

FAQ

Myths vs. facts about the minimum wage

An FAQ on the economics of increasing wage
floors

Report • By Sebastian Martinez Hickey • June 1, 2026

For nearly 90 years, the minimum wage has been one of the core labor standards shaping job quality for workers in the United States. Since the 1938 enactment of the federal minimum wage as a core pillar of the Fair Labor Standards Act (FLSA), policymakers in Congress and later in dozens of states, cities, and counties, have adopted hundreds of minimum wage policies—setting wage floors across and within industries, at varying levels of geography (national, state, and local), and applying in different ways to different groups of workers and employers. This abundance of experience across a wide range of jurisdictions and industries has provided ample opportunity to understand how minimum wage policies—and the failure to adjust them—affect workers, employers, and the economy. Debates surrounding the minimum wage have also generated consistent and pervasive myths about the policy. These are the facts:

Does raising the minimum wage increase unemployment?

In brief: No. High-quality economic research finds increasing the minimum wage does not significantly impact employment.

In detail: The **90% of high-quality** economic studies show that increasing the minimum wage boosts wages for low-wage workers without meaningfully increasing unemployment. These studies use statistical tools and empirical methods to measure what happens to workers before and after a minimum wage increase, controlling for other factors that can impact employment. The consistency of these findings across time, place, and level of increase is powerful evidence that increasing the minimum wage creates a healthier low-wage labor market.

An increase in the minimum wage raises the cost of labor for businesses by definition, but the economy can absorb these changes through **channels of adjustment** including decreased turnover, modest price increases (see **Question 2**), lower profits, and the reallocation of workers to more productive firms. Even if a minimum wage increase leads businesses to adjust their staffing levels, **what workers are likely to experience are decreases in hours worked** or increased time between jobs, not categorical unemployment. Higher hourly earnings can more than offset these reductions, leaving many workers with greater total income even if they are working fewer hours.

Will raising the minimum wage cause inflation?

In brief: No. Increasing the minimum wage does not meaningfully increase prices.

In detail: Economists do find that raising the minimum wage increases prices at affected businesses but only very modestly. For example, **one study** found that a 10% minimum

wage increase was associated with a 0.14 percentage point increase in the Consumer Price Index. A study focused on the restaurant industry found a 10% increase in the minimum wage was associated with a 0.58% menu price increase. Even some of the most ambitious minimum wage policies, such as California’s \$20 hourly wage floor for fast-food workers, only increased fast-food prices 2.1% (around 8 cents for a \$4 item).

The economic benefits of the minimum wage far exceed these price increases. For low-wage workers, the wage boost from the higher minimum wage more than compensates for increased prices of the goods and services they buy. These workers are in turn spending more in aggregate because of their additional income, which can boost the overall economy. It is also worth noting that modest price increases on things like restaurant menu items are redistributive. Higher-earning consumers pay higher prices, transferring income to low-wage workers receiving bigger paychecks.

Claims that increasing the minimum wage will dramatically increase prices in the economy are false. Low-wage labor is a small share of total business expenses. In restaurants, for example, total labor costs are around 30% of operating costs—which also include rent, food, utilities, and insurance—and the wage bill of the lowest paid workers is an even smaller amount. This, combined with the fact that minimum wage increases can be offset through reduced profits, lower turnover, and higher productivity, is why price increases are small.

Will businesses just relocate if a state or locality raises its minimum wage?

In brief: The best economic research suggests businesses do not move in response to minimum wage increases.

In detail: One way that economists try to understand the impact of minimum wage increases is to compare economic outcomes across jurisdictional borders where a minimum wage increase took effect on one side but not the other. An analysis of cross-state and county impacts of all local minimum wage differences between 1990 and 2006 found no evidence that employment decreased in the places where the minimum wage went up or that employment increased in the places without a minimum wage increase. More recent research supports these findings, strongly suggesting that businesses are not relocating or moving their workers in response to minimum wage changes.

Businesses commonly affected by minimum wage changes (such as restaurants and retail) want to locate where there are consumers with money to spend. Because raising the minimum wage boosts the spending power of low-income households, it can strengthen the local customer base for these direct-to-consumer businesses even as it raises their labor costs.

Is the minimum wage an effective way

to fight poverty?

In brief: Increasing the minimum wage does reduce poverty and should be paired with a strong safety net.

