

The Minimum Wage and Means-Tested Benefits: Raising the Wage and Raising the Threshold

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Abstract

This article argues that in the current and ongoing political battle to raise the minimum wage, we must account for the impacts on means-tested benefits. Beginning with a look at how raising the federal minimum wage to \$15/hour would improve the financial conditions for people whose income falls at the poverty line, it tackles the arguments against raising the minimum wage and explores means-tested benefits by looking at marginal tax rates and income thresholds. It further engages concerns that raising the minimum wage will negatively impact employment by discussing the Work Opportunity Tax Credit. This article is not an exhaustive analysis of the fight to raise the minimum wage, but it paints a picture of where the movement is headed and what we need to keep in mind on the way there.

The “fight for 15” movement goes back to sometime around 2012, emerging on the heels of the 2008 financial crisis, Occupy Wall Street, and the kind of attention to inequality that was new. The Raise the Wage Act passed the House in 2019 but died in the Republican-dominated Senate. With the inauguration of Democratic President Joe Biden and greater Democratic control over the Senate, the promise of this legislation becoming law has increased. There has been continued buy-in from liberals and moderates alike, and a global pandemic presenting even more oppressive challenges for low-wage

workers, and thus the push to raise the federal minimum wage continues. The Raise the Wage Act was reintroduced in Congress early in 2021. Though there is still skepticism among Republicans in the Senate, Joe Biden, House Speaker Nancy Pelosi and Senate Majority Leader Chuck Schumer have all shown support for the bill. The Raise the Wage Act 2021 proposes, again, a gradual increase in the minimum wage to \$15/hour by 2025 and an end to pay below the minimum wage for tipped workers (Pramuk, 2021).

It is commonly accepted that the federal minimum wage of \$7.25/hour is not enough for anybody to live on, yet it has not been raised since 2009—marking the longest span the country has gone without an adjustment. While wages have generally not kept pace with inflation over time, this is particularly true for minimum wage workers (Nightingale, 2018, p. 2). In “\$2.00 A Day” Edin and Shaefer (2018) describe a woman named Jennifer, who works a minimum wage job every day of the year without a single day off to be with her family, just above the poverty line (p. 42). Because almost 60 percent of poor households include at least one employed person, a higher minimum wage is considered to have strong antipoverty promise (Romich & Heather, 2018, p. 1).

Specifically, raising the minimum wage is thought to have positive racial and gender equity implications. An Economic Policy Institute report by David Cooper found that “35.6 percent of women of color would receive a raise, along with 27.9 percent of men of color” (2019). This is notable as the United States continues to reckon with racial inequity and violence. Cooper’s report also found that “the Raise the Wage Act would disproportionately help workers in poverty or near the poverty line” because “nearly half (46.7 percent) of all workers who would be affected by raising the minimum wage to \$15 by 2024 have total family incomes within 200 percent of the poverty line,” demonstrating that raising the minimum wage would directly affect the working poor who have long been oppressed by stagnant wages.

However, income interacts with means-tested benefits, meaning that raising wages alone may cause many poor families to actually end up with less money in their pockets. This is due to programs, such as the Supplemental Nutrition Assistance Program (SNAP), the Earned Income Tax Credit (EITC), housing, childcare and healthcare subsidies, all which have income-threshold eligibility. Romich and Hill speak to this when they explain marginal tax rates (MTRs), as the combination of payroll and income tax rates as well as the implicit tax rates associated with means-tested benefits. They say that implicit MTRs are the result of how earnings interact with means-tested income supports and eligibility rules (2018, p. 32). They argue that if the minimum wage were to reduce the official poverty rates by itself, the policy would have to increase wages much more than \$15/hour due to these interactions.

We cannot have families losing access to these income supports and public benefits. Still, it is imperative that we pay hard-working earners in low wage working environments a dignified wage as one way of addressing inequality. Romich and Hill's study (2018) illustrates the necessity of increasing both the minimum wage and major income support programs like SNAP and EITC. Their findings show that "the combination of a higher minimum wage with the two major income support programs (EITC and SNAP) is what successfully raises family resources above the poverty line" (pp. 30-32). However, "the MTRs for full-time workers increase to as much as 60 percent for those moving to the \$12 and \$15 level," indicating a need to counteract this interaction (p. 32). Their work demonstrates that we can increase the minimum wage without a negative effect on families receiving means-tested benefits through a \$12/hour minimum wage and targeted public investments. More importantly, they prove that while it's necessary to increase the wage to \$15/hour, we also need to take into consideration the income thresholds that impact many of these families.

One approach is to adjust the income threshold at which families begin to phase out of programs, such as SNAP and the EITC, which

would in turn lower the implicit marginal tax rates for these families (Romich & Hill, 2018, p. 36). The time to advocate for such changes is now. The recent American Rescue Plan, Biden's coronavirus relief bill, includes adjustments to tax credit programs such as the EITC and the Child Tax Credit (CTC). This bill significantly increases benefits for those eligible, in addition to expanding eligibility. Firstly, the bill nearly triples the maximum benefits for childless workers. Additionally, "it expands the eligible age range, allowing for younger and older workers to claim the credit" (Hendricks & Roque, 2021). Hendricks and Roque (2021) say that "taken together, these important reforms would expand access for more than 17 million adults who are largely excluded from receiving the credit." This new bill is exciting progress in benefits available to those near the poverty line and imperative context to consider as the fight to raise the minimum wage continues.

A common argument that Republicans have championed is that raising the minimum wage will decrease available jobs. This argument believes that higher personnel costs for businesses will mean fewer positions available. However, this argument loses validity when thinking about larger businesses and corporations, as there is plenty of room to dip into profit margins. In the context of smaller businesses, nonprofits, and public organizations, there is some discussion about how to support the move to higher wages. Romich and Hill argue for a Work Opportunity Tax Credit that would offer "temporary subsidies to employers of low-wage workers to support their absorption of higher personnel costs in the transition period" (2018, p. 35). This is certainly one approach to incentivize businesses in support of greater quality of life for the working poor in our country.

More glaringly, however, is the literature that demonstrates how there is no evidence that raising the minimum wage negatively impacts employment. Cooper (2019) quotes a study done by Wolfson and Belman in 2016 saying "no support for the proposition that the minimum wage has had an important effect on U.S. employment." This meta-analysis included 739 estimated effects from 37 published studies on the minimum wage and employment between 2000 and

2015, demonstrating that the concern for increased unemployment is not based in evidence.

A higher minimum wage, \$15/hour cannot by itself decrease the poverty rate, but it is one step toward addressing our country's neglect of low-wage workers. While there is validity in the fear that raising the minimum wage could negatively affect the working poor, through the impact a higher income would have on their means-tested benefits, using this fear as a justification for not pushing toward a higher minimum wage would be in service of systematic inequality. What is necessary is to push for an increased minimum wage and reduced marginal tax rates for low-wage workers. A higher minimum wage is not the end of economic oppression, but it is critical for moving workers toward a more livable income.

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