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Our deeply broken labor market needs a higher minimum wage

EPI testimony for the Senate Budget Committee

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Thank you, Chairman Sanders, Ranking Member Graham, and members of the committee, for the invitation to participate in today's important hearing. I am Thea Lee, president of the Economic Policy Institute, the nation's premier think tank for analyzing the effects of economic policy on America's working families.

Today's hearing poses an important question: Why do large, profitable corporations pay such low wages that their employees are eligible for and must rely on federal anti-poverty programs just to make ends meet? And what policies are necessary to address this problem?

I would like to make the case today that the wage-setting mechanism in the U.S. labor market is massively broken. Four decades of flawed policy decisions have systematically eroded the bargaining power of workers, while simultaneously concentrating the political power and wealth of large corporations and the wealthy.[1]

The result is a labor market where—contrary to neoliberal economic equilibrium models—actual wage levels for most workers reflect generations of accumulated systemic racism, sexism, and occupational segregation; where the federal minimum wage is egregiously inadequate, leaving too many workers below a decent and adequate standard of living; where workers' ability to join in union and bargain collectively has been eroded; and where highly profitable corporations remunerate their executives lavishly, but choose to pay poverty wages to their front-line and production employees.

This labor market outcome is not just unfair and inhumane for workers and their families trapped in low-wage jobs. It is also inefficient, in that it rewards a short-term business model characterized by high turnover and overreliance on government safety net programs. It contributes to slower growth and growing inequality, especially along race and gender lines. And during the pandemic, we saw vividly that those workers most at risk of contracting the virus on the job were also disproportionately those earning at or near the minimum wage.

According to the GAO report requested by Chairman Sanders and this committee, 12 million wage-earning adults are enrolled in Medicaid, and 9 million wage-earning adults are in households receiving assistance from the federal Supplemental Nutrition Assistance Program (SNAP). Full-time work should provide a path out of poverty, but the reality in the United States today is quite different. According to the GAO:

> Approximately 70 percent of adult wage earners in both programs worked full-time hours (i.e., 35 hours or more) on a weekly basis and about one-half of them worked full-time hours annually (see figure). In addition, 90 percent of wage-earning adults participating in each program worked in the private sector (compared to 81 percent of nonparticipants) and 72 percent worked in one of five industries, according to GAO's analysis of program participation data included in the Census Bureau's 2019 Current Population Survey. When compared to adult wage earners not participating in the programs, wage-earning adult Medicaid enrollees and SNAP recipients in the private sector were more likely to work in the leisure and hospitality industry and in food service and food preparation occupations.[2]

Federal anti-poverty programs provide an essential lifeline to people who need it—including single parents and those experiencing temporary setbacks or upheavals, health crises, or disabilities. These programs are not meant to relieve profitable corporations from their responsibility to pay a living wage and benefits and their duty to share the profits and productivity gains that their workers make possible.

These federal assistance programs need to be strengthened and expanded, but we also need to ensure that our labor market and broader economic policies rebalance bargaining power between workers and employers so that unscrupulous and uncaring corporations do not benefit from federally funded social safety net programs, putting more responsible employers at a competitive disadvantage.

Key elements to rebalance bargaining power include the following: First, raise the minimum wage to $15 an hour by 2025, as the Raise the Wage Act provides; second, pass the Protecting the Right to Organize (PRO) Act, which would reform and modernize our labor law so that workers have a fair chance to exercise their rights to form unions and bargain collectively; and third, pass a robust and comprehensive relief and recovery bill, as President Biden has proposed. Finally, going forward, we should prioritize achieving and maintaining a full employment economy.

Our broken system provides an inadequate standard of living for too many workers

In principle, people cannot supply their labor if they cannot sustain themselves and their families. In addition to food, clothing, and housing, basic needs to be funded include health care, transportation, and childcare, among other things.

The federal minimum wage is currently $7.25 an hour, and a paltry $2.13 an hour for tipped workers. We have heard today from Terrence Wise and Cynthia Murphy how unconscionably inadequate this wage is. Today, in every region of the United States, a single adult without children needs at least $31,200—what a full-time worker making $15 an hour earns annually—to achieve a modest but adequate standard of living.[3] By 2025, this need for a $15 an hour wage to reach even an adequate standard of living will be even more acute—it will hold true not just in every region but in every single county, both urban and rural.