In detail: Minimum wage increases do significantly reduce poverty by boosting household income, especially among low-income households. Research has found that a 10% increase in the minimum wage **reduces nonelderly poverty** by 2–4%. When EPI **applied this research** to the 2021 Raise the Wage Act (which would have gradually increased the minimum wage to \$15 an hour), an estimated 1.8 to 3.7 million individuals would have been lifted out of poverty, including up to 1.3 million children.

The current weakness of the federal wage floor exposes workers to poverty-level wages. As of 2025, a full-time worker earning the federal minimum wage makes **less than the poverty line**. A stronger wage floor would generate more savings across critical safety net programs like Medicaid, SNAP, the Earned Income Tax Credit (EITC), and the Child Tax Credit (CTC), as fewer workers would need or be eligible for these programs due to their increased wages. The safety net would thus be more targeted toward the households that need assistance the most. Those public savings can and should be reinvested in those programs to make benefits more generous.

Can increasing the minimum wage harm workers by pushing them over a “benefits cliff”?

In brief: The minimum wage does reduce safety net program eligibility, but the wage gains almost always outweigh the loss of benefits.

In detail: Most income-tested safety net programs are not characterized by “cliffs” but rather gradual phase outs. Nevertheless, when a worker’s income increases because of a minimum wage increase, they can lose eligibility to programs like Medicaid, EITC, CTC, SNAP, and housing assistance. **Research** on the interaction between the minimum wage and safety net eligibility finds that benefit reduction is significantly outweighed by the increase in income from the minimum wage. Benefit reductions offset around a third of the income increases for low-income families caused by the minimum wage—meaning that on net they still benefit overwhelmingly.

Higher minimum wages also help low-wage workers increase their access to medical coverage. While minimum wage increases can lift workers out of income eligibility for Medicaid, they simultaneously increase the take-up of **employer-based health insurance plans** by many low-wage workers, since those workers can more easily afford those plans. Many workers who lose Medicaid eligibility also can receive heavily subsidized private health care through the Affordable Care Act (ACA) exchanges. Researchers estimate that the \$20 fast-food minimum wage in California could push almost **60% of Medi-Cal** eligible

workers in the industry off Medi-Cal and onto alternative health insurance. The wage benefits of the wage floor increase far outweigh the annual premium contributions workers must pay for ACA marketplace healthcare, even accounting for the Trump administration's choice to let expanded subsidies for the [ACA expire](#).

The reduction in public benefit usage created by higher minimum wages generates substantial savings for federal and state government. These savings should be reinvested in the safety net by expanding program eligibility or otherwise strengthening programs.

There are some safety net programs, which have cliff-like characteristics, like [child care assistance](#), [although states are required to provide a graduated phase-out](#). In rare cases where changes in program eligibility from a minimum wage increase does reduce a family's total income, this indicates that the design of these programs' eligibility criteria needs reform, not that the minimum wage increase should be abandoned.

Should lower cost of living in the South and Midwest mean a lower wage floor in those states?

In brief: Even accounting for differences in the cost of living, the minimum wage is far too low in many states across the South and Midwest.

In detail: Cost of living does vary between states and regions across the country, but the minimum wage is still too low across the South and the Midwest. According to EPI's [Family Budget Calculator](#), even under conservative assumptions of what constitutes a [living wage](#), there is almost no county in the U.S. where a single adult worker can achieve a modest but adequate standard of living earning less than \$15 an hour. In fact, many metro areas in the South and Midwest are much more expensive to live in. The living wage in Austin, Atlanta, and Charlotte exceeds \$20 an hour. Affordability is still a pressing issue across these regions, even if on average the cost of living is lower. Notably, voters in Florida, Missouri, and Nebraska passed ballot referenda to raise their state minimum wages to \$15.

Low wage floors in Southern and Midwestern states hurt workers by suppressing their pay. [Most of the states](#) that use the \$7.25 federal minimum wage are in the South and Midwest, meaning the effective wage floor in these states is a poverty-level wage (see [Question 5](#)). Compounding the problem, many states in these regions [preempt localities](#) from passing their own minimum wage policies, preventing policymakers in these jurisdictions from setting wage floors that meet the needs of workers. The use of preemption to dismantle higher labor standards like the minimum wage in the [South](#) and [Midwest](#) has a long history of being used to reinforce anti-Black racism and white supremacy in these regions.

Can employers ever pay less than the

minimum wage?

