



Minimum Wage Hike Is Poorly Targeted at the Poor

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This November, Missouri voters will vote on Proposition B, which would raise the state's minimum wage to \$6.50 per hour. Proponents of the ballot initiative claim that the wage hike is necessary to ensure that poor Missourians can make ends meet. What they don't mention is that most minimum wage workers are not poor, and that most poor workers don't make the minimum wage. Missouri consumers would pay for the wage hike through higher prices, and many of the benefits would go to middle-class teenagers. It would be far better to focus on targeted policies like expanding the Earned Income Tax Credit, which puts more money in the pockets of low-income workers at a far lower cost to Missouri consumers.

It is a common misperception that the minimum wage primarily affects poor workers struggling to raise families. According to the Census Bureau, only a quarter of Missouri workers making less than \$6.50 per hour live in households below the federal poverty line. Even fewer—about 11 percent—are in single-income households with children. In contrast, about 40 percent of the workers who would be affected by proposition B are still living with

their parents, and 29 percent live in households with incomes above four times the poverty line—about \$80,000 for a family of four. The average hourly wage of primary earners in households below the poverty line is more than \$9.50 – 47% higher than the proposed increase.

Increasing the minimum wage discourages employers from hiring low-skilled labor. For example, a fast food restaurant may find it profitable to employ several workers flipping burgers for \$5.15 an hour, but at \$6.50 per hour the restaurant may choose to invest in upgrading its equipment so it can make the same number of hamburgers with fewer workers. A car wash might not hire someone to dry off cars after they've been washed, or a retail store might not hire an extra employee to answer the phone.

Firms that adjust their business plans to reduce their labor costs are likely to let go of their least-skilled workers first. They may let go of adult workers with poor literacy and math skills—such as recent immigrants or single mothers struggling to get off welfare—in favor of middle-class teenagers with higher levels of education. Hence, the workers who will bear the brunt of the job losses are likely to be the workers who can least afford to lose their jobs.

And the job losses would be significant. In a recent study for the Show-Me Institute, economists report that Proposition B will destroy 18,500 jobs and impose \$339 million in additional costs on Missouri businesses. These effects will be particularly severe for Missouri because 60 percent of the state's population lives in the Saint Louis or Kansas City metropolitan areas, both of which straddle borders with neighboring states. A higher minimum wage will discourage entrepreneurs from starting or expanding business on the Missouri side of the border with cheaper labor just a few miles down the road.

Luckily, there are far more effective and efficient ways to help the poor. The ideal anti-poverty program should focus resources directly on those who need the help—working families supporting children. With a higher minimum wage, businesses are forced to give raises to several middle-class teenagers for every single mother who gets a raise. Instead, Missouri should join the 14 states (including four of Missouri's neighbors) that supplement the federal Earned Income Tax Credit. The EITC is targeted at raising the incomes of poor workers supporting children. Teenagers living with parents and workers with wealthier spouses are not eligible.

Raising the minimum wage has a lot of intuitive appeal. But it's important to make policy that's smart as well as compassionate. Proposition B is the shotgun of anti-poverty programs; it would do little to lift poor workers out of poverty, but it would do a lot of damage to Missouri's economy. Missouri deserves better. Targeted anti-poverty programs like the EITC will be far more effective than the scattershot approach of raising the minimum wage.

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