The danger in these minimum-wage debates is that opponents tend to quickly hunker down behind the analysis or literature that supports them and lob grenades at the other team’s regressions. As shown below, some of that is inevitable, but regarding employment impacts of minimum-wage increases, this unfortunate tendency can perhaps be avoided, as the strong consensus is that the elasticity hovers about zero, with high-quality studies deriving significant estimates on both sides of zero. The relevant conclusion in this context—the policy’s targeting attributes—is that both sides agree that many more low-wage workers benefit from the increase than are hurt by it.

For example, the recent highly touted Congressional Budget Office (CBO, 2014) estimate of the impact of the proposed increase to $10.10 (and then indexed to inflation) finds that 24.5 million workers would get a raise from the proposed increase, 16.5 million directly and eight million indirectly, while employment would fall by 500,000, implying that 49 low-wage workers get a pay boost from the proposal for every one job lost.

Less research has been done on targeting, and as we argued in round one, target efficiency is a complex and potentially misleading benchmark for evaluating the minimum wage. To focus on its antipoverty impact, as does Sabia, is to both choose an arbitrary line-in-the-sand and miss the policy’s utility for nonpoor, working families who still need the extra money. Even more importantly, our support for moderate increases in the wage floor is based on its necessity as a labor standard, analogous to those that prohibit child labor, pay overtime, enforce correct worker classification, enforce safety regulations, and so on.

That said, a careful read of the literature, including CBO’s (2014) findings, leads us to disagree with Sabia’s conclusion that “policymakers wishing to fight poverty should turn away from failed and antiquated policies like the minimum wage . . .” CBO (2014) predicts that 900,000 persons would be lifted out of poverty by the proposal to raise and index the federal minimum to $10.10. Recent work by Arindrajit Dube (2013), highlighted in our opening statement, implies larger effects: around 2.3 million lifted out of poverty. Either way, it is a mistake to write these results off as evidence of “failure.”

Moreover, CBO (2014) finds that the real earnings of low-wage workers would increase by $31 billion as a result of the proposal, with 20 percent of the likely beneficiaries residing in families with incomes below poverty, 68 percent in families with incomes below three times the poverty threshold, and 91 percent in families with incomes below six times the poverty threshold. (For reference, the poverty threshold for a family of three in 2013 was roughly $18,550, so three and six times the poverty rate for a family of three was around $55,660 and $111,310, respectively.)

These distributional results are considerably more progressive than those in Sabia’s Table 2. For example, while CBO finds that 20 percent and 68 percent of affected workers are in families earning below one and three times the poverty line,
respectively, Sabia finds that only 11 percent and 59 percent earn below one and three times the poverty line.\footnote{Sabia counts those earning less than $11.00 an hour in 2012, while CBO (2014) counts those projected to earn less than $11.50 an hour in the second half of 2016. Given CBO’s inflation projections, $11.00 in 2012 will be worth around $11.90 in the second half of 2016.}

Our own analysis as to where low-wage workers locate on the income scale takes a related but different approach that we think yields a useful insight about targeting. The bars on the left show shares of total wages going to each household income group. The other bars show where the benefits of the minimum-wage increase end up. In other words, while 5 percent of total wages accrues to the households with incomes under $20,000 (not all of whom are officially poor, we hasten to add, but all of whom arguably could use the raise), 26 percent of the benefits of the proposed wage increase go to this group. Households with incomes below $40,000 claim 18 percent of all wages, but 55 percent of the gains from the increase in the minimum wage. On the other end of the income scale, households with incomes about $100,000 get 41 percent of wages but just 11 percent of the gains from the higher minimum.

These results, along with CBO’s (2014), lead us to conclude that most of the increase reaches low-wage workers in low-to-moderate-income households who need the extra money. Finally, and with the known risk of “he-said, she said,” we turn to the literature on poverty and the minimum wage. The consensus is that minimum wages are slightly poverty-reducing: most estimated elasticities of changes in the minimum wage with respect to changes in the poverty rate are negative, though some are statistically insignificant. In his recent review of this literature, Dube (2013) finds that across 12 studies, 48 of 54 elasticities are negative, with an “average of averages” of the poverty rate elasticities of $-0.15$. Dube’s (2013) own work finds a minimum-wage elasticity of the poverty rate of $-0.24$. In round one, we cited this work extensively, while Sabia strongly critiqued it, so we address his criticisms here. In particular, Sabia critiques Dube’s approach of including a rich set of controls to deal with state-level time-varying heterogeneity, claiming that it may be eliminating potentially valid sources of identifying information.
First, it is important to note that the controls Dube uses—census division-specific year effects, state-specific linear time trends, and state-specific recession controls—are not unusual and are instead a well-integrated part of the applied microeconomics toolkit. Furthermore, Dube shows that models that do not include these controls fail important falsification tests. In particular, he finds that the canonical model—a two-way (state and time) fixed-effects regression (Sabia’s equation [1])—suggests that increases in the minimum wage (1) reduce family income near the median, which is implausible (while some minimum wage earners live in the middle-income families, their contribution to family income is very small), and (2) increase the share living in deep poverty before the increase occurs, which is also implausible. The fact that the canonical model fails both of these falsification tests suggests that the canonical model suffers from omitted variable bias, and lends support to the importance of carefully controlling for state-specific time-varying heterogeneity in minimum wage variation. Finally, it is important to note that Dube (2013) finds that including a rich set of controls for spatial heterogeneity increases the significance of the effects of the minimum wage variable relative to the canonical model, inconsistent with the idea that including the spatial controls eliminates too much identifying variation to be informative.

Finally, it is worth noting that in Sabia’s estimates of the impact of increases in the minimum wage on poverty, he only looks at the impact on people aged 16 to 64, that is, he leaves out children. We find that if the minimum wage were increased to $10.10, 18.7 percent of all children (under age 18) would see at least one parent get a raise, and Dube (2013) finds much stronger effects of minimum-wage increases on reducing poverty among children than adults. In his own work, Sabia finds the strongest evidence of consistently negative poverty elasticities when examining the effect of minimum-wage increases on single female heads of household with children under age 18, but makes the arguably strange choice to exclude the children of these women in his investigation of whether increases in the minimum wage reduce poverty. By excluding kids under age 16 from his estimates, Sabia is missing a crucial group that stands to gain from increases in the minimum wage—poor children.

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2 In round one, Sabia claims that the results of these tests suggest that minimum wages are enacted anticyclically, which he disputes. Allegretto et al. (2013) show that minimum-wage increases occur more frequently during the second half of economic expansions, preceding an economic downturn, and further, states with higher minimum wages have tended to experience sharper business cycle fluctuations. Both of these findings underscore the importance of controlling for state-specific time-varying heterogeneity.