In brief: Most U.S. minimum wage laws do exempt some groups of workers (such as farmworkers) or set lower minimum wages that apply in certain circumstances (such as for workers who customarily receive tips). Unfortunately, these exemptions can be deeply harmful to workers; in some cases, they were originally adopted to exclude workers of color from minimum wage protections.

In detail: Federal and state labor standards make several groups of workers either ineligible for minimum wage protections or subject to a separate “subminimum wage.”

The FLSA exempts a variety of occupations and types of workers from minimum wage protections. Agricultural workers are excluded from the federal minimum wage entirely and workers who customarily **receive tips** may be paid a subminimum wage (sometimes called the “tipped minimum wage”) as low as \$2.13 an hour (see **Questions 8–11**). **Both of these** exemptions originated as ways to exclude Black workers from New Deal economic policies in order to appease Southern lawmakers. Originally, the FLSA also excluded domestic workers, another group of workers with a high concentration of Black workers, but lawmakers extended **coverage** to them in 1974.

The FLSA also allows employers who have been granted a certificate from the U.S. Department of Labor to pay less than the minimum wage to employees with disabilities (see **Question 14**).

Another category of federal exemptions and subminimum wages impact **young workers**. Youth under 20 can be paid as little as \$4.25 per hour for their first 90 calendar days of employment. Full-time students, apprentices, and student-learners can also be subject to subminimum wages. And specific occupations typically held by young workers, like babysitters and seasonal amusement workers, are exempt.

Workers misclassified as independent contractors, such as **gig economy** workers and other **wrongly classified** employees are not eligible for FLSA protections, including the minimum wage. Also, despite the fact **around half of incarcerated people work full-time**, these individuals are also excluded from the minimum wage.

State and local policymakers in many states have made efforts to close many of these gaps in minimum wage coverage, but states that do not go beyond the federal standards maintain these exemptions.

Does raising the tipped subminimum wage hurt the restaurant industry?

In brief: Tipped workers are low-wage workers who need wage increases just as much as any other type of worker. Economic research does not find that boosting the minimum wage for tipped workers hurts the restaurant industry.

In detail: There is no inherent economic reason why tipped workers should be paid a lower minimum wage than other workers. The fact that U.S. law allows this can be traced directly back to **racist economic practices** following the abolition of slavery. **Seven states** do not have a separate subminimum wage for tipped workers yet still have strong restaurant and hospitality industries. Economic research on the **restaurant industry** finds that tipped minimum wage increases boost wages for workers without affecting employment. Similarly, when the District of Columbia increased its tipped minimum wage, the restaurant industry did not suffer in terms of **employment growth or number of establishments** when compared with the U.S. average or nearby counties.

Don't tipped workers earn enough to earn a living wage?

In brief: Tipped workers, including restaurant servers and bartenders, are **overwhelmingly low-wage workers**. Many struggle to make ends meet, especially those in states where they can be paid less than the minimum wage.

In detail: Tipped workers are **more than twice as likely** as non-tipped workers to be in poverty. Poverty rates of tipped workers who live in states that use the federal tipped minimum wage of \$2.13 are substantially higher than poverty rates of tipped workers in states that use the same minimum wage for all workers, regardless of tips.

The subminimum wage for tipped workers exacerbates economic insecurity for many workers. Employers are legally required to ensure that on a weekly basis, tipped workers' tips cover the gap between the tipped minimum wage and the regular minimum wage for all hours worked that week, on average. If they do not, employers are responsible for making up the difference. In practice, this requirement is exceptionally difficult to enforce, as it is largely left to workers themselves to track their hours and tips, make the relevant calculations, and then confront their employer if something seems amiss. As a result, tipped workers—who are already paid low wages—are particularly vulnerable to **wage theft**.

Will raising/eliminating the tipped minimum wage lead to fewer tips or force restaurants to end tipping?

In brief: Tipping is deeply embedded in U.S. culture. Even in places with no separate tipped subminimum wage, workers still receive tips and typically have higher overall take-home pay than their peers in places with a separate tipped subminimum wage.

In detail: In the seven states that do not have a tipped subminimum wage, tipped workers continue to receive tips. According to the **Toast platform**, California (a state where tipped

workers receive the full minimum wage) had the lowest tipping rate (i.e., the average percentage tip on a bill) in the country at 17.2%. This is less than 5 percentage points less than Delaware, the highest tipping state (21.8%). By contrast, the effective minimum wage for tipped workers in California (\$16.90) is more than seven times greater than in Delaware (\$2.23). EPI research finds that tipped workers in states without a lower tipped subminimum wage earn, on average, **17% more per hour** in total take-home pay (base wages plus tips) than tipped workers in states that use the federal \$2.13 tipped subminimum.