The Raise the Wage Act is a policy solution to this crisis

Congress has the opportunity now to pass the Raise the Wage Act, which is included in President Biden's American Rescue Plan Act. The Raise the Wage Act would raise the minimum wage to $15 an hour by 2025, index it to the median wage, and eliminate the subminimum wage for tipped workers. Raising the federal minimum wage now is an essential element of a robust and equitable recovery package.

As my colleague, EPI Policy Director Heidi Shierholz, testified earlier this week at the House Small Business Subcommittee[4]:

- Gradually raising the federal minimum wage to $15 by 2025 would lift pay for nearly 32 million workers—21% of the U.S. workforce.
  - Affected workers who work year-round would earn an extra $3,300 a year—enough to make a tremendous difference in the life of a supermarket clerk, home health aide, or fast-food worker who today struggles to get by on less than $25,000 a year.
  - A majority (59%) of workers whose total family income is below the poverty line would receive a pay increase if the minimum wage were raised to $15 by 2025.
  - **Essential and front-line workers make up a majority (60%) of those who would benefit from a $15 minimum wage.**
  - A $15 minimum wage by 2025 would generate $107 billion in higher wages for workers and would also benefit communities across the country. Because underpaid workers spend much of their extra earnings, this injection of wages would help stimulate the economy and spur greater business activity and job growth.

- Minimum wage workers, and low-wage workers generally, are mostly adults and are also disproportionately women and Black and Hispanic men. Due to the impacts of structural racism and sexism, women and Black and Hispanic men are concentrated in low-wage jobs and would see disproportionate gains from this increase in the minimum wage. A $15 minimum wage would reduce gender and racial pay gaps.
- A $15 minimum wage would begin to reverse decades of growing pay inequality between the most underpaid workers and workers receiving close to the median wage, particularly along gender and racial lines. For example, minimum wage increases in the late 1960s explained 20% of the decrease in the Black–white earnings gap in the years that followed, whereas failures to adequately increase the minimum wage after 1979 account for almost half of the increase in inequality between women at the bottom and middle of the wage distribution.[5]
- Workers in every county of the U.S., not just in places with a relatively high cost-of-living, need $15 per hour to maintain a modest but adequate standard of living.
- The weight of the economic research on the minimum wage, as well as the best scholarship, establishes that increases in the minimum wage have raised the pay of the low-wage workforce without causing meaningful job loss.

This is eminently affordable—both for businesses and for the economy. After adjusting for inflation, the minimum wage is worth 30% less per hour than it was 50 years ago. Yet the economy's capacity to deliver higher wages has more than doubled in the last 50 years, as measured by labor productivity, or the amount of output produced by workers. Furthermore, the average worker today is more educated and more experienced than her counterpart 50 years ago. As **Figure A** shows, had the minimum wage kept pace with labor productivity growth since 1968, the minimum wage would have been $21.69 in 2020, and given projected productivity growth, would be $23.53 in 2025.

Financing the minimum wage through modest price increases would not trigger inflation

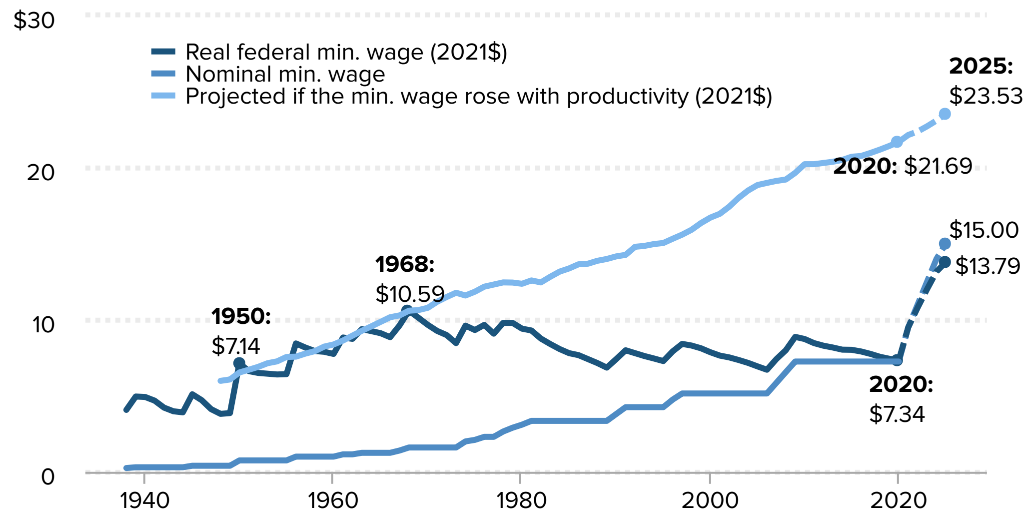
How would an increase in the minimum wage be "financed"? Rather than a single mechanism, many minor adjustments would happen over time, including one-time episodic price adjustments and some shift of income distribution toward low-wage workers.

