



ORIGINAL RESEARCH PAPER

Economics

RAISING THE MINIMUM WAGE OF THE US WORKFORCE

KEY WORDS: Minimum Wage, Poverty, Fair Labor Standards Act (FLSA), Demography, Income Inequality, Wealth Inequality, Racial and Gender Inequality.

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ABSTRACT

“The Lawrence Textile Strike, also known as the Bread and Roses Strike”, prompted the first minimum wage law in the United States in 1912. Various states followed suit over the next two decades, and in 1938, at the height of the Great Depression, Congress passed the Fair Labor Standards Act, which created a federal minimum wage (FLSA). The basic incentive behind the introduction of the Act was to reduce income inequality. A rise in minimum wage acts as a form of relocation of wealth from higher-income people to lower-income people.

In principle, Congress amends the FLSA on a regular basis to raise the federal minimum wage to levels necessary for even the lowest-paying workforces in the economy. It also aims to help low-wage workers benefit from overall economy-wide advances in living standards. However, this has historically not always been the case. In 1968, The Poor People’s Campaign started because of not raising the minimum wage to sufficient levels¹.

The explicit purpose of the federal minimum wage is to help increase consumer purchasing power which stimulates the economy and to keep America’s workforces out of poverty. However, the law failed to include the automatic cost of living adjustments and led to inflation eroding the real value of the minimum wage over time.

There is a dire need for legislative action to raise the nation’s wage floor, more so than ever during the COVID-19 pandemic. Unless consumer’s purchasing power is increased, it will be difficult to come out of this recession. Further, the minimum wage is a direct concern for poverty levels and gender / racial inequality. This paper aims to analyze previous work on the issue and provide further recommendations for the same.

2. Minimum Wage History

Many factors are contributing to the economic inequality; however, the common thread that binds almost all of them is the erosion of the bargaining power of low- and middle-wage earning workers.

The situation of weak economic influence for most workers is NOT the “unfortunate-but-inevitable” result of natural tendencies in technology and worldwide integration of economy; it is instead the creation of years of attack on workers’ bargaining power. The laws intended to defend working people have been largely abandoned by representatives since they were enacted in the last seventy-five years, in the case of underpinning acts like the “National Labor Relations Act (NLRA) and the Fair Labor Standards Act (FLSA)”. Meanwhile, corporate America has thrived in getting representatives to push back key worker guards, and they have unconventional corporate practices that guarantee that less and less workforces gets assistance from prevailing laws. The consequence of these attacks was that most of the workforces have miniscule negotiating power to claim their reasonable portion of the rising economic pie.

2.1 Declining Purchasing Power

In 1938 the wage was first introduced at \$0.25 per hour (equivalent to \$4.54 in 2019). Since 2009 the minimum wage has persisted at \$7.25. The real value of the federal minimum wage fell 17% since 2009 and 31% since 1968. (Cooper, et al. 2019)².

After the longest period in history without an increase, the federal minimum wage today is worth **17% less** than 10 years ago—and **31% less** than in 1968



Note: All values are in June 2019 dollars, adjusted using the CPI-U-RS. Source: EPI analysis of historical minimum wage data in the Fair Labor Standards Act and amendments. Economic Policy Institute

Figure 1 Real Value of the Minimum Wage

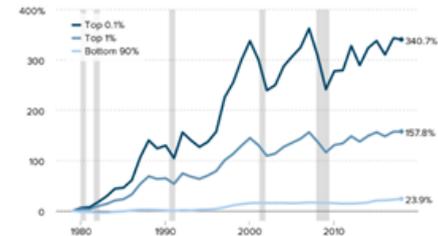
Today low-wage workforces work longer hours just to reach standards of living that were considered the basic minimum fifty years back. Due to neglect of representatives to preserve this basic labor standard, a family with a sole worker today who earns the minimum wage does not earn enough to bring his / her family above the federal poverty line even through full-time work (\$26,500 for 4-member family as per HHS’s Poverty Guideline for 2021)³.

2.2 Rising Income Inequality

As seen above “excess” productivity exists but where did this go? A substantial share of it passed on to corporate profits and augmented income accumulating to capital and business owners (Biven, et al. 2014). But all the gains went to those at the very top of the wage dispersal as seen below, between 1979 and 2018, cumulative gains in annual wages of up to 157.8% were seen by the top 1% earners far above the economy-wide output growth and six times faster than average growth for the bottom 90%. During the same time, top 0.1% earnings grew by 340.7%⁴ (Gould, et al. 2020).

Top 0.1% earnings grew 15 times as fast as 90% earnings

Cumulative percent change in real annual earnings, by earnings group, 1979–2018



Note: Shaded areas denote recessions. Source: EPI analysis of Kopczuk, Saez, and Song, *Earnings Inequality and Mobility in the United States: Evidence from Social Security Data Since 1937* (2010), Table A3, and Social Security Administration wage statistics, as constructed by Mishel and Kasza; see “Top 1.0% of Earners See Wages Up 157.8% Since 1979” (December 2019)

Economic Policy Institute

Figure 2 Cumulative % change in real yearly incomes, by group 1979-2018

Bill Gates, Jeff Bezos, and Warren Buffett — now own more wealth than the whole lowest half of the American population, a total of 160 million persons or 63 million families⁵ (Collins, et al. 2017).

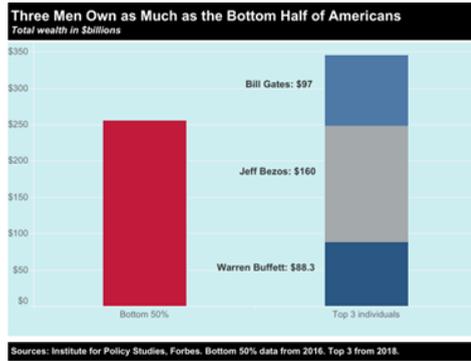


Figure 3 three wealthiest own bottom 50% wealth.

