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Considerations on Raising the U.S. Minimum Wage To Help Workers and Families While Minimizing Negative Impacts

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A recent Congressional Budget Office (CBO) analysis reinforces the case that raising the national minimum wage is long overdue. But it also provides reasons for caution. Dialing up wages at the bottom up too fast and too much could increase the magnitude of negative side effects including job loss and price increases.

This paper examines potential impacts of raising the federal minimum wage nationally and in selected states and local areas. It ends with suggestions to temper negative side effects resulting from a higher minimum wage and discusses the need to fill income gaps that are too large for a higher minimum wage to address adequately, especially for some types of families. Options include setting a national corridor in which states can choose a minimum wage best fitted to them and supplementing low wages with more support for raising children.

CBO's report estimates the impact of the Raise the Wage Act of 2021, which Senate Democrats introduced on Jan. 26. The bill would raise the federal minimum wage, in annual increments, to $15 per hour by June 2025 and then adjust it to rise at the same rate as median hourly wages.

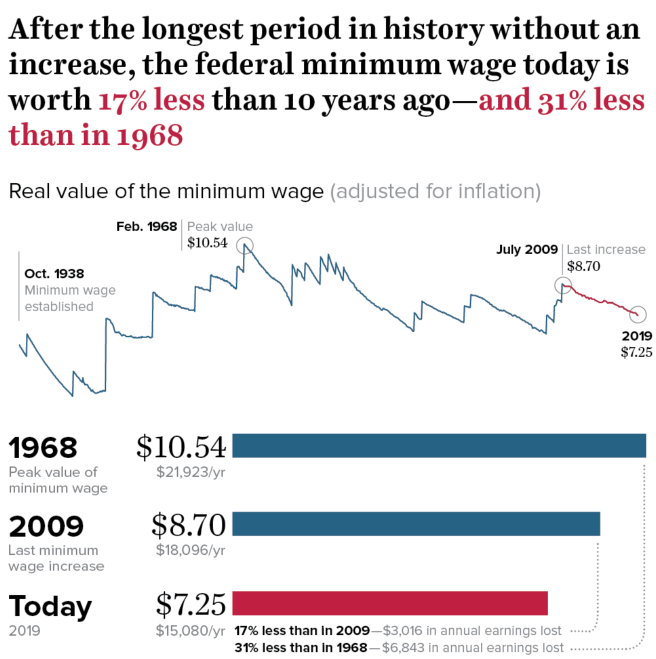
The nonpartisan agency estimates that, over 10 years, the bill would result in a net pay increase totaling $333 billion resulting from higher pay ($509 billion) for people employed at higher wages, offset by lower pay ($175 billion) because of reduced employment. The income effects – both positive and negative -- would primarily affect lower-income people (the lowest income quintile). In 2025, about 900,000 fewer people would have income below the federal poverty thresholds. Raising the minimum wage would slightly reduce real national GDP.

CBO estimates that the effects of higher prices resulting from increased labor costs would be concentrated among highest-income quintile. This may be because higher-income people spend more money in aggregate than lower-income people. On the other hand, higher prices for fast food might impact a lower-income individual more than costlier fine dining would a higher-income person.

While CBO can give Congress a competent estimate of macro-level effects, the aggregate analysis does not zero in on differing impacts that a $15 minimum wage would have in states, and areas within them. Rising economic inequality has left cities and regions of the country with widely varying income levels, costs of living, and labor markets. A higher wage at the bottom of the economic spectrum will not only cause varying impacts by location, effects also will vary, sometimes greatly, for different types of families. In both political and practical terms, it is difficult for policymakers to set a one-size-fits-all baseline across the United States for wages sufficient to afford necessities of life.

The federal minimum wage has been at $7.25 an hour since 2009 – its longest period without rising. Inflation has eroded it value. In 2019, the Economic Policy Institute estimated that the minimum wage had lost 17% of its buying power since 2009 and 31% since 1968.

Figure 1



Source: Economic Policy Institute

Some States and Localities Set Higher Levels

In the absence of Congressional action, 29 states and D.C now have raised their minimum wage above the federal standard and 45 localities have pushed their minimum wage above their state's standard. Some states do not allow local governments to act unilaterally.

States that match, or default to, the $7.25 federal minimum wage tend to have lower average incomes and a high proportion of low-income counties. But some, like Texas, also have major metropolitan areas with much higher costs of living. In 18 states and D.C., the minimum wage is automatically adjusted each year for inflation.

