

Raising Albuquerque's Minimum Wage:

**A Misguided Anti-Poverty Measure at Best, A Cruel
Impediment to Work at Worst**

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Introduction

The AFL-CIO sponsored group Working America has turned in petitions to increase Albuquerque's mandated minimum wage from the current \$7.50 an hour to \$8.50, indexing the wage to rise with inflation in the years to follow.¹ Soon, we will find out whether voters will be asked to decide whether to increase the wage or not.

Currently, New Mexico's mandated minimum wage is \$7.50 an hour, 25 cents above the federally-mandated wage of \$7.25.² Neither wage is indexed to inflation; rather, legislative action must be undertaken to increase the wage either in the Legislature or Congress. The federal rate has been in place since July of 2009 while New Mexico's rate has been \$7.50 since January of 2009.

Supporters will undoubtedly argue – as they have in the past – that such a measure is necessary to reduce poverty, observing that a family would have difficulty affording rent, child care, and other necessities on just the minimum wage. Supporting a family on a single minimum wage would indeed be a challenge, but as the analysis that follows points out, this is not the common situation for most minimum wage earners. Nor is it assured that current minimum wage earners will see a dollar increase in their hourly wage rather than being laid off by an employer unwilling or unable to pay the extra wage in a down economy.

Despite the popularity of minimum wage increases with policymakers, past studies have found a weak association between a higher minimum wage and reductions in poverty.³

Why wouldn't a government-mandated increase in Albuquerque's minimum wage reduce poverty? There are several reasons:

- For starters, economically-speaking, the optimal outcome for a society is to employ every worker possible in order to generate the largest "pie" of economic goods and to use government policy to redistribute a portion of that wealth to those with the lowest incomes. A minimum wage increase by its nature will reduce total economic output;
- Research suggests low-skilled workers might see their jobs eliminated or at least hiring rates reduced for their population if the government mandates a higher wage
- Losing a minimum wage job in and of itself may be a mild setback for low-skilled workers, but the long-term impacts of losing a job may hinder individuals in their efforts to develop the work ethic, experience and job skills necessary to increase their worth to potential employers. Research suggests that a job helps teenagers learn job skills and earn more in later years. A National Bureau of Economic Research study from 1995 found that high

¹ *Albuquerque Journal*, "Wage Increase Backers Seek Ballot Measure," June 20, 2012,

<http://www.abqjournal.com/main/2012/06/20/news/wage-increase-backers-seek-ballot-measure.html>

² US Department of Labor Wage and Hour Division, "Minimum Wage Laws in the States - January 1, 2012,"

<http://www.dol.gov/whd/minwage/america.htm>.

³ Joseph J. Sabia and Richard V. Burkhauser, "Minimum Wages and Poverty: Will a \$9.50 Federal Minimum Wage Really Help the Working Poor?," *Southern Economic Journal*, January 2010, Vol. 76, No. 3, pp. 592-623.

school seniors employed 20 hours per week were, six to nine years later, expected to earn approximately 11 percent more annually than their unemployed peers.⁴;

- Even if we assume that a minimum wage increase will raise wages, a majority of people below the poverty line don't work. By definition they cannot benefit from an increase in the mandated minimum wage⁵;
- Lastly, the majority of workers who earn the minimum wage are not in poverty.⁶ Rather, they are often young workers who happen to be from families with relatively high income levels or at least their family units are not reliant on the minimum wage salary.

The analysis below uses Census Bureau data to show that an increase in Albuquerque's minimum wage is unlikely to reduce poverty in the city and may have a net-negative impact on the overall economy and the lives of those low-income workers.

Age of Albuquerque Workers Affected

Supporters of a minimum wage increase claim that the vast majority (82 percent) of minimum wage employees in Albuquerque are adults.⁷ The reality is, according to data from the Census Bureau, that less than half of all minimum wage workers are in what might be called their "prime working years." As illustrated in Table 1 below, approximately half of all affected employees are in the 26-65 age range. Rather, large numbers of minimum wage workers are just getting started in the workforce while a small number are older workers and retirees who may enjoy keeping a low-wage job for the social aspects or for spending money.

Table 1.

Age and Percent of Workforce of Affected ABQ Workers	
Age	Percent
21 or Less	26.1%
22-25	18.3%
26-50	45.4%
51-65	6.8%
>65	3.5%
Total	100%

As the table above notes, over one-quarter of beneficiaries are age 21 or under. Many of these workers are just getting started in the work force and are still building the skills necessary to hold

⁴ Meredith Bennett-Smith, "Unemployment Rate: Recovery Leaves Teens Behind," *Christian Science Monitor*, April 6, 2012, <http://www.csmonitor.com/Business/new-economy/2012/0406/Unemployment-rate-Recovery-leaves-teens-behind>.

⁵ US Census Bureau, "Income, Poverty, and Health Insurance Coverage in the United States 2010," September 2011, <http://www.census.gov/prod/2011pubs/p60-239.pdf>.

⁶ *Ibid.*

⁷ New Mexico Voices for Children, "Indexing the State Minimum Wage to Inflation," February 2012, <http://www.nmvoices.org/wp-content/uploads/2012/02/min-wage-indexing-2-10-12.pdf>.

down a full-time job. An increased minimum wage would both kick out the lower rungs on the employment ladder and be poorly focused on those workers that actually need additional pay.

