The Our American States podcast—produced by the National Conference of State Legislatures—is where you hear compelling conversations that tell the story of America's state legislatures, the people in them, and the policies, process and politics that shape them.

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Understanding the Minimum Wage | May 24, 2021 | OAS Episode 131

Ed: Hello and welcome to "Our American States," a podcast from the National Conference of State Legislatures. This podcast is all about legislatures: the people in them, the policies, process and politics that shape them. I'm your host, Ed Smith.

"The range of minimum ranges is huge. I mean, someone who is working minimum wage in California right now is making $14 an hour. Someone who is just across the border in Utah is only making $7.25."

That was Dave Cooper, a senior economic analyst at the Economic Policy Institute and an expert on the minimum wage. He's one of my guests on the podcast.

The federal minimum wage has been a hot topic this year and was debated during discussion of the 2021 Raise the Wage Act before Congress. Cooper, whose organization did research that informed the legislation, discussed who earns both the federal and state minimum wages and how raising it might affect public benefits and small businesses.

He also talked about the pros and cons of state legislators setting the minimum wage for their states.

My second guest is Saige Draeger, an NCSL policy expert. She explained how states have taken action regarding the minimum wage.

Let's start with Dave Cooper. Dave, welcome to the podcast.

Dave: Thanks for having me. Good to be here.

Time Marker (TM): 01:32

Ed: Dave, thanks for taking the time to come on the show to discuss this very timely topic. Let me start with the basics. How many people make the minimum wage and who is the average minimum wage earner?

Dave: It's actually a more complicated question than a lot of people would think. Every year the BLS puts out this report… the BLS is the Bureaus of Labor Statistics… they put out this report on who makes the federal minimum wage or less. And what that report showed was that in 2020 there were 1.1 million people who earned the federal minimum wage of $7.25 or less. There are some people that make less than minimum wage. They may be a tipped worker, or they may not qualify for minimum wage; there are some exemptions.

But that number actually really isn't that informative because there are 30 states plus the District of Columbia that have set minimum wages higher than the federal $7.25. There are also about 50 cities and counties that have done so as well. So, talking about people who are earning $7.25 or lower is just not capturing the vast majority of people who are earning their respective minimum wages throughout the country.

And the range of minimum wages is huge. I mean, someone who is working minimum wage in California right now is making $14 an hour. Someone who is just across the border in Utah is only making $7.25.

The demographic profile of those folks is pretty different and it's hard to actually arrive at a number of who is the exact workforce making minimum wage in every single different jurisdiction because there is so much variation in these minimum wage levels.

So, I think a potentially more useful question to consider is: How many people make less than some dollar amount, let's say $15, because that's the number that's talked about a lot. And when we look at that number, there are about 22 million workers in the country that make less than $15 an hour and those folks don't really fit the stereotype of minimum wage workers.

I think oftentimes we think of minimum wage workers as just teenagers in their first job working after school, something like that. But when we actually look at the data, the workforce that's earning less than $15 an hour tends to be older – the average is about 35 – only about 10% of those workers are teenagers. It's majority women. It's disproportionately workers of color. Workers of color make up about half of that workforce, a little less, even though they're a smaller share of the overall workforce.

And it's a lot of parents. It's a lot of people supporting families. About a quarter of those workers have children. About a third are married. They tend to come from low-income households. But a lot of them even have some college education. So, it's a much more diverse and much larger portion of sort of typical workers than I think a lot of people think.

TM: 04:31

Ed: Well, I'd agree that a lot of people might be surprised at the number of people making less than $15 an hour.

Now, you've done a lot of research in this area and I wonder if you can talk about what the research tells us about how raising wages affects employment and public benefits.

Dave: Sure. So, the effect of the minimum wage on workers, on employment, is probably one of the most studied topics in economics, certainly in labor economics. And what the research overwhelmingly shows is that raising minimum wages largely does exactly what it's supposed to do: it lifts pay for low-wage workers.

Now, there has always been this debate about whether it damages employment, whether it leads to job losses, and this is a hotly contested issue. There's research that kind of goes both ways. I would say that most of the research that's come out in the last decade or so has tended to show that higher minimum wages have had little if any impact on jobs.

But I think a fair reading of the literature would be to say that we know raising the minimum wage raises pay for folks. There is a question about whether it has a small effect on employment. But if there is an effect, it's so small that economists have a really hard time measuring it.

