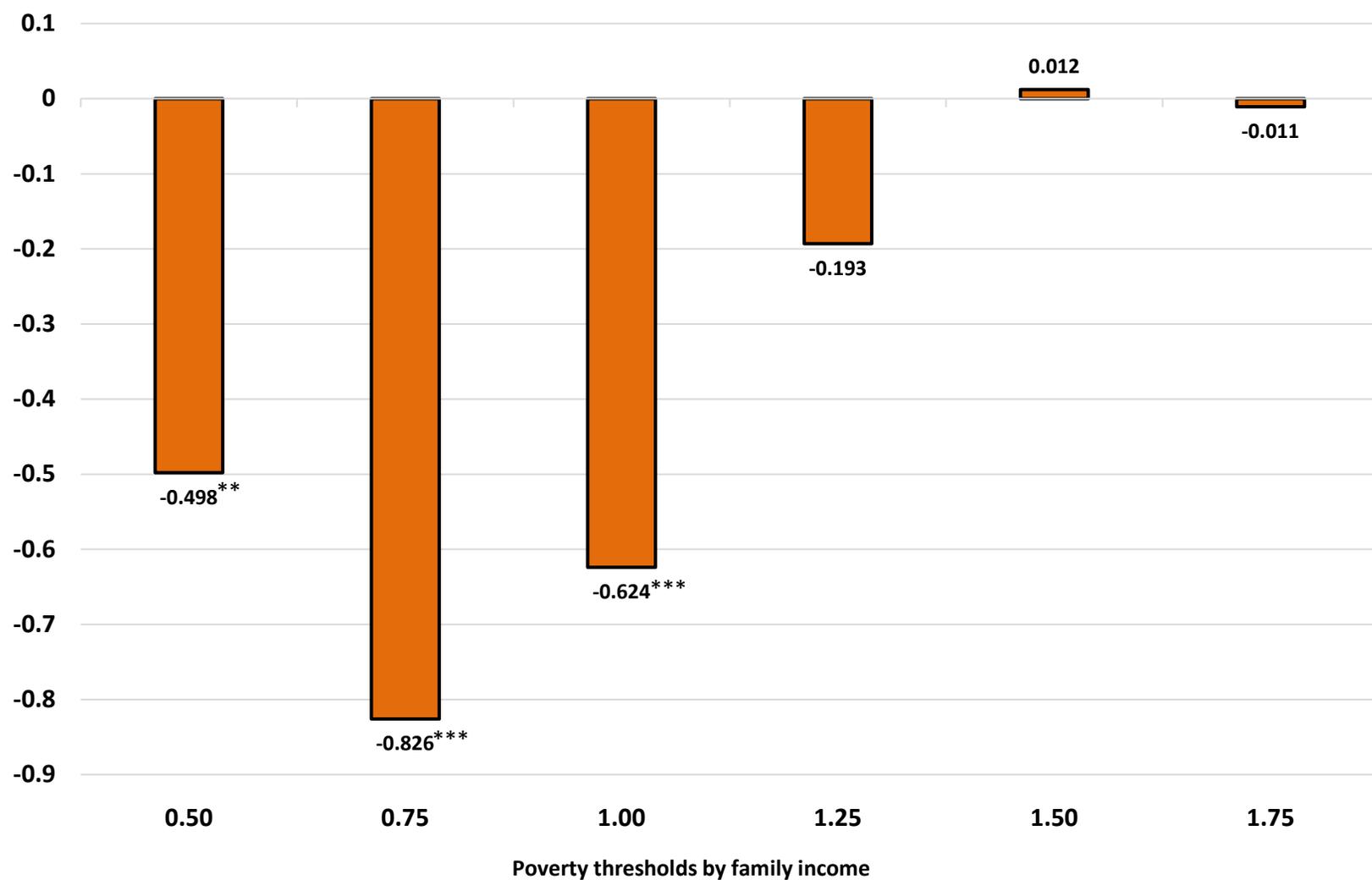
California's poverty rate and minimum wage (1980-2016)



Note: Minimum wages represent real wages (adjusted using the CPI-RS). Correlation coefficient is -0.16.

