

EXAMINING THE U.S. MINIMUM WAGE

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ABSTRACT

The following memo aims to examine the ongoing national and state discourse regarding the U.S. minimum wage and proposals to mandate a federal increase. Recognizing current state variation in minimum wage rates, this report will consider policy alternatives that involve raising the minimum federally, while acknowledging potential economic consequences when weighed against raising the standard of living for working Americans.

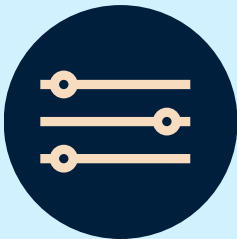
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PROBLEM DEFINITION

Primer on the Minimum Wage

The minimum wage is the lowest hourly rate at which an employer can legally pay certain workers (U.S. Dept. of Labor). The federal minimum wage was established as a part of the Fair Labor Standards Act (FLSA), initially passed in 1938, and currently stands at \$7.25 per hour. Although states and municipalities have enacted their own higher minimum wage laws, employers are still required to pay at least the state or local minimum wage. Currently 29 states, along with the District of Columbia, Guam, and the U.S. Virgin Islands have minimum wage rates that are set higher than the federal minimum wage.

Who is Covered by the Minimum Wage?

Employees who work for a broad range of businesses or organizations, often called enterprises, are covered by the FLSA, which have gross annual sales of at least \$500,000 and engage in interstate commerce (CBPP 2018). These enterprises include hospitals, schools, government agencies, and the like. Exceptions to the minimum wage primarily apply to young workers, full-time students, and workers with disabilities. Perhaps the most notable sector of employees are tipped workers, who have a base minimum wage of \$2.13 per hour. However, when a worker's tips within a pay period do not sum to the regular minimum wage, their employer is required to pay the difference.

Defining Key Terms

- Liveable Wage: Hourly rate than an individual in a household must earn to support themselves and their family. [MIT](#)
- Labor Market: Also known as the job market, refers to the supply and demand of labor, where employees are suppliers of their labor and employers are the source of demand.
- Cost of Living: the amount of money needed to sustain a lifestyle in a given location, such as a large city.
- Standard of Living: refers to the quantity and quality of goods and services available to a given population.

ROLE FOR GOVERNMENT

One of the central points of argument within the debate about federally increasing the minimum wage is closely linked with economic market principles. Simply put, many economists argue that the “invisible hand” within the market, particularly the labor market, has not indicated that certain occupations are worth wages that are currently being advocated for, such as \$15. This point strikes at a foundational principle of economics- markets are amoral, and therefore not concerned with equality, equity, and standard of living for those participating in the economy. Rather, the market is concerned with efficiency. However, where equality, equity, and standard of living are concerned, there is arguably a role for government intervention through legislation and public policy.

CURRENT POLICY CONTEXT

There have been several attempts to raise the federal minimum wage, especially recently as it served as a major talking point for the Biden campaign. Two recent bills, the Raise the Wage Act and the Original Livable Wage Act both serve as examples for how best to approach an increase. Both of these Acts have been introduced into the house, but have different approaches for how to approach an increase. The Raise the Wage Act seeks to increase the minimum wage for “regular employees over a 5-year period, for tipped employees, and for newly hired employees who are less than 20 years old.” This will gradually raise the minimum wage to \$15 an hour within 5 years, immediately raising it to \$9.50 an hour. The bill would also eliminate the separate minimum wages for newly hired, disabled, and tipped employees. Future increases would be determined “by the annual percentage increase, if any, in the median hourly wage of all employees as determined by the Bureau of Labor Statistics”. The Original Living Wage Act would immediately raise the minimum wage to \$15.64 for those “working for 40 hours per week, 52 weeks per year, to earn an annual income 25.5% higher than the federal poverty threshold for a four-person household, with two children under age 18, and living in the 48 contiguous states.” The future calculations of the minimum wage would be based on the Federal poverty threshold for a family of 4, determined by the Bureau of the Census.

POLICY ALTERNATIVES

The feasibility of both these bills does not seem very high, as the recent push before the midterms to raise the minimum wage within the stimulus package was shot down as 7 democrats and one independent sided with all 50 Republican senators to oppose the increase. The narrative around raising the minimum wage must be shifted away from the stereotypes and myths that allow for representatives to be able to vote against the bill. If the conversation is reshaped and real pressure is put onto representatives then change is possible. This is an issue that Americans are united on, a majority of the nation favors raising the Federal minimum wage.

Once real pressure is put onto lawmakers, then action can be taken in a bipartisan manner to increase it. We recommend taking aspects of both current proposed bills in a gradual increase over a 5 year period, but also setting future increases to the Federal poverty threshold for a family of 4 with 2 dependents will allow for the wage to stay consistent with current costs of living. A Federal Minimum Wage must keep up with inflation and other rising costs to ensure that the American people can be able to afford basic necessities. A gradual increase as proposed in the Raise the Wage Act will give the bill more moderate and bipartisan support.

Bipartisanship is a key component as it has proven that Democrats on their own can not pass this bill. Constituents must apply pressure to their Republican and Democrat representatives to make it clear how the country feels about the current situation. Some Republicans have started to feel this type of pressure, as telling your constituents that you are against raising their pay is extremely difficult, although many still find a way. Senate Minority Mitch McConnell (R-Kentucky) was quoted in 2021 as saying that he was open to raising the minimum wage as it was "worth discussing" because "it hasn't been raised in quite a while." While this definitely is not an endorsement of a raise, it represents a shift in how Republicans approach and message around the issue. With the current rift happening in the Republican party of the traditional establishment versus far-right outsiders, voters in favor of a raise should look to capitalize on the current fragility and use the issue as a way for mainstream conservative and moderate representatives and candidates to gain their support.

Increasing the Federal Minimum Wage is an issue that has broad support across the nation and has a real possibility of happening. It will take real work however, through restructuring the conversation to invalidate common myths and stereotypes around the minimum wage and minimum wage workers. It will also require grass-roots political action as well as national movements to demonstrate the importance of this issue and to make it near impossible for representatives to continue to deny their constituents a liveable wage.

MINIMUM WAGE VS. COST OF LIVING: NORTH CAROLINA

Income

\$7.25 per hour

40 hours per week
x 4 weeks in a month

average commute of 24.8
minutes

=

\$1256.70 per month

Expenses

Groceries: average of
\$302 per month

Utilities: average of \$371
per month

Rent: average of \$942
per month

Transportation: average
of \$456 per month

=

\$2071 per month

Source :<https://www.sofi.com/cost-of-living-in-north-carolina/>

MINIMUM WAGE: BY THE NUMBERS



The monthly earnings for minimum wage workers has periods of quick growth and then long periods of stagnation. It grows steadily with periods of stagnation until 2010, where it has stagnated until the present day.

POLICY RECOMENDATION

A raise to the minimum wage is necessary and supported by a majority of the American public. According to the Congressional Budget Office, a raise to \$15 an hour by 2025 would raise the wages of 27.3 million workers and lift 1.3 million families out of poverty. The narrative around raising the minimum wage must be shifted away from the stereotypes and myths that allow for representatives to be able to vote against the bill. If the conversation is reshaped and real pressure is put onto representatives, then change is possible. The Original Living Wage Act does not currently look feasible due to the immediate raising of the wage. The Raise the Wage Act has much more feasibility due to the gradual increase of the minimum wage to \$15. Reshaping the conversation is necessary for making it extremely difficult for representatives to ignore the broad benefits and overwhelming support for the Raise the Wage Act or future attempts at a raise.

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