The Low-Wage Workforce

Raising the minimum wage not only increases pay for workers at the bottom it also tends to push up wages for those on rungs of the economic ladder above them. In 2018, among 82 million U.S. workers paid hourly, only 2.1% were paid the $7.25 federal minimum or less, according to the Bureau of Labor Statistic (BLS). But these workers at the very bottom are one tip of a large and growing low-wage U.S. workforce. Just before the advent of the Covid-19 pandemic, a Brookings study characterized 44% of all U.S. workers, aged 18-64, as low-wage. This group of 53 million people had median hourly wages of $10.22 and median annual earnings of $17,950. The researchers estimated that the threshold for earning a "low wage" (in 2016 real dollars) ranged from $12.54 an hour in Beckley, West Virginia, to $20.02 in San Jose, California, with a national average of $16.03.

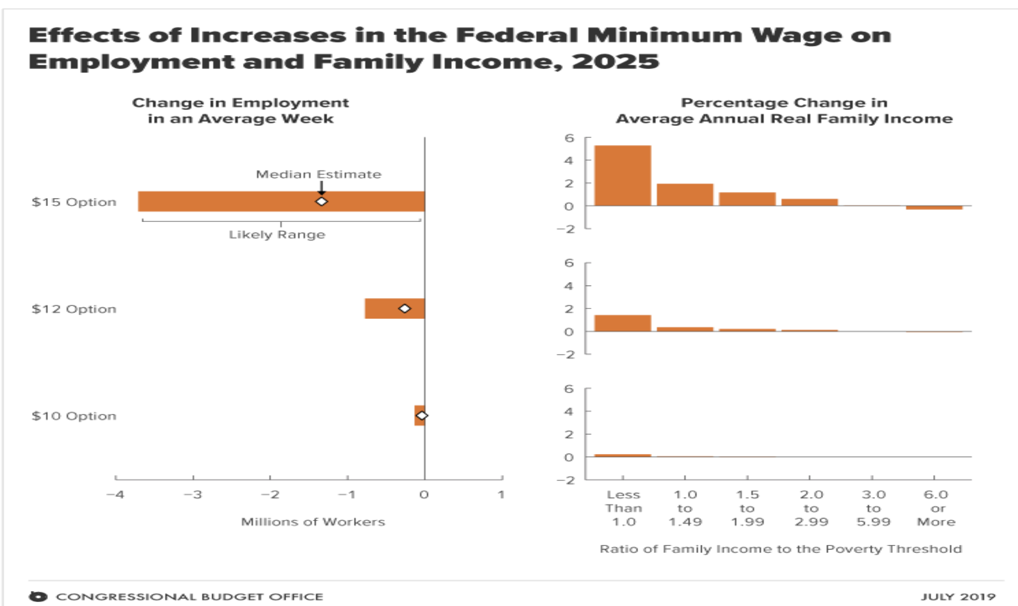
According to BLS, states with the highest percentage of workers earning at or below the minimum wage were in the south: Louisiana (5%) and South Carolina (4%). States with the lowest percentage were in the west or Midwest: Alaska, Minnesota, Oregon, and Washington (all < 1%). Minimum-wage workers tend to be young and are more likely to be women than men. BLS found that the percentage of workers making the minimum wage or less differed little among major race and ethnic groups. Looking across the entire low-wage workforce, however, the Brookings study found a disproportionate percentage of black and women wage earners.

Macro Impacts of Different Minimum Wage Levels

In 2019, as the House of Representatives passed a bill to raise the minimum wage, CBO analyzed the potential impact on employment and income of three options raising the minimum to $15, $12, or $10 an hour. In an average week in 2025, CBO estimated:

- Raising the minimum to $15 an hour would raise the pay of 17 million workers who would otherwise earn less. Another 10 million workers otherwise earning slightly more than $15 per hour might see their wages rise as well. But about 1.3 million other workers would become jobless. The number of people with annual income below the poverty threshold would fall by 1.3 million.
- The $12 option would have smaller effects. Pay would go up for five million workers. Another six million workers otherwise earning slightly more than $12 per hour might see their wages rise as well. About 300,000 more people would be jobless and 400,000 fewer people would have income below the poverty level.
- The $10 option would have still smaller effects. It would directly or indirectly raise wages for 3.5 million workers and have little impact on employment and the number of people living in poverty.

Figure 2



In 2019, CBO examined three options for increasing the federal minimum wage.

The first option would raise the federal minimum wage to $15 per hour as of January 1, 2025. That increase would be implemented in six annual increments starting on January 1, 2020. After reaching $15 in 2025, the minimum wage would be indexed, or tied, to median hourly wages. The $15 option would also gradually eliminate exceptions to the minimum wage for tipped workers, teenage workers, and disabled workers.

