The Minimum Wage

By David Cooper, Senior Economic Analyst, Economic Policy Institute

The Federal Minimum Wage: $7.25 (effective July 24, 2009)

STATE MINIMUM WAGES FOR 2020

State minimum wages range from $5.15 in Wyoming and Georgia (where the federal minimum wage applies) to $13.50 in Washington state. Five states (Alabama, Louisiana, Mississippi, South Carolina, and Tennessee) have no state minimum wage; the federal minimum wage applies in these states. The District of Columbia has a minimum wage of $14.00 that will increase to $15.00 on July 1, 2020.

Since 2017, two dozen states and the District of Columbia have passed minimum wage increases, many of which will continue to gradually take effect in the coming years. In some cases, the increases were established by legislation, such as in California, Connecticut, Illinois, New Jersey, Maryland, Massachusetts, New York, and the District of Columbia, where the statewide minimum wage will reach $15.00 per hour. In other cases, the increases were passed directly by voters through ballot referenda, as was the case in Arkansas (where the minimum wage will be $11.00 in 2021) and Missouri (where the minimum wage will be $12.00 in 2023).

In New York and Oregon, the state minimum wage law establishes separate wage floors for different regions of the states. In New York City, the minimum wage rose to $15 in 2019 and in Nassau, Suffolk, and Westchester counties the minimum wage will be $13.00 in 2020. Upstate New York will have a minimum wage of $11.80. In the urban area encompassing Portland, Oregon, the minimum wage will be $13.25 in 2020, while other groups of counties in the state will have minimum wages of $11.50 and $12.00.

As of January 2020, some 51 cities and counties adopted minimum wages ordinances that established wage floors above their state minimum wages. However, in Alabama, Kentucky, Missouri, and Iowa, minimum wage ordinances that were passed at the local level were subsequently reversed by the state legislature. There are now 25 states that have enacted "preemption" laws prohibiting local government from establishing a minimum wage that differs from the state minimum. Notably, in 2019, the Colorado legislature repealed that state's minimum wage preemption, which had been in effect since 1999, clearing the way for cities and counties in state to establish their own wage floors.

HISTORY AND PURPOSE

The federal minimum wage was established in 1938 during the Great Depression as a measure to prevent the exploitation of workers and to combat income inequality. Established by the "Fair Labor Standards Act," the minimum wage set a floor on hourly wages at a level intended to allow even the lowest paid worker in the United States to afford basic needs. Over time, as prices have gone up and the minimum wage was too often left unchanged, its buying power eroded, resulting in millions of workers who struggle to make ends meet.

In the first 40 years after its inception, lawmakers raised the minimum wage many times. Yet since 1980, these increases have been woefully infrequent and inadequate. The federal minimum wage reached its highest buying power in 1968 at $10.34 in 2019 dollars (inflation adjusted using the Consumer Price Index Research Series Using Current Methods). Throughout the 1970s, the minimum wage was regularly raised but in the face of high inflation, the minimum wage's buying power began to fall. Throughout the 1980s, the minimum wage was left unchanged, resulting in a steep decline in the value of a minimum wage paycheck. In the mid-1990s, the federal wage floor was raised modestly, but then left to erode again for another 10 years.

In 2007, after a decade of inaction on this issue, Congress passed a three-step increase to the federal minimum wage, raising it from $5.15 to $5.85 in 2007 to $6.55 in 2008 and to $7.25 in 2009. This restored some of the buying power of the minimum wage but did not fully undo the erosion in value that had occurred in the 1980s and 1990s and its real value has continued to erode with each passing day since. At the start of 2020, the federal minimum wage is worth more than 16% less than when it was last increased in 2009 and more than 30% less than at its inflation-adjusted peak value in 1968.

ISSUE SUMMARY

Federal minimum wage legislation ensures that employers, both private and public, provide their employees with a minimum level of compensation for each hour worked. Almost all workers are covered by this law, with exemptions for teenagers during their first 90 days of employment, some seasonal workers, workers at businesses with gross receipts of less than $500,000 that do not engage in interstate commerce, and several other small occupational groups.