There is nothing wrong with workers receiving tips for their work in service jobs, but formalizing tipping in minimum wage law allows employers to shift responsibility for paying their workers onto customers. This in turn means workers are more vulnerable to harassment, discrimination, and other forms of abuse. Restaurant workers, particularly women, are subject to the highest rates of sexual harassment of **any industry**. Research has also found that **racial discrimination** leads to Black workers receiving fewer tips than their white counterparts. Relying on tipping means workers have less ability to avoid or protect themselves from harmful interactions in the workplace.

Does the so-called “no tax on tips” deduction eliminate the need to raise the tipped minimum wage?

In brief: The 2025 budget tax bill did create a temporary tax deduction for tipped income, but for most tipped workers the benefits are modest and pale in comparison to the benefits of increasing the wage floor.

In detail: The 2025 Republican budget bill created a new, temporary federal income **tax deduction for tipped income**. This policy does little to address the precarity of tipped work and the benefits to most tipped workers pale in comparison to the gains they would receive through a significant minimum wage increase. The tax deduction encourages employers to rely more on tipped jobs and avoid raising base wages, exacerbating the low wages and challenging conditions of most tipped jobs (see **Questions 9 and 10**). Many tipped workers earn too little to qualify for the benefit, and those that do will likely see modest tax benefits. Whereas the **average annual benefit** for an eligible tipped worker will be around \$1,700 a year for the three remaining years the deduction is in place, a minimum wage increase to \$15 per hour would boost earnings by \$3,200 a year for a full-time worker, in perpetuity.

Aren't most minimum wage workers teenagers?

No, the vast majority of workers impacted by the minimum wage are not teenagers. Low-

wage work is a **widespread problem** and not just isolated to younger workers. EPI's analysis of the **2025 Raise the Wage Act** found that only 14% of the workers that would be impacted by the policy were younger than 20 years old.

Will raising the minimum wage hurt young workers in their first jobs?

In brief: Higher minimum wages cause little to no employment changes for teenagers.

In detail: The **majority of studies** find little to no evidence that the minimum wage causes employment losses for teen workers. Instead, their incomes increase as they earn higher pay. It is also worth keeping in mind that teen workers are a **minority** of low-wage workers, and a **shrinking share** of the workforce overall as the cultural and economic emphasis on education has grown. To that end, minimum wage increases can support young workers' educational attainment, particularly for low-income teens. Minimum wage increases significantly **improve high school graduation** rates for low-income students, a vital investment that can have large long-term consequences for those workers' lifetime earnings.

Do workers benefit from the FLSA's subminimum wage for workers with disabilities?

In brief: The federal subminimum wage for disabled workers does not provide real wage protections and is out of step with the most effective ways to boost employment for workers with disabilities.

In detail: Under **Section 14(c)** of the Fair Labor Standards Act, employers can apply for special certificates with the Department of Labor that allow employers to pay workers with mental or physical disabilities less than federal minimum wage. Employers can only apply for certificates if the worker's disability actually impairs the worker's earning or productive capacity. An **overwhelming share (96%)** of 14(c) employees work in so-called "sheltered workshops" which put workers with developmental disabilities in isolated, noncompetitive environments.

These certificates apply to a small number of workers (less than **37,000** nationally) but also produce exceedingly low pay for workers with disabilities. **Nearly half of 14(c) workers** were paid less than \$3.50 an hour, exacerbating the economic precarity experienced by disabled workers. Disabled adults are 24.1% more likely to live in poverty than other adults. The low pay permissible under 14(c) perpetuates these workers' struggle to make ends meet. This measure is also unnecessary for providing well-paying employment opportunities to workers with disabilities.

Researchers [studying state repeals of 14\(c\)](#) have found that the change has not hurt disabled workers' employment. In Maryland, eliminating the provision caused no significant change to disabled worker employment, while in New Hampshire, employment increased. An [analysis of the federal AbilityOne program](#), which is composed of nonprofits that primarily employ workers with disabilities, found that state and local minimum wage increases did not impact the employment of those workers. Employers also do not appear to shift more workers to 14(c) certificates in response to minimum wage increases.