And to me, that means that this is a policy that is worth pursuing. We know it does a lot of good for a lot of folks. And there is more research that's come out in recent years that has looked at some more interesting ways that the minimum wage affects public welfare. There is research showing that higher minimum wages lead to things like less smoking, lower infant mortality rates, better food security, less recidivism. So, these broader society-wide benefits that haven't really been considered in research because folks weren't thinking of that next step of what happens when low-wage folks have a little more pay in their pockets.

The other thing that I think you mentioned – it also tends to reduce reliance on public assistance. So, when workers make more on the job, they don't have to rely on food stamps as much or housing vouchers or other forms of public assistance.

TM: 06:43

Ed: So, to state the obvious, the pandemic has had a significant effect on the economy. One of the hotly discussed issues is how raising the minimum wage will affect workers and businesses, especially small businesses that have really struggled in the last year.

Dave: Yeah. To my mind, the central challenge that businesses are facing right now isn't excessive labor costs. It's a lack of demand. It's that they don't have enough customers coming through the door, either because there have been restrictions in place or folks are struggling and they simply haven't had funds to go out and spend money.

Raising the minimum wage puts more money in the pockets of people who are very likely to go out and spend those dollars right away, and there's research that confirms this, that higher minimum wages are associated with faster consumer spending, interestingly particularly on things like food outside of the home, so dining and restaurants, takeout, and car purchases generally.

I've always found this fascinating because you would think that increasing someone's paycheck by let's say a dollar an hour is not going to give them a huge sum of money. But it may be all that is needed for them to qualify for an auto loan or to qualify for a mortgage or qualify for student loans, whatever it may be. It may be that little bit that allows them to buy something bigger that they've been holding back on.

So, raising the minimum wage is going to inject a little more money into the pockets of folks who are going to go out and patronize local businesses, and I think that could be really helpful for businesses as we recover because the best thing we can do to bolster the recovery is to get consumer spending going and get customers going through.

It will raise labor costs for some businesses. But as I alluded to earlier, most of the research shows that businesses are able to absorb those added labor costs, either because of the extra volume that they're doing in sales with more people coming through the door, or they can make other adjustments to their business model.

There is research showing that higher minimum wages lead to higher productivity, so businesses may be able to be a little more efficient, and they may also see some cost savings from lower turnover. When workers get higher pay, they tend to not look for other jobs as much. So, businesses may have some savings in terms of what they're spending on recruiting, hiring, training new folks.

And if all that doesn't offset the cost entirely, they can raise prices a little bit, and there is research showing that when you raise the minimum wage, it does lead to small price increases in heavily affected sectors. But we're talking pretty small increases on the order of half a percentage point for every 10% increase in the minimum wage. We're talking about the dollar menu at McDonald's becoming the dollar and five cents menu, not huge increases.

TM: 09:35

Ed: As you mentioned earlier, the $15 number is the one most often discussed, but we know the cost of living varies quite a bit by city, state and region. So why $15?

Dave: Well, that's an interesting question. The $15 number was first raised I think back in 2010 or 2011. So, a long time ago, folks were first advocating for $15, and it started in New York City with the Fight for $15 with fast food workers there going out on strike, calling for $15 and a union.

Since then, that's the number that has stuck and I think it has resonated with folks because it's ambitious, but when we look at the data, it's actually a pretty reasonable target for where we should bring the federal minimum wage.

My organization, the Economic Policy Institute, has a tool on our website called the Family Budget Calculator. What the Family Budget Calculator does is it allows you to pick any county, any zip code in the country and it will tell you what the typical costs are in that location for someone to have what we would describe as a modest, but adequate standard of living.

If you look at those data, there's not a single county in the United States where a single individual with no children can have that modest, but adequate standard of living on less than $15 an hour.

So, there really isn't anywhere where you can get by on less. And so, again, $15 I think on the timelines that are being discussed… $15 in 2025 was the most recent proposal – that is a reasonable target for where we should set the national wage.

TM: 11:11

Ed: As you know, our audience is primarily state legislators, legislative staff and other state policymakers. Certainly, many of them think states rather than the federal government should have the say in setting the minimum wage. What are the pros and cons of allowing states to make their own decisions on the minimum wage?

Dave: We do currently let states make their own decisions to some extent. The way the law works is the federal government sets a floor. The federal government currently sets the floor at $7.25. And states and cities are allowed to go higher than that if they think that the conditions in their location justify setting higher standards.