2.3 Racial and Gender Wealth Inequality

Black and Hispanic workforces earn less than white workforces at every schooling level. At nearly every schooling level, black and Hispanic workers were paid less than their white counterparts, while Hispanic workers were consistently paid more than black workers (Gould, et al, 2020).

On average, white workers are paid more than black and Hispanic workers at nearly every education level
Average hourly wages, by race/ethnicity and education, 2019

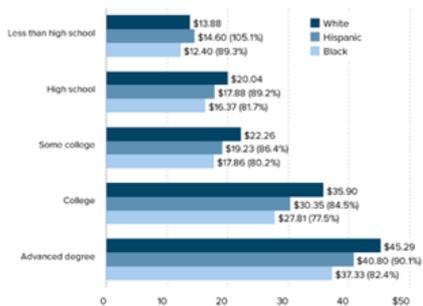


Figure 4 Average hourly wages, by race / ethnicity and education, 2019

While low wages do hurt all workforces, they are particularly harmful to workforces of color, precisely women of color who make up a large share of severely underpaid workforces. This is a result of years of structured racism and sexism in an economic history rooted in slavery in which workers of color have and continue to be discriminated against and pushed into the most underpaid jobs in the economy.

Female-dominated professions — such as childcare and cafeteria service — continue to occupy the lower rungs of the U.S. wage ladder. Only 5% of CEO's are women at Fortune 500 companies, whereas they make up 63% of minimum wage workforce and that wage is stagnant at \$7.25 since 2009. Those Fortune 500 CEOs took home \$13.1 million on average in 2016 (Inequality.org)

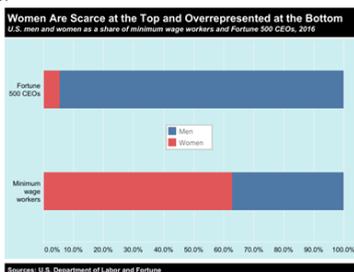


Figure 5 Women representation in workforce

3.The necessity of raising Minimum Wage

3.1 Direct benefits of implementing the Raise the Wage Act-

Summary of effect of raising Federal Minimum Wage (Cooper, et al, 2021)-

- The Act would result in increased wages for 32 million (21%) workers. This translates into a \$3,300 increase in pay for the average affected-year-round worker.
- 1.3 million workers would be lifted out of poverty, including 600,000 children under the Act. 6 in 10 families whose total income is below the poverty line would be benefited.
- The act will be a robust tool to address racial and gender pay inequality. Under the Raise the Wage Act, nearly one-third of all Black workers (31%) and one-quarter of Latinos (26%) would get a raise. Also, women comprise nearly 59% of workers who would see their pay increase under the bill.
- The Act increases tipped wage from \$2.13 to \$4.95 in 2021, youth minimum wage (under 20 years) from \$4.25 to \$6.00 in 2021 and individuals with disabilities from subminimum wages to \$5.00 in 2021.

Table 1 Scheduled Minimum Wages Increases Under the Raise the Wage Act of 2021

Year	Minimum Wage	Tipped Wage	Youth Wage	14(c) Wage
Current	\$7.25	\$2.13	\$4.25	Subminimum Wages
2021	\$9.50	\$4.95	\$6.00	\$5.00
2022	\$11.00	\$6.95	\$7.75	\$7.50
2023	\$12.50	\$8.95	\$9.50	\$10.00
2024	\$14.00	\$10.95	\$11.25	\$12.50
2025	\$15.00	\$12.95	\$13.00	\$15.00
2026	Index to Median Wages	\$14.95	\$14.75	Equal to Standard Minimum Wage
2027		Equal to Standard Minimum Wage	Equal to Standard Minimum Wage	

3.2 Reduce public assistance spending

Nearly half of workers who would get a raise under the Raise the Wage Act has at least one family member in a public assistance program, totaling \$107 billion annually⁸ (Jacobs, et al. 2021). Raising the minimum wage would result in substantial reductions in federal assistance spending. If Raise the Wage Act 2021 were passed and the federal hourly minimum wage would be increased to \$15 by 2025, EPI estimate that annual government expenditures on major public assistance programs would fall by between \$13.4 billion and \$31.0 billion (Zipperer, et al. 2021).

4. CONCLUSION

For almost one decade now, The United States has not seen an increase in the federal minimum wage. The buying power of workers has been affected due to an ever-increasing inflation rate with which the minimum wage has failed to keep pace. The wage growth has been irregular and inadequate for past forty years. This is the outcome of a series of biased policies which include tolerating excessive unemployment; failing to periodically raise the minimum wage; allowing globalization to suppress workers pay in wages etc. which deteriorated the workers status over the years. Restoring minimum wage to levels of a generation ago should be uncontroversial, even though such a raise would be insufficient. The productivity gains due to technology over the past fifty years have not benefited all workers. Raising the minimum wage is vital yet even this Act would not help workers achieve a transformational rise in living standards. However, the Act is a key policy to reverse years of rising inequality. It will act as a

first step in stopping erosion of the minimum wage and thus improve living standards for the lowest wage workers.

5. Further Research

Policymakers could take steps to foster stronger broad-based wage growth. Some steps could be to raise the minimum wage on specific city-based expenses; address gender, racial and ethnic pay disparities and protect workers’ rights to demand higher wages and benefits. The concept of a living wage might seem more logical in the coming years. The current Minimum Wage act of 2021 does index the wage to median, it would require further research on the effects of inflation and demographics of workers.

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