The second option would raise the federal minimum wage to $12 per hour as of January 1, 2025. The $12 option would be implemented on the same timeline as the $15 option but would not index the minimum wage to wage growth after 2025. It would leave in place current exceptions.

The third option would raise the federal minimum wage to $10 per hour as of January 1, 2025. The $10 option would be implemented on the same timeline as the $15 and $12 options. Like the $12 option, it would not index the minimum wage to wage growth and would leave in place current exceptions.

In 2017, RTI International studied the impacts of raising the minimum wage to the same three levels on two types of long-term care (LTC) providers -- assisted living and continuing care retirement communities. Like nursing homes, these businesses employ large numbers of low-wage workers, including personal care aides, housekeepers, and food service workers. The researchers estimated that most employees (86% or more) in each key job category would be affected by a $15 minimum wage. Many fewer employees would be affected by a $12 minimum wage (58% or more) or a $10 minimum wage (27% or more). Nationally, increasing the federal minimum wage would require average hourly wage increases of approximately $0.70 if it were set at $10, about $1.60 at $12, and about $3.40 at $15, not including the associated payroll tax. Employers in states with higher wage rates, like New York, would have to increase pay less than states with lower ones, like Texas.

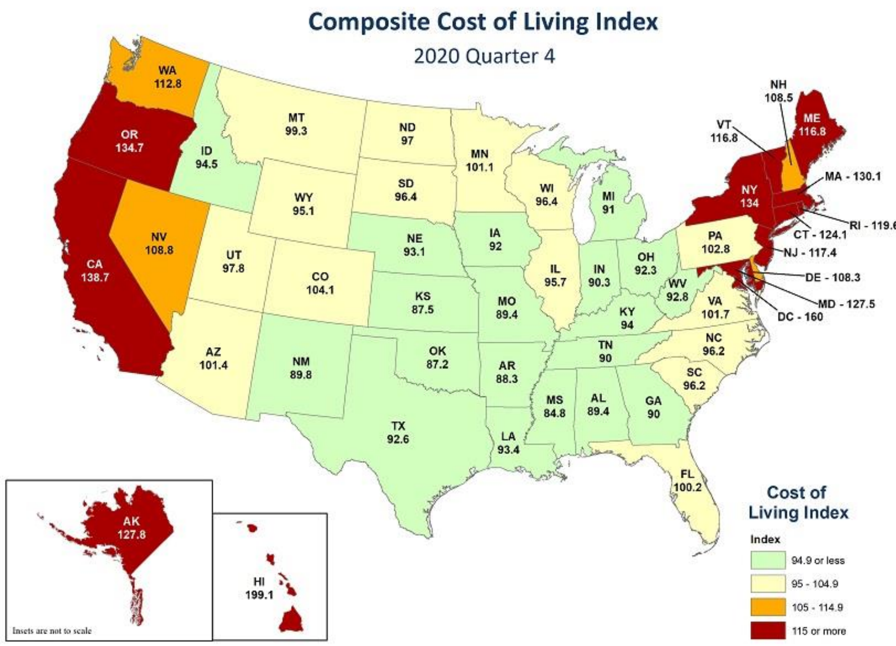
Variation in Economic Conditions Among and Within States

A change in the minimum wage will have different effects depending on income levels, prevailing wages, and the cost of living in different places. Table 1 (below, on p. 8) compares per capita income and minimum wage levels of two low-income states (Mississippi and West Virginia) and two high-income states (New York and California). It also displays estimates of the living wage for four types of families in selected high-, mid-, and low-income counties within those states.

As borne out by this comparison, the income ratio between rich and poor states in the United States is just less than 2 to 1. In 2019, New York's statewide per capita income was $71,717, Mississippi's $38,445. Income varies more within states, particularly among high-income states with major metropolitan areas. In Mississippi and West Virginia, for example, county per capita income falls within a range of 2 to 1. In California, the ratio between highest- and lowest-income counties was 3.6 to 1. In New York state, it was 5.5 to 1.

The cost of living varies more than 2 to 1 among states. In general, the most expensive areas in which to live are in Hawaii, Alaska, the Northeast, and along the West Coast. The least expensive areas are in Midwest and Southern states. An index developed by the state of Missouri estimates the cost of living in California at 1.39, New York state at 1.34, West Virginia at 93, and Mississippi at 85. Hawaii is an outlier at 199.