While some businesses would raise prices to pay for the higher wage standard, the likely price increases are actually relatively modest in the grand scheme of things. That's because low wages account for a very small portion of the overall economy and are therefore unlikely to change the aggregate price level or inflation very much. To put it in perspective: Increasing the minimum wage to $15 in 2025 would increase the total wages going to low-wage workers by $107 billion. Yet total personal consumption expenditures annually are over $14 *trillion.* That $107 billion is well under one percent of total personal consumption expenditures. So even if the *entire* amount were passed on in the form of higher prices (an extreme assumption), it would still have a barely perceptible effect on the

Figure A

The economy can afford a much higher national minimum wage

Real and nominal values of the federal minimum wage, and its real value if it had risen with total economy productivity, 1938–2020, and projected values under the Raise the Wage Act of 2021, 2021–2025



Notes: Inflation measured using the CPI-U-RS. Productivity is measured as total economy productivity net depreciation.

Sources: EPI analysis of the Fair Labor Standards Act and amendments and the Raise the Wage Act of 2021. Total economy productivity data from the Bureau of Labor Statistics Labor Productivity and Costs program. Average hourly wages of production nonsupervisory workers from the Bureau of Labor Statistics Current Employment Statistics.

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overall price level as it was phased in. Furthermore, the minute price changes would happen only during the phase-in period. After reaching the new level, the impact on inflation from regular indexing would be virtually zero, since median wages grow only slightly faster than prices and productivity gains offset any potential inflation risk.

Price increases that would occur would mostly be paid for by those with higher incomes. In fact, the Congressional Budget Office estimated that most of the minimum wage increase would be paid for by families whose average annual income is well above $200,000.[6]

Business owners explain why they support a $15 minimum wage

Many businesses find that raising wages increases productivity, reduces turnover, and improves morale. It is common sense that workers with more income are likely to have access to more reliable transportation to work, child care, and health care, reducing absenteeism.

Angela O'Byrne, President of Perez APC in New Orleans and Louisiana's 2016 Small

Business Person of the Year, says, “A stagnant minimum wage that mires full-time workers in poverty makes absolutely no sense from a business perspective. Paying fair wages boosts consumer demand, which drives job creation. Gradually increasing the federal minimum wage to $15 will create an economic ripple effect benefitting businesses large and small.” [7]

Michael Lastoria, CEO of &pizza, with locations in Virginia, Washington, D.C., Maryland, Pennsylvania, New York, and Florida attests, “When you take care of your people, they take care of your customers, and your business thrives. As a result of fair wages, we’ve seen higher employee productivity and retention. Our employee morale has skyrocketed and, with it, our customer experience and our bottom line. Our employees have become our loudest brand ambassadors.” [8]

Over 200 small business owners have signed a letter in full support of including the Raise the Wage Act in President Biden’s American Rescue Act.[9]

Research consensus affirms wage gains without substantial employment consequences

The weight of economic research in recent years is definitive and convincing: Minimum wage increases have worked exactly as intended, by raising wages without substantial negative consequences on employment. High-quality academic scholarship examining dozens of case studies confirms that modest increases in the minimum wage have not led to detectable job losses. In a review of the research, University of Massachusetts, Amherst, professor Arindrajit Dube found that the median employment effect for a given wage increase was essentially zero across studies.[10] University of California, Berkeley, economist Sylvia Allegretto and co-authors found that studies using the most high-quality, credible research designs also detected little to no employment effects.[11] Even when minimum wages lead to reductions in labor demand, this may show up as small declines in annual hours for minimum wage workers, leaving them with higher earnings (and less need to rely on public support). Taken together, these scholars’ reviews suggest that both the typical study as well as the highest-quality research show that there has been little downside to raising minimum wages.

