

# **Title: Poverty and the Minimum Wage: An old debate revisited with updated literature**

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## **ABSTRACT**

The introduction remembers the current poverty and inequality patterns in the international economy and the reversal of the universal Welfare system to a poverty-to-work targeted policy to bring poor people to the labour market. It is also mentioned that minimum wage legislation is a part of this set of policies, but it faces strong opposition from the economist profession. This was not always the case, not only in the US, but also in other countries of the world, today and in the past. Lately, empirical evidence split academic views on the subject.

The other section examines the concept of poverty in its origins, development and empirical difficulties. Poverty lines, absolute versus relative definitions, relations between poverty and inequality, personal responsibilities and social constraints to determine who is and who is not poor are surveyed. The main idea is to show that poverty and the policies to overcome it are socially constructed and reflect societies choices more than are consequences of any type of maximizing behaviour.

In the third section some results of anti-poverty policies, especially the shifts in the 1990s, in the US and UK, are analysed. Also the debate on growth/poverty-reduction is reviewed to pinpoint that specific policies are necessary to fight poverty.

This narrows down to the minimum wage policy in the fourth section. More than fifty years of debates have not reached a definitive conclusion on the effectiveness and efficiency of the policy in the combat to poverty. Who is the minimum wage earner, impacts on youth employment, on the distribution of wages, technical problem, methodological matters and the oretical requirements are dealt with to conclude that most of the literature is inconclusive.

The questions remain the same: Does minimum wage reduce poverty? Are there alternatives more efficient? As there are no satisfactory answers, either from the analysis of demand side of the labour market or from the labour supply adjustments, the last section attempts to outline an empirical approach to measure the minimum wage impact on specific poverty and inequality measures, without specification of behavioural equations. The indices must be decomposable, to allow to the identification of the contribution of each important characteristic to the overall movement of families from below the poverty line or from the bottom of the income distribution.

The paper is part of a larger research on the impacts of the minimum wage on the low-paid markets and household economy adjustments. It will be followed by another paper with a detailed definition of poverty and inequalities measurement issues and by an empirical application to micro data from Labour Force surveys from the US, UK and other OECD countries with statutory minimum wage.