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Minimum Wages and Homelessness

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Minimum wages are a common policy aimed at increasing the living standards of low-wage workers. In 2014, Ed Murray, who was then the mayor of Seattle, wrote in *USA Today* that a city ordinance that initiated a graduated increase in the minimum wage from $9.32 to $15.00 per hour would "lift tens of thousands of families out of poverty and make Seattle more equitable and affordable for all who live here." Economists, however, are less certain that higher minimum wages reduce poverty or increase equity and affordability, and some economists suggest effects in the opposite direction.

A multidecade debate has produced mixed evidence. Some studies suggest that minimum wages harm employment, and others suggest that they do not. My research finds that minimum wages have at least one negative consequence: increasing homelessness in American cities. Cities such as Seattle, New York, and Oakland, California, increased their minimum wages by some of the largest dollar amounts in the nation and saw some of the largest increases in homeless populations during the 2010s.

My analysis shows that this pattern exists across dozens of American cities: the more a city increased the minimum wage, the more the homeless population in that city tended to increase compared with cities that did not raise the minimum wage.

Minimum wages might cause homelessness because of the type of individual whose wages are most likely at risk with a wage floor. If minimum wages cause job losses, it is most likely among lesser-skilled workers whose labor costs more than the revenue it brings to potential employers. Workers with fewer skills often also have other individual features that make them more likely to suffer economic and housing insecurity. They might have limited education, have poor access to transportation, have difficult family circumstances, or struggle with drug addiction or mental illness; these are each risk factors of homelessness.

Thus, the negative consequences of minimum wages might fall disproportionately on those already struggling. These negative consequences could take several forms. Lesser-skilled workers could lose employment, retain employment but see hours or benefits reduced, or have others in their support network experience employment

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disruptions. Moreover, lesser-skilled workers could face higher prices in goods and services, such as food or housing. If higher minimum wages increase demand for low-priced housing, then some low-wage individuals or families might be priced out of the housing market and forced into homeless shelters, transitional housing, or the streets.

The labor market effects of the minimum wage need not be large to have an economically important effect on homelessness. Even in the cities with the largest homeless populations, the size of the homeless population is small relative to the total local population with housing and economic insecurity. Disruptions induced by a minimum wage increase that affect only a small number of people can cause meaningful increases in homelessness even if many other workers benefit from increases in the minimum wage.

Of course, it is also possible that firms in some less-competitive labor markets are able to pay wages below what they would pay in a more competitive market. In this case, an increase in the minimum wage would not harm workers and could increase employment and wages. Without disemployment, other labor market disruptions, or changes in prices, increases in minimum wages may not increase homeless populations. Increased employment might even decrease homelessness if lesser-skilled workers are drawn into the labor force.

My research studies minimum wages across 204 American municipalities from 2006 to 2019 to estimate the effect of minimum wages on American homeless populations. Some cities and states raised minimum wages during the decade, with some large increases of over 100 percent, while others kept their minimums the same as the federal level, which has been $7.25 per hour since July 2009. Homeless counts come from the US Department of Housing and Urban Development, and the timing and magnitude of increases vary considerably across localities.

Municipalities that increased minimum wages by up to $1 per hour from 2013 to 2015 saw an average increase of 15 percent in homeless counts in 2014–2019 relative to municipalities with no nominal change in the minimum wage (real decline) or with changes pegged to inflation. Municipalities that increased minimum wages by more than $1 per hour from 2013 to 2015 saw an average increase of 25 percent in homeless counts in 2014–2019 relative to municipalities with no change. Furthermore, my research finds that the increase in homeless counts grows as time passes.

An alternative statistical technique finds that when cities raise their minimum wage by 10 percent, relative homeless counts increase by 3–4 percent. Both results hold after accounting for changes in local income, local population, and local rental housing prices.

Disemployment of lesser-skilled workers can exacerbate their existing economic insecurity and lessen their ability to pay for housing. Disemployment could occur through lost jobs, lost hours, or jobs not created, and lost wages might be compounded by lost earned-income tax credit or other lost wage-related income support. Even if employers do not cut total employment, minimum wages may induce churn in the labor market. Relatively higher-skilled workers may enter the labor force at the higher minimum and displace those with fewer skills. Residents previously out of the labor force may enter to capture the higher minimum wage, or workers from other places might migrate for the higher wage.

My research reveals that increases in the minimum wage decrease employment among lesser-skilled workers and increase the cost of local rental housing. My research does not find, however, evidence of in-migration by lesser-skilled workers attracted by the higher minimum wage. If anything, the higher minimum wage appears to cause out-migration among lesser-skilled residents, which seems likely to mitigate rather than exacerbate housing insecurity.

I do not argue that minimum wages are the only cause of homelessness. But the relationship between the two remains even with my effort to account for other factors, including rental housing prices, income growth, employment dynamics, and progressive local politics.

These results may help resolve a puzzling pattern. While homelessness declined in most American cities from the end of the Great Recession to the COVID-19 pandemic, homelessness surged in a small number of cities, including New York, Seattle, Los Angeles, and San Francisco. Minimum wages increased in these cities by 110, 98, 71, and 63 percent, respectively, from 2006 to 2019. The evidence suggests that these increases could have been an important factor driving increases in homelessness.

NOTE

This research brief is based on Seth J. Hill, "Minimum Wages and Homelessness," OSF Preprints, October 2023.