Even studies that predict job losses, as did a recent study by the Congressional Budget Office, also predict that a $15 minimum wage in 2025 would overwhelmingly benefit the low-wage workforce, raising their total earnings and reducing the number of people in poverty by nearly a million.[12]

This month, the Economic Policy Institute released a letter from top economists supporting raising the minimum wage to $15 by 2025.[13]

A uniform $15 federal minimum wage would provide a secure foundation and level playing

field for young people and adults across the country

Much of the research on employment effects cited above has focused specifically on teenagers, a feature worth noting amid concerns raised by some commentators that a $15 minimum wage could price young workers out of the market. In fact, these targeted studies show little impact on employment, even for teenagers. It is worth noting that even though the vast majority of workers who would benefit from a higher minimum wage are prime-age workers, teenagers and entry-level workers are starting out in the workforce at a dramatically lower position than their counterparts a generation ago. In 1968, someone starting off at minimum wage earned just over half a typical middle-class wage. Today, the minimum wage is less than a third of the median wage. This means young people are beginning their work life much farther from the middle class than did entry-level workers of past generations. But the main benefit of raising the minimum wage is to help adults. Only one in ten of those who would get raises is a teenager.

Some have argued that we should adopt a regional minimum wage, so that we set a lower floor in states where wages are currently lower. But this would lock in existing regional and racial inequities.[14] Persistently lower wages in many states are, in part, a result of a history of weak labor standards, including inadequate minimum wages.[15] In addition, wealthier states and localities can and will raise their own wages above the federal level—as has happened in recent years—because of the shameful inaction at the national level. Several of the richer states have already implemented their own state-level wage floors that would remain above the federal level even after the Raise the Wage Act is fully phased in.[16]

Others have raised concerns about the affordability of a higher minimum wage in rural labor markets. Actually, businesses in rural communities have *more* leeway to increase wages, because a lack of competition for workers means these businesses are more likely to be able to keep wages artificially low to begin with. Since there are fewer large employers competing for workers in rural areas, it is even more important to ensure that rural workers can bargain on a level playing field with employers.[17]

And many small businesses can be helped by a higher minimum wage: It makes it easier for them to recruit and retain workers, especially since many large employers compete by forcing down wages for their own workers *and* forcing down wages and profits at smaller supplier firms all through the labor market. This “dominant buyer” or “lead firm” effect is by far the most damaging part of big firms’ market power, and a higher federal minimum wage is the most direct way to shield workers at smaller firms from its corrosive effects.[18]

A $15 minimum wage would have significant and direct effects on the federal budget

My EPI colleagues Ben Zipperer, David Cooper, and Josh Bivens recently examined how increasing the minimum wage would impact the federal budget.[19] They found:

> If the 2021 Raise the Wage Act were passed and the federal hourly minimum wage increased to $15 by 2025 … annual government expenditures on major public assistance programs would fall by between $13.4 billion and $31.0 billion.
>
> Earned income tax credit (EITC) and child tax credit (CTC) expenditures would decline by somewhere between $6.5 billion and $20.7 billion annually.
>
> Expenditures on the Supplemental Nutrition Assistance Program (SNAP) and other major government transfers would fall by between $5.2 billion and $10.3 billion annually.
>
> Reduced annual expenditures on SNAP alone would range from $3.3 billion to $5.4 billion.

They also estimated that the $15 federal minimum wage in 2025 would increase annual Federal Insurance Contributions Act (FICA) revenue by between $7.0 billion and $13.9 billion.

Conclusion: A $15 minimum wage would help heal our deeply broken labor market

When the GAO revealed that millions of full-time workers rely on food stamps and Medicaid it underscored how deeply broken our labor market is today. Especially in the wake of the pandemic and associated economic cataclysm, it is urgent that Congress act to rebalance bargaining power in the labor market. Raising the federal minimum wage to $15 and reforming our labor laws are essential first steps. These actions would pave the way for an equitable and robust recovery and ensure that profitable corporations live up to their end of the social bargain and that government safety net programs can fulfill their intended purpose.

Endnotes

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