Source: U.S. Census Bureau.

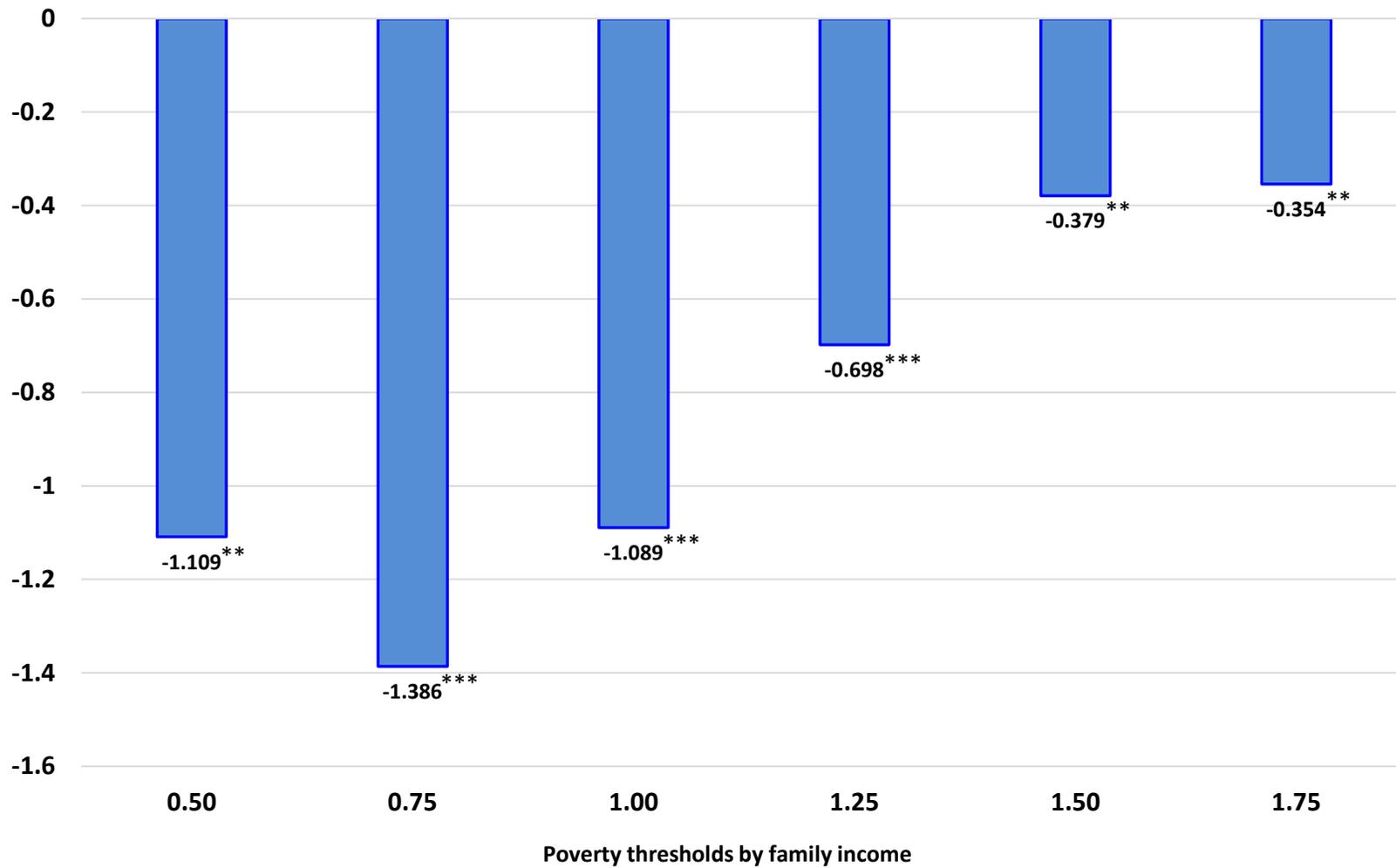
Minimum wage poverty elasticities



Note: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Source: Table 3 - Dube, Arindrajit. "Minimum Wages and the Distribution of Family Incomes." *IZA DP No. 10572*, February 2017. MW elasticities family income below multiples of federal poverty threshold (2 year lagged) estimates.