I think that's been a good model for the last 100 years roughly since we've had a minimum wage, that the federal government sort of sets the backstop under which you can't go any lower, but if a state or a city realizes that costs of living are higher there and they may need to give workers a little bit of a higher support, then they can do that.

I think that's a reasonable strategy to go with increasing the federal minimum wage now. If we can get the federal minimum wage to $15 and, again, that ensures that everywhere in the country, folks are making at least enough to afford a decent quality of life. But there are still going to be places, the New Yorks and California's coastal areas, where the cost of living is higher, and those locations can still go ahead and set a higher standard if they choose to do so.

TM: 12:41

Ed: Now, your organization conducted the analysis for the 2021 Raise the Wage Act, which is still before Congress, but stalled right now. Can you explain the proposed changes outlined in this bill and what did your analysis find?

Dave: Yes, so what that bill would do is the Raise the Wage Act of 2021 would take the federal minimum wage to $15 an hour by 2025, so it would increase it in five steps. Later this year, it would raise the federal minimum wage to $9.50; next year it would take it to $11; the year after that to $12.50; 2024 it would get to $14; and then it would get to $15 in 2025.

At the same time, it would also raise the tipped minimum wage. So, currently there is a separate lower minimum wage for tipped workers. Tipped workers can be paid as little as $2.13 per hour as their base pay, provided their tips get them up to the regular minimum wage. That's a level that has not been changed since 1991, so 30 years now we've had that.

It would gradually raise that and eventually do away with it so that tipped workers get paid the same minimum wage as everybody else regardless of whether they get tips. It also would remove some other lower minimum wages for workers with disabilities and young workers.

The most important piece of it, obviously, is raising the regular minimum wage. I should also say it would also, once it got to $15, the Raise the Wage Act would do something called indexing the minimum wage. There are 17 states right now that already do this. What happens when you've indexed the minimum wage is every year, however much prices go up, the minimum wage is automatically adjusted to reflect that increase.

So, it essentially keeps the minimum wage rising with the cost of living and you don't have to keep going back and adjusting it every few years. I think this is a good policy. It would solve this problem where we wouldn't have to keep worry about it.

What our analysis showed is that adopting this proposal raising the minimum wage to $15 by 2025 would lift pay for about 32 million workers throughout the country. I mentioned that there are about 22 million that are making less than $15 an hour; they would certainly get a raise. There are also roughly another 10 million folks that we expect would be making just above $15 an hour by 2025, and those folks are also likely to get some wage increase as their employers adjust their internal pay ladders to reflect that new wage floor.

It would give the average affected worker a pay bump of about $3,300 annually in their pay, and that's adjusted for inflation. So, again, that's not living large, but that's a substantial chunk of change for someone who is only making $18/19/20,000 a year. It would disproportionately affect women; as I said, they are overrepresented among these workers. It would disproportionately affect workers of color: about a third of all black workers would get a raise; about a quarter of Latinx workers would get a raise.

And so, it would help a lot of folks be able to afford their basic needs and inject a good amount of money into the economy. We estimated that it would in total raise wages to low-wage workers by about 100 billion dollars. Again, when you look at the size of the overall economy, that's not huge, but in some local communities, that additional spending power among the low-wage workforce can go a long way, can sort of help gin up demand, again, at a time when businesses could use more customers coming through the door.

TM: 16:25

Ed: As a wrap-up, I wonder if you have any final thoughts for those legislators and other policymakers in our audience.

Dave: Yes. I've testified on state and local minimum wage bills many times before and whenever I do, I hear versions of this same story from business owners testifying in opposition, that they've done the math, that the increased labor costs will be untenable for them. And I always feel sympathetic to what they're saying because I understand they're looking at their balance sheets and they're thinking: how am I going to absorb this change.

But I also recognize that it's really hard for those business owners to be thinking about the broader economy-wide impacts, to be thinking outside of their individual payroll numbers.

Raising the minimum wage boosts wages for a broad swath of workers at businesses throughout a state or region. Every business owner in that area that employs low-wage workers is going to be making adjustments, is going to be raising pay, and in that context, it's a lot easier for business owners to try something new, to try to make some new efficiency or to raise prices if they have to, because they know that all of their competitors are doing the same thing and they're not going to be left at a competitive disadvantage.

I often think that in some ways raising the minimum wage kind of gives good business owners an opportunity to do the things they wanted to do anyway but felt that they couldn't. I think there are a lot of good business owners out there that would love to pay their workers more, but they feel like doing so is going to harm their competitive advantage, and raising the minimum wage essentially allows them to go ahead and do that and know that they're going to be on an even playing field in their community.