Figure 3



Source: State of Missouri

In-state differences in income and living costs have made it difficult for many states to raise the minimum wage. New York opted to set a higher level of $15 an hour for the New York City and Long Island areas and $12 for the rest of the state. Many cities in California have pushed their minimum wage higher than the state's $13 and $14 per hour rates, which are based on employer size. West Virginia raised its minimum wage to $8.75 statewide. In Mississippi, because the legislature has not set a state standard, the federal minimum wage of $7.25 applies. In states that limit local government power to act without express permission of state legislature, higher-cost cities and regions may face barriers to setting their own minimum wage.

Low-income Counties

All states have low-income counties where an upward shift in the minimum wage would likely have the greatest effect on wages and employment levels - some a lot more than others.

- In 2019, **West Virginia** counties averaged $42,315 in per capita income, ranging from $29,348 in Webster County to $51,527 in Jefferson County, with Ohio County as an outlier at $64,461. Wheeling is in Ohio County, which is between Pittsburgh and Columbus. Jefferson County abuts the more affluent Northern Virginia region.
- Although **California's** statewide per capita income was $66,619 in 2019, eight of its counties averaged less per capita income than West Virginia. Del Norte County near the Oregon border was lowest at $38,445, about 10% less than West Virginia statewide. At the other end of the scale, per capita income in the San Francisco Bay area was about $140,000.
- Per capita income in **New Work** state was $71,717. Yet 13 of its 62 counties averaged less than West Virginia. Low-income counties can be found in all parts of the state including the Bronx, along the St. Lawrence River, near Lake Ontario, and in middle of the state. At the high end of the scale were Westchester County at $113,477 per capita and New York County at $197,847. Albany's per capita income was $63,037.
- **Mississippi** was the poorest state. Most counties there fell below West Virginia's average income. Issaquena County and Yazoo Counties had per capita income of less than $28,000. Madison County, home of the state capital, was a high outlier at about $66,000.

Table 1

Living Wage for Selected Family Types in Counties with Differing Income Levels in Low- and High-Income States

Living Wage [1]	1 Adult No Kids	1 Adult 1 Kid	2 Adults with One Working 1 Kid	2 Adults Both Working 1 Kid	County Per Capita Income [2]
West Virginia	Minimum wage (MW): $8.75. **WV per capita income (PCI): $42,315**				
Webster Co.	$10.08	$21.50	$20.64	$12.07	**$29,348**
Lewis Co.	$10.76	$21.45	$20.60	$12.04	**$41,728**
Jefferson Co.	$12.23	$23.09	$22.24	$12.86	**$51,527**
Ohio Co.	$10.78	$21.77	$20.92	$12.20	**$64,461**
New York	MW: $15 NCY area, $12.50 elsewhere. **NY State PCI: $71,717**				
Allegany Co.	$11.20	$25.47	$21.99	$14.11	**$36,164**
Albany Co.	$12.79	$28.20	$24.72	$15.48	**$63,037**
Westchester Co.	$15.91	$32.54	$29.06	$17.65	**$113,477**
Manhattan/NY Co.	$17.99	$32.91	$29.43	$17.83	**$197,847**
California	MW: $13/$14 by firm size, some cities higher. **CA PCI: $66,619**				
Del Norte Co.	$11.45	$25.90	$23.82	$14.41	**$38,445**
Sacramento Co.	$12.83	$27.71	$25.62	$15.32	**$55,266**
Los Angeles Co.	$14.83	$31.46	$29.38	$17.19	**$65,094**
San Francisco Co.	$20.82	$40.53	$38.44	$21.73	**$139,405**
Mississippi	MW: $7.25 No state standard, so federal governs. **MS PCI: $38,914**				
Yazoo Co.	$10.67	$20.79	$21.74	$11.71	**$27,666**
Lowndes Co.	$10.48	$20.70	$21.66	$11.66	**$40,717**
Madison Co.	$11.53	$21.94	$22.89	$12.28	**$65,746**

[1] Source: Data taken from MIT Living Wage Calculator Feb. 10 & 11, 2021. The living wage shown is the hourly rate that an individual in a household must earn to support him or herself and their family. The assumption is the sole provider is working full-time (2080 hours per year). The tool provides information for individuals, and households

with one or two working adults and zero to three children. In the case of households with two working adults, all values are per working adult, single or in a family unless otherwise noted.