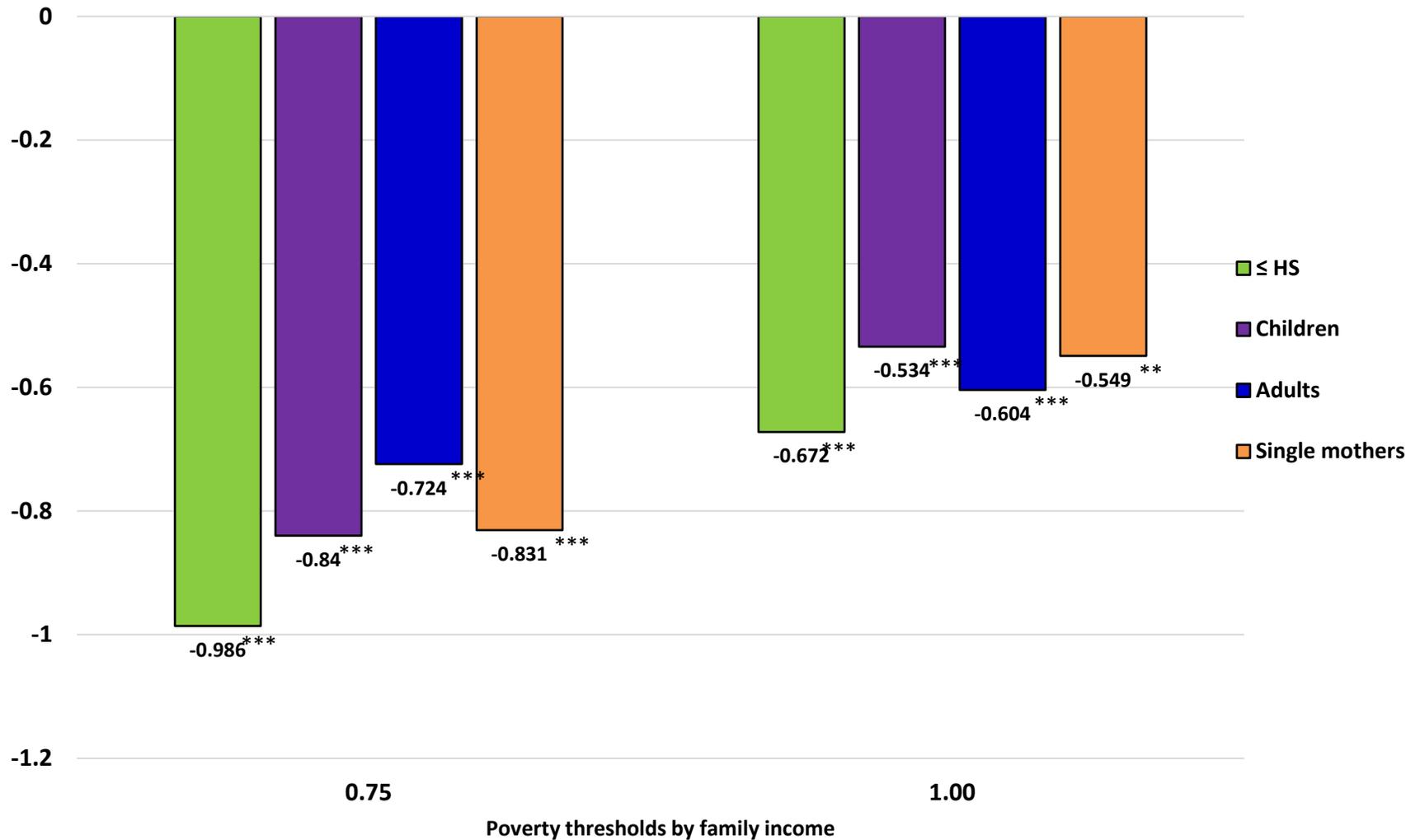
Minimum wage poverty elasticities, Blacks and Latinos



Note: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Source: Dube, Arindrajit. "Minimum Wages and the Distribution of Family Incomes." *IZA DP No. 10572*, February 2017, Table 6.