The U.S. Department of Labor enforces federal minimum wage laws, while state labor departments handle the enforcement of state wage laws. However, many states defer enforcement to the U.S. Department of Labor and not all states, even those with higher minimum wages, have a state department of labor. Researchers estimate that violations of minimum wage laws cost low-wage workers more than $15 billion in unpaid wages each year (see *Employers steal billions from workers' paychecks each year*).

At $7.25 per hour, a full-time worker earning the federal minimum wage takes home just $15,080 a year – an annual income below the federal poverty line for any worker with at least one child. According to the Bureau of Labor Statistics, in 2018 there were about 1.7 million workers who were paid exactly the federal minimum wage or less and just under half (47.1%) were age 24 or younger. However, these statistics can be misleading because they do not describe the workforce being paid state minimum wage above the federal minimum wage nor do they consider workers earning just above the federal minimum wage, such as those with wages of $7.50 or $8.00 per hour.

Indeed, research by the Economic Policy Institute shows that among a broader definition of low-wage workers (namely, workers earning less than $15 per hour), 88% are age 20 or older and 61% are 25 or older. Moreover, more than a quarter of these workers have children and more than half work full time. On average, workers earning less than $15 per hour earn half their family's total income. These are workers whose earnings are critical for their family's well-being; setting adequate minimum wages is essential for ensuring they can live a decent life.

As NLIHC's report *Out of Reach* shows, there is no jurisdiction in the United States in which a worker earning the federal minimum wage can afford even a one-bedroom apartment at fair market rent (FMR). According to the 2014 edition of *Out of Reach*, a minimum wage worker would have to work 104 hours a week, the equivalent to 2.6 full-time jobs, in order to afford a two-bedroom apartment at the national average FMR.

FORECAST FOR 2020

A lot has happened since President Obama indicated in his 2013 State of the Union address that he supported raising the federal minimum wage to $9. Since then, 27 states and the District of Columbia have passed state minimum wage increases, many of which will reach or exceed $12 within the next year. Additionally, 51 cities and counties have passed local wage floors as of January 2019 (although some of these have been subsumed by state increases or reversed by state legislatures). These local ordinances have set minimum wages as high as $16.34 in SeaTac, WA.

On July 18, 2019, the U.S. House of Representatives passed the "Raise the Wage Act of 2019", a bill that would raise the federal minimum wage in seven steps to $15 by 2025. The bill, introduced by Representative Bobby Scott (D-CA) in the House and Senator Bernie

Sanders (I-VT) in the Senate, garnered more initial co-sponsors than any previous minimum wage legislation since the last federal minimum wage bill was passed in 2007. Despite passage in the House, the bill has not been brought forward for debate even in committee in the Senate. The longer that Congress waits to approve any increase, inflation will reduce the real value of the eventual target wage level. For this reason, lawmakers may ultimately target an even higher minimum than the current proposal, phased-in over the course of a longer time period, in order to achieve the desired inflation-adjusted value. The "Raise the Wage Act" would also gradually increase the federal tipped minimum wage, the base wage that employers of tipped workers must pay workers who receive tips, until it reaches parity with the regular minimum wage. The tipped minimum wage has remained unchanged at $2.13 since 1991.

Indexing the Minimum Wage

The lack of an adequate minimum wage contributes to growing inequality. Workers today are better educated and more productive than ever before, but real wages for minimum-wage workers are now dramatically lower than they were 50 years ago. At the historical high point of the minimum wage in the 1960s, a minimum wage worker was paid roughly half of the wages of a typical middle-class worker. Today, the minimum wage is equal to less than a third of the wages of typical U.S. workers.

This decline in minimum wage value not only makes it hard for workers to make ends meet, it means that workers starting out in the workforce at the minimum wage are much farther from the middle class than their counterparts a generation ago. Raising the minimum wage will help working families support themselves, and by shrinking the gap between workers at the bottom and those at the middle it eases the path for more families to enter the middle class.

One simple way to ensure that the minimum wage is not left to erode in the future is to enact automatic annual adjustments, or "indexing", based on the growth in overall wages or growth in prices. Eighteen states and the District of Columbia have adopted minimum wage indexing based on price inflation. This ensures that the real value of the minimum wage does not decline over the course of time. In addition to maintaining a constant purchasing power of the minimum wage, indexing also ensures that each increase is small and predictable.