[2] Source: Federal Reserve Bank of St. Louis 2019 data

Variation in the Living Wage

In this paper, a living wage is defined as the hourly rate that an individual in a household must earn to support him or herself and their family. For single adults and families with one earner, a living wage of $10 an hour would add up to $20,800 in annual income, a $12 living wage would equal $24,960 a year, and a $15 living wage would yield a $31,200 in income (assuming someone works all year). The living wage for individuals in multiple-worker households is typically lower because more people are contributing to help the family makes ends meet; they don't have to make as much as a single worker to generate the same total income. In 2020, the federal poverty level for the 48 contiguous states and D.C. was $12,760 for a single person, $17,240 for a two-person household, $21,720 for a three-person household, and $26,200 for a household of four.

Table 1, above, uses estimates generated by a living wage calculator created by economists at the Massachusetts Institute of Technology. It shows that the living wage for single adults is between $10 and $11.53 in all Mississippi counties, most of West Virginia, and the poorest counties in New York and California. Single earners in Albany and Sacramento need about $12.80 to pay their bills. Single earners need more in metropolitan areas: $14.83 in Los Angeles, $15.91 in Westchester County, $17.99 in Manhattan, and $20.82 in San Francisco.

In households in which one adult is raising one child, a worker needs earn roughly twice as much as a single adult. The living wage for one adult supporting one child ranges from about $20 an hour in Mississippi counties to $40 an hour in San Francisco. These figures indicate that single-parent families need more income than even the "Fight for 15" can deliver -- in all parts of the country. In families with two adults and one child with one parent working, the living wage usually comes out slightly lower. If both parents work, for measurement reasons described above, the living wage for each is a bit more than for a single worker with no kids. The living wage rises with each additional child.

Policy Implications and Options

The U.S. minimum wage of $7.25 is low both in historical context and its practical ability to help workers to support themselves and families. Congress should raise the minimum wage significantly and index it to inflation. However, the federal minimum wage should be raised judiciously to temper loss of employment and other negative impacts stemming from variation in income, cost of living, and family structure across the country and within states. Furthermore, Congress should increase financial support to help families raise children along with increasing the minimum wage.

Consistent with CBO's analyses, Congress could raise the minimum wage to $10 hour with minimal impact on the national economy and moderate effects on low-income states and counties. Such an increase would have little to no impact on states that already have increased their minimum wage. Mississippi which falls back on the $7.25 federal standard might experience more effects than West Virginia which already has a $8.75 minimum wage.

A $12 federal minimum would still be below the living wage for single workers in Albany and Sacramento and the California minimum wage, and could cause significant impacts, positive and negative, in West Virginia and Mississippi – but the positives would probably outweigh the negatives. A suddenly implemented $15 minimum wage would likely create shocks in Mississippi and West Virginia labor markets, while hardly registering in San Francisco and Manhattan.

A federal minimum wage corridor

Congress faces the difficult task of creating a standard high enough to help low-income workers in higher-income areas, yet low enough to be digestible in low-income state and regional economies. In addition to transitioning over a period of years, Congress could set the national minimum at the high end of current proposals – say at $15 or $16 – and allow states to adjust that level downward by a certain margin – say 20% or 25% -- but no lower. If this type of approach were taken, states would need to make the case to their constituents that a lower standard somewhere within the prescribed federal corridor would best fit their needs, either statewide or in particular regions.

This type of policy approach could help California and New York build up, and adjust down, from a higher platform than they now use. Poorer states could lower the federal standard to the $12-$13 range, or whatever boundary might be chosen. States, of course, can already set their minimum wage as high as they desire. A national minimum-wage corridor along these lines might reduce the time needed to transition to a higher federal standard.

Combining a minimum wage hike with the EITC, more aid to raise children

Comparing the living wage in high- and low-income states shows that even a minimum wage as high as $20 an hour would fall short of the needs of families with children supported by single earners in the country's poorest counties – and far short in its wealthiest. Raising the minimum wage can help parents raise children. But it can only achieve so much.

Policymakers should consider how changes to the Earned Income Tax Credit and expansion of the Child Tax Credit can complement a higher minimum wage to enable parents to pay their bills while having enough time to raise their children. Increased subsidies to raise children should be progressive – that is, help the poorest the most. This is the opposite of the current child tax credit which provides the most subsidy to higher-income families.

Some Conservatives argue that increasing the child tax credit for low-income families would discourage parents from working. Others see it as pro-family. Giving parents the resources to spend more time raising their children is arguably a good thing, especially since the minimum wage cannot be increased enough to erase work incentives. Many children in families in which both parents now must work for low wages might be better off if supplemental income allowed one parent to work less and spend more time at home with them.

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