Minimum wage poverty elasticities by demographic subgroup



Note: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Source: Dube, Arindrajit. "Minimum Wages and the Distribution of Family Incomes." IZA DP No. 10572, February 2017, Table 6.

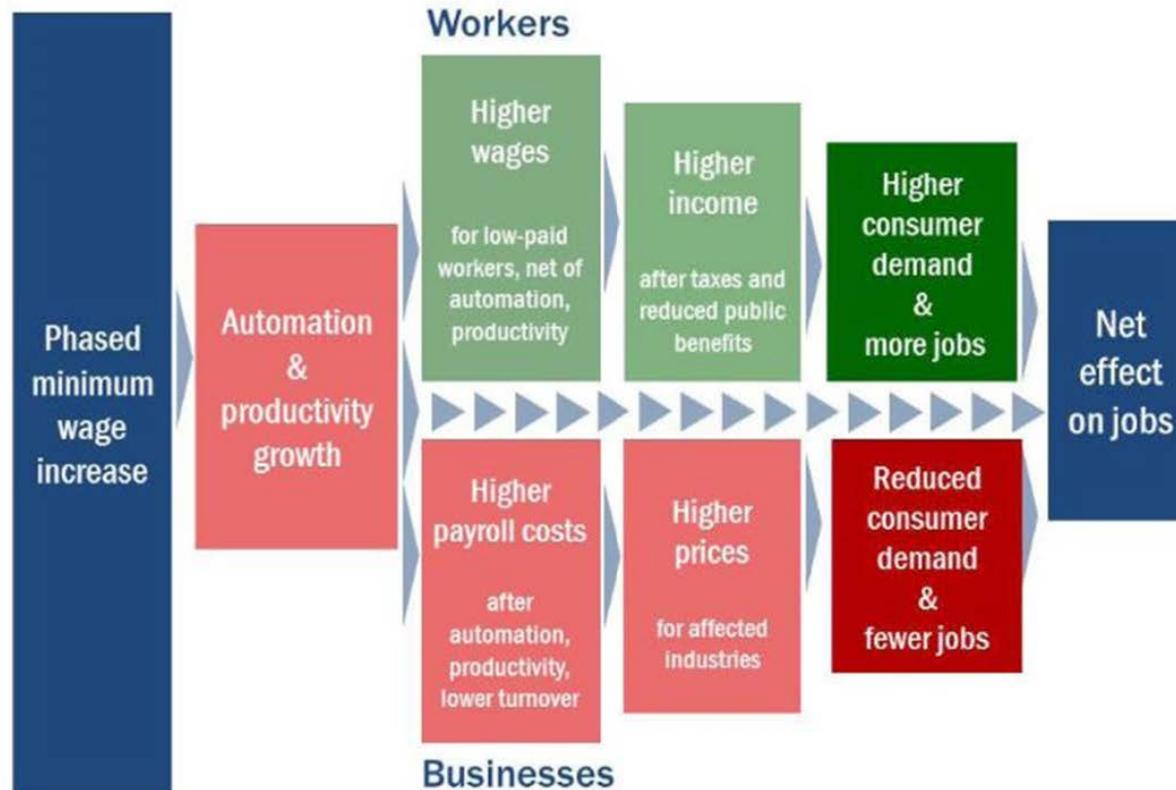
Dube's implications for U.S. \$12 MW

- 41% increase in the MW (accounting for state MWs)
- Decrease in the Federal non-elderly poverty rate by 2.45 ppt
 - Otherwise 6.6 million fewer individuals in poverty
- An increase in family incomes @ the 10th percentile
 - A \$2,540 increase on average
 - Accounting for off-setting transfer payments, etc.
- Effects of other policies on non-elderly poverty
 - EITC -1.7 ppt
 - Other transfers -3.8 ppt
 - Non-cash benefits -0.9 ppt