Rather than indexing to changes in prices, the minimum wage could also be indexed to changes in wages. In fact, the federal "Raise the Wage Act" that passed in the House of Representatives would index the minimum wage to overall wage growth. This has advantages over simply indexing to prices: wage growth tends to be more stable than price growth, which would make minimum wage changes less volatile. It would also help combat growth in inequality by ensuring that the wages for the lowest paid workers never fall too far from the wages of middle-class workers.

Strengthening Government Assistance Programs

Many low-wage workers (many of whom work full time) are paid so little that they must turn to public assistance programs in order to make ends meet. As the value of the minimum wage is left to erode and more workers' wages slip to levels that are insufficient to afford basic necessities, it places greater stress on government assistance programs that must take up the slack in workers' earnings. Accordingly, if the minimum wage were raised, it would lift the labor earnings of many low-wage workers such that they would no longer need public assistance or would still be better off even if their benefits were reduced. An Economic Policy Institute study, *Balancing paychecks and public assistance*, describes how raising the federal minimum wage would generate billions in annual savings to public assistance programs; funds that could then be used to strengthen anti-poverty programs or make long-needed investments in education, public infrastructure, or other key policy priorities.

TIPS FOR LOCAL SUCCESS

As the federal minimum wage stagnated from 1984 to 2007, many states decided to take up this issue and set their own minimum wages higher than the federal minimum. In 1984, only one state, Alaska, had a minimum wage higher than the federal minimum. By the end of 2007, some 31 states and the District of Columbia had set their minimum wages above the federal level. In addition, many of these states have indexed their minimum wage so that the purchasing power of the minimum wage does not decline with time. This strategy has proven successful at the state and local level and should be adopted at the federal level as well.

Advocates interested in fair wages in their states or localities can contact the groups listed below to connect with campaigns to enact a higher state or local minimum wage. Between 2013 and 2019, there were 25 states: Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Hawaii, Illinois, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Nebraska, Nevada, New York, New Jersey, Oregon, Rhode Island, South Dakota, Vermont, Washington, and West Virginia that either passed legislation or approved ballot initiatives to increase the minimum wage. There were also successful local campaigns in a multitude of cities and counties throughout California, including Alameda, Belmont, Berkeley, Cupertino, El Cerrito, Emeryville, Fremont, Los Altos, Los Angeles, Malibu, Milpitas, Mountain View, Oakland, Palo Alto, Pasadena, Redwood City, Richmond, San Diego, San Francisco, San Jose, San Leandro, San Mateo, Santa Clara, Santa Monica, Sunnyvale; as well as Chicago, IL.; Flagstaff, AZ; Minneapolis and St. Paul, MN; Johnson, Polk, and Wapello Counties, IA; Montgomery and Prince George's Counties, MD.; Portland, ME; Kansas City, and St. Louis, MO.; Lexington and Louisville, KY; Albuquerque, and Las Cruces, NM; Seattle, and Tacoma, WA; and the District of Columbia.

WHAT TO SAY TO LEGISLATORS

Advocates should urge their Members of Congress and state elected officials to increase the minimum wage. Working Americans should be fairly compensated for their labor with a wage that allows them to provide for their families. It has been over ten years since the last increase in the federal minimum wage. Its inflation-adjusted value is now vastly lower than historic levels and even with recent state and local minimum wage changes, most of the country still has minimum wages that make it nearly impossible for low-wage workers to pay for basic necessities, including housing.

Advocates should tell their federal and state legislators that the way forward has two steps: first, increase the minimum wage to a livable level. Second, index it to protect against inflation and further inequality.

Increasing the minimum wage, at either the federal or state level, not only improves affected workers' well-being, it also puts more money in the hands of people likely to spend those additional earnings quickly, thereby spurring additional economic activity and promoting growth. The 2008 and 2009 increases to the federal minimum wage boosted consumer spending by approximately $8.6 billion.

Increasing the minimum wage improves the well-being of low-income workers while improving the economy for all. Increasing the minimum wage is smart public policy.

FOR MORE INFORMATION

Economic Policy Institute, 202-775-8810, www.epi.org

National Employment Law Project, 212-285-3025, www.nelp.org