For that reason, I think that some of those concerns are overblown and the research again shows that higher minimum wages tend to do exactly what they're supposed to do, and most businesses can adjust without too much trouble.

Ed: Well, Dave, thanks for taking us through this issue and sharing your expertise. Take care.

I'll be right back with Saige Draeger from NCSL.

MUSIC and Gene VO:

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Ed: I'm back with Saige Draeger from NCSL. Saige, welcome to the podcast.

Saige: Thanks for having me, Ed.

TM: 19:1

Ed: Saige, I've just been talking with Dave Cooper from the Economic Policy Institute about the federal minimum wage. He noted that many states set their own minimum wage and I'd like to get into that in a little more detail. So first, how many states have their own minimum wage and what's the range?

Saige: There's a broad range of minimum wages in the states. Remember that the federal minimum wage has not changed since 2009, so in the past 12 years, this has really been a state-led issue. Currently five states – these are Alabama, Louisiana, Mississippi, South Carolina and Tennessee – do not have a state minimum wage. And two states, Georgia and Wyoming, have minimums below the federal rate at $5.15.

However, since the federal minimum is a floor, states cannot pay less than it, so the $7.25 standard still applies. Overall, 14 states have a minimum wage matching the federal rate although, remember, because of that wage floor, that number is effectively 21 when you add the seven states that I mentioned previously. So, that leaves 29 with minimum wages above $7.25.

TM: 20:27

Ed: So, of those states that pay more than the federal minimum wage, what's the range?

Saige: The highest wage rate is in D.C. and this is at $15 an hour. California is close behind at $14 an hour. And next year effective January 1, they will actually become the first state to have a statewide $15 minimum wage.

However, even though the $15 an hour standard will be new statewide, many cities and localities across the country have already set minimum wage rates above this level. At least 48 localities that we know of have minimum wage rates higher than their state's minimum. The vast majority of these are large metropolitan areas or localities surrounding large metropolitan areas. Among these localities, the highest minimum wage rate is in Emeryville, California and that's at $16.83 an hour.

TM: 21:25

Ed: Certainly, some legislators would like states to decide on the minimum wage and others would welcome an increase in the federal minimum wage. As you look at the state legislative landscape, what kind of legislation do you see in this area around the country?

Saige: States by and large are increasing wages, and this is in line with the public. So, a majority of people, about eight in ten people, support increasing the minimum wage above its federal rate of $7.25 an hour. The sticking points are generally related to the size of the increase, how quickly that increase should occur, and for whom.

So, many states exclude very small businesses such as those with fewer than five employees, or those with an annual revenue below a specified threshold. Many state statutes also contain smaller occupational exclusions as well as exclusions for seasonal and part-time youth workers.

TM: 22:19

Ed: Are there any common themes in the legislation?

Saige: Yes. So, again, states are broadly proposing increases and these proposals typically seek to raise wages to about $15 an hour over the course of four to six years with wage rates automatically adjusting to account for inflation thereafter.

But there are still a lot of differences between these bills. Some states are instituting training wages for specific workers such as individuals with criminal records. Others are expanding state minimum wage eligibility to workers who are excluded by the federal Fair Labor Standards Act, such as people with disabilities.

So, there is a variety of approaches all of which appear to take into consideration the unique circumstances playing out in each state.

Ed: Well, this is a debate that won't end any time soon. Any final thoughts or resources for our listeners before we wrap up?

Saige: Yes, absolutely. So, as you mentioned, this is an ongoing debate and we do have some pretty recent resources. We published a legis brief a couple of days ago actually on state and federal actions that are related to raising the minimum wage. And this goes into more specific detail on specific state and federal legislative efforts.

Additionally, we are going to be hosting a webinar this summer on the minimum wage. So, we would highly encourage people to stay tuned for more information on that in the coming weeks.

Ed: Well, we'll be sure to link to those resources from the podcast page at ncsl.org. Saige, thanks for filling us in on the state perspective on this issue. Take care.

MUSIC

Ed: And that concludes this edition of our podcast. We encourage you to review and rate our episodes on iTunes, Google Play or Spotify. You may also go to Google Play, iTunes or Spotify to have these episodes downloaded directly to your mobile device when a new episode is ready. For the National Conference of State Legislatures, this is Ed Smith. Thanks for listening and being part of "Our American States."