Overall, the use of 14(c) certificates has been declining over time. Across the country, [27 states and D.C.](#) have eliminated or restricted the use of the provisions, reflecting that the policy does not offer real wage protections for disabled workers and that there are [superior models](#) of employment for workers with developmental disabilities. Respecting the dignity of workers with disabilities requires prioritizing real pay and inclusion in supportive, but integrated employment opportunities.

Many cities and states already have minimum wages above \$15 an hour. Is increasing the federal minimum wage still important?

In brief: Yes, tens of millions of workers still earn less than \$15 an hour. In many states and cities, higher wage floors are needed to provide meaningful economic security.

In detail: In the last decade, [dozens of cities and states](#) have responded to federal minimum wage inaction by enacting stronger wage floors, in many cases reaching or exceeding \$15 an hour. As of 2026, more workers work in a state with [at least a \\$15](#) minimum wage than in a state using the federal minimum wage. However, there are still 20 states that use the federal \$7.25 wage floor and around [14 million workers](#) earn less than \$15 an hour.

Even places with recent minimum wage increases might need higher wage floors. The first \$15 minimum wage was enacted in 2013. Prices have risen substantially since then, and consequently, the value of targets like \$15 an hour has declined significantly. According to EPI's [Family Budget Calculator](#), \$15 is not a living wage almost anywhere in the country. Many cities and states have at least partially protected their wage floors by adopting automatic annual adjustments to account for inflation, but if the initial value is too low, this inflation-indexing only locks in an unlivable floor.

Very few workers earn the federal minimum wage of \$7.25 an hour. Is the minimum wage even relevant

anymore?

In brief: The fact that so few workers earn the federal minimum wage is a policy failure, not a reason to abandon the policy. The minimum wage is a vital tool for lifting wages and addressing systematic power imbalances between workers and employers. The failure to adequately raise the minimum wage over time has left millions of workers being paid less today than they could have been earning.

In detail: It is true that a **small fraction** of the labor force earns exactly the federal minimum wage, but this is a policy failure that has left tens of millions of workers with lower wages. Had Congress simply raised the federal minimum wage to keep pace with inflation since the late 1960s, **it would be over \$12.50 today**. According to EPI's **Low Wage Workforce Tracker**, 14 million workers earn less than \$15 an hour, while 42 million earn less than \$20 an hour. The minimum wage does not just impact workers at the very bottom of the wage distribution; it exerts upward pressure for low-wage workers in general. Minimum wage increases create “spillover effects,” where workers above the new minimum wage threshold also see wage increases as employers keep wage ladders and seniority consistent in their firms.

It is important to recognize that without leveraging policy tools like the minimum wage, the low-wage labor market gives employers excess power to set low wages. Workers have limited information about the wages and work policies at alternative employers and can be constrained in their job choices by limited transportation options or the need to maintain specific schedules for child care and other family needs. These economic “frictions” add up, providing leverage for employers to pay lower wages than is optimal for the economy. In short, the longstanding failure to increase the federal minimum wage suppresses worker pay, leaving low-wage workers worse off every year there is no increase.

Does raising the minimum wage lead to automation of low-wage jobs?

In brief: The minimum wage is not a primary cause of automation of low-wage work, but automation is changing the tasks and occupations of some low-wage workers.

In detail: Increasing the cost of low-wage labor can encourage businesses to invest in automation. This can lead to disruption for specific low-wage jobs, or changes in the roles in those occupations. Since we see that the minimum wage does not increase unemployment for low-wage workers (**Question 1**), the effects of automation on these low-wage jobs are either limited or counterbalanced by expanding employment in other occupations. Evidence suggests that while in recent years **automation is taking over** a growing number of routine tasks from low-wage workers, the minimum wage has a limited contribution in driving that adoption. Researchers with access to extensive data on McDonalds franchises nationwide found that, while the **adoption of touch-screen ordering kiosks** grew significantly between 2017 and 2019, there was no evidence that uptake was

driven by minimum wage increases. So far, the overall employment impact of automation on low-wage workers has been insignificant, as reductions in occupations with high amounts of routine tasks have been replaced with greater demand for jobs with **interpersonal tasks**.

Technology is a tool, but the **balance of labor market power** determines who it helps. Automation has been a feature of our economy since the industrial revolution, boosting productivity in our economy. Technological change can disrupt employment for specific sectors or professions, but in aggregate the economy benefits. Workers benefit from these productivity increases when there are strong labor institutions like access to unions, a strong minimum wage, and policies that support full employment. When those institutions are weak, the gains from technological advancement are not shared widely and contribute to increased inequality.