Con't: Dube's implications for U.S. \$12 MW

- In other words, a substantial increase in the MW would decrease the incidence of poverty
- Reducing the use of public assistance
 - savings could be used to shore up safety net
 - MWs and public subsidies are complements
- Caveats:
 - price effects +1% or so borne by middle & upper middle consumers
 - loss of benefits dampens the effect
 - By about 30% on average
 - Benefits outweigh costs!

UC Berkeley IRLE minimum wage model



Source: UC Berkeley IRLE Minimum Wage Research Group

CA \$15 MW: Effects on workers

- Increasing the minimum wage to \$15 would increase earnings for 5.26 million workers, or 38.0 percent of California's workforce.
- Among those getting raises, annual pay would increase 25.4 percent, or about \$3,900 (in 2015 dollars) on average.
- 96 percent of workers who would get increases are over 20; 58.2 percent are over 30.
- Latinos comprise 55 percent of workers getting increases.
- Workers who would get pay increases are less-educated than the overall workforce, but almost half (47.3 percent) have at least some college experience.
- Workers getting increases are disproportionately employed in part-time jobs and are less likely to have health insurance through their employer.
- Workers who would get pay increases earn close to half of their family's income.
- There are downstream benefits from the proposed wage increase, such as improved health outcomes for both workers and their children, and increases in children's school achievement and cognitive and behavioral outcomes.

Source: Reich, Michael, Sylvia A. Allegretto and Claire Montialoux. 2017 "Effects of a \$15 Minimum Wage in California and Fresno." Center on Wage and Employment Dynamic's Policy Brief. January. Accessed July 17, 2018: <http://irle.berkeley.edu/files/2017/Effects-of-a-15-Minimum-Wage-in-California-and-Fresno.pdf>

Effects on businesses and consumers

- Three industries account for almost 40 percent of the private sector workers who would be getting increases in California: retail trade (16.5 percent), restaurants (14.6 percent), and health services (8.2 percent).
- 79.2 percent of workers in the restaurant industry would receive a wage increase.
- Total wage costs would increase by 15.7 percent for restaurants and 2.8 percent across all employers.
- Employee turnover reduction, automation, and increases in worker productivity would offset some of these payroll cost increases.
- Businesses could absorb the remaining payroll cost increases by increasing prices by 0.6 percent through 2023. This price increase is well below the annual inflation rate of 1.8 percent over the past five years. Price increases in restaurants would be 5.1 percent.
- The consumers who would pay these increased prices range across the entire income distribution.

Net effect on employment in California

- Using past trends on population and employment, we project that state employment without the minimum wage increases will grow 1.40 percent annually between 2016 and 2023.
- Our estimate projects a very small increase in employment growth relative to what would occur without the minimum wage increase. This slightly higher job growth would add 13,980 more jobs by 2023, raising employment by 0.1 percent by 2023.
- Like all forecasts, our results may differ if other economic conditions change.
- A \$15 statewide minimum wage by 2023 would generate a significant increase in earnings for about 5.26 million workers in California while creating a small price increase borne by all consumers.
- How can such a major improvement in living standards occur without adverse employment effects? The answer is that minimum wage increases generate both negative and positive employment effects. A higher minimum wage induces some automation, as well as increased worker productivity and slightly higher prices; these are the negative effects. A minimum wage increase simultaneously reduces employee turnover, which reduces employers' costs, and it increases worker purchasing power, which stimulates consumer demand. These are the positive effects. As it turns out, these negative and positive effects on employment largely offset each other, in both California and in Fresno County.