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Why Biden's Minimum Wage Idea Is Old News for States

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The U.S. minimum wage, \$7.25 an hour, hasn't been raised since 2009. But 29 states and the District of Columbia and at least 53 cities and counties have lifted their pay floors above the national mandate. So have a number of corporations including Walmart Inc., which now offers minimum starting pay of \$11 an hour, and Amazon.com Inc., which raised its minimum wage in the U.S. and the U.K. to \$15 an hour. So President-elect Joe Biden's proposal to more than double the federal minimum wage, to \$15 an hour, is at once dramatic and a little anticlimactic.

1. What is Biden proposing?

Biden's proposal did not include details on whether the increase might be phased in or whether the minimum wage would thereafter be indexed to inflation. One aide described it as an opening bid in negotiations. Biden's new plan also would scrap separate, lower minimum-wage thresholds that apply to workers who receive tips, and to people with disabilities.

2. Does Biden's proposal stand a chance?

Public support for the idea may be strengthening. Florida voted for a \$15-per-hour minimum wage in November, even as the state backed President Donald Trump for re-election. But business groups have generally been opposed, and so have congressional Republicans. The Biden administration would need at least 10 Republican votes in the Senate to get its relief bill through Congress -- unless it goes through the budget reconciliation process, where a bare majority is enough. Some experts say that a minimum-wage increase could be eligible to pass via that route because it's effectively a tax-raising measure. But a similar 2019 bill was scored by the nonpartisan Congressional Budget Office as having no budget effect, making it ineligible for reconciliation, which must be fiscal in nature.

3. How does the U.S. stack up?

The current \$7.25 rate, unchanged for more than a decade, becomes less meaningful each year due to inflation. Among 32 countries that report minimum-wage data to the Organization for Economic Cooperation and Development, the U.S. rate ranked 15th in purchasing power parity in 2019. (Luxembourg was at the top, followed by Australia.) More telling: When minimum wages are measured as a share of average wages, the U.S. ranked at the bottom of the list at 22%, behind Mexico, Spain and Greece. Even after decades of research, economists are divided on how government-set minimum wages influence employment, incomes and societal well-being.

Federal Minimum Wage History

Sources: U.S. Department of Labor (wage), Bureau of Labor Statistics (inflation calculator)

4. Why have states led this charge?

There's an argument to be made that local and regional minimum wages are more appropriate than a nationwide one, given disparities in economic conditions, the job market and cost of living in different parts of the U.S. With so many states and cities taking it upon themselves to require higher minimum pay, the importance of the federal minimum wage is declining. In 2019, just 1.9% of the country's 82.3 million hourly workers earned \$7.25 or less. That was the lowest proportion of the hourly workforce since measurements started in 1979, when the number was 13.4%.

5. What's the case for a higher minimum wage?

Proponents note that full-time minimum-wage workers wouldn't rely as much on public assistance programs such as food stamps to make ends meet and would use their bigger paychecks to buy more stuff, which would boost the economy. They also point to studies showing that raising the minimum wage reduces employee turnover. Through the 1990s, many studies concluded that higher wage floors, while helping those who earn the minimum, also lead to fewer jobs. But a landmark 1993 report compared employment at fast-food outlets in New Jersey and Pennsylvania one year after New Jersey raised its hourly minimum wage from the federal rate of \$4.25 to \$5.05. Relative to stores in Pennsylvania, which kept the lower federal rate, fast food restaurants in New Jersey increased employment by 13%. "Our empirical findings challenge the prediction that a rise in the minimum reduces employment," the authors wrote.

6. What's the case against a higher minimum wage?

Opponents say the minimum wage, though promoted as helping low-skilled workers and the working poor, actually benefits lots of young people and workers from families that aren't poor. An analysis released by the Congressional Budget Office in 2019 found that while adopting a \$15 minimum wage by 2025 would lift 1.3 million people out of poverty and deliver a raise for millions more, it would also cost 1.3 million other Americans their jobs.

The Reference Shelf

- The U.S. Department of Labor explains how the minimum wage came to be in 1938, and economists David Neumark and William Wascher explore its history and evidence for and against it.
- How inflation eats away at any minimum wage that's not automatically adjusted each year.
- The UC Berkeley Labor Center's inventory of city and county minimum wages.
- The Center for Economic Policy and Research's argument for raising the wage and the Cato Institute's arguments against.
- The National Review on the specific objection to a national minimum wage.
- The Bureau of Labor Statistics report on the demographic and socioeconomic characteristics of low-wage American workers.
- OECD data on member nations' minimum wages.