Family Status of Workforce Affected in Albuquerque

It is hard to categorize the “typical” minimum wage worker. The typical “beneficiary” of a minimum wage increase is frequently portrayed as a single parent with kids. Numerically, however, this group is not the primary group impacted by such a wage increase. In Albuquerque, less than ten percent of the affected employees are unmarried single parents raising children on their own. In contrast, nearly 40 percent of minimum wage workers are living at home with family or relatives, such as teens living with parents, and approximately 17 percent have a spouse that works. Tables 2 and 3 provide additional detail.

Table 2.

Non-Breadwinner Minimum Wage Families	Percent
Living With Parent(s)	31.2
Married Dual Earner	17.0
Living w/ Other Relative in Primary Family	3.7
Living w/ Subfamily Member	5.0
Total	56.9%

Table 3.

Breadwinner Minimum Wage Families⁸	Percent
Married Sole Earner	10.1
Single Male/Female	23.5
Single Mother/Father	9.6
Total	43.2%

Family Income for Affected Employees in Albuquerque

As discussed above, the vast majority of employees impacted by an \$8.50 minimum wage in Albuquerque are not single parents supporting children. As a result, the family income of a typical beneficiary of an increase in the city’s minimum wage is far higher than \$15,080, the projected yearly income for a full-time minimum wage employee. Rather, the average family income of an employee affected by the proposed wage increase is above \$55,000 a year.

Table 4.

Mean/Median Family Incomes of Affected ABQ Workers	
Median	\$43,579
Mean (average)	\$55,139

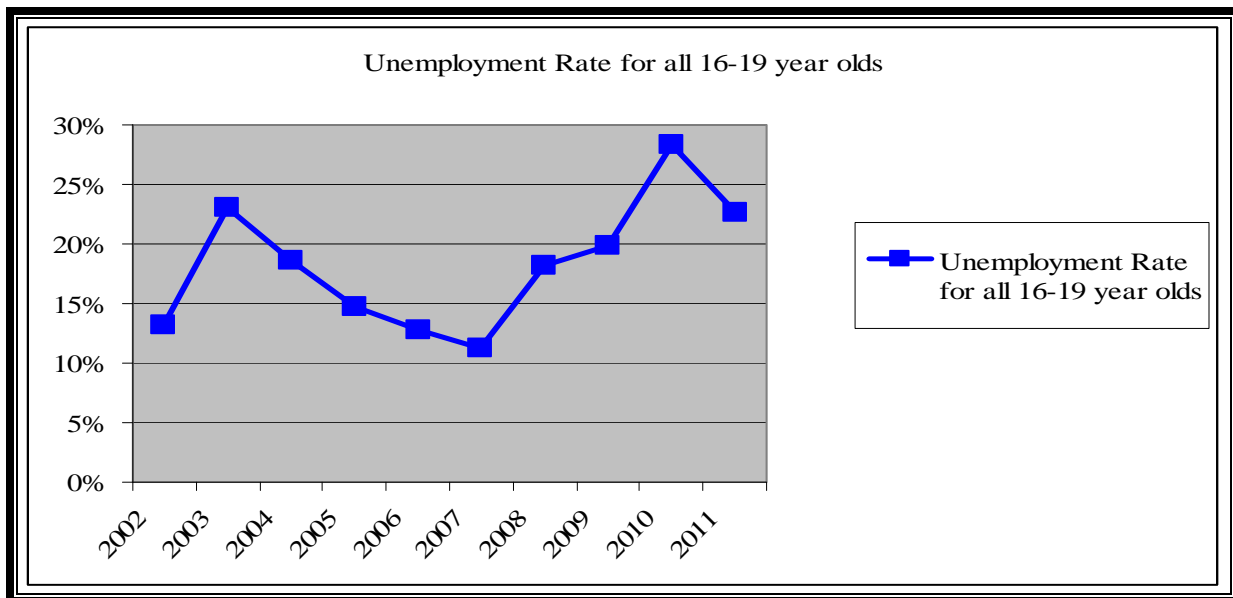
⁸ It’s worth noting that even these families are not living on the minimum wage alone. The federal “Earned Income Tax Credit” (EITC) and New Mexico’s supplement to the EITC provide additional income for single parents.

Employment and the Minimum Wage

As the chart below illustrates, New Mexico's teen unemployment rate is currently 22.6 percent – up dramatically from 13.2 percent in 2002. Although the rate is down from a high of 28.3 percent in 2010, additional increases in labor costs could drive this rate higher than its current, elevated rate.

Simply put, raising the mandated wage could result in increased teen unemployment. As economists David Neumark and William Wascher wrote in a 2008 book summarizing studies on the minimum wage, the “preponderance of evidence” backs up the economic intuition that mandating higher wages for less-experienced employees causes some loss of hours or jobs. In Albuquerque, even a modest employment loss of one percent for each 10 percent increase in the minimum wage would mean that 217 fewer people would be employed.

Chart 1.



Conclusion

The road to hell is often paved with good intentions. Rather than making it more difficult for young and unskilled workers to gain employment, their advocates, including those behind the Albuquerque minimum wage increase, should focus their attention elsewhere.

Rather than making the hiring of young people more difficult, policymakers might want to consider reducing the mandated minimum wage to the federal baseline until unemployment rates return to historical norms.

New Mexico policymakers should focus on policies that work, not those that feel good, but may have negative impacts on those caught up in unwise policy decisions.