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Minimum Wage \$10.10 – Fair or Foul? BGOV Analysis

Financial and Tax Analysis of a Minimum Wage Increase

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FEB. 3, 2014

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EXECUTIVE SUMMARY

The federal minimum wage has been \$7.25 an hour since 2009. President Barack Obama has endorsed an increase to \$10.10 per hour

- » If minimum wage increases had matched the median wage over the past 40 years, it would have been raised to \$10.10 in 2012
- » States and localities can set the minimum wage above the federal rate; \$10.10 would exceed all current state rates
 - Texas has twice as many workers earning the federal minimum wage as any other state

A rate of \$10.10 does not appear to pose a major threat to employment

- » Academic opinion is divided on the impact of minimum wage increases on employment. Historically, other factors have been more important in determining the level of unemployment
- » Leisure and hospitality would be the most affected sector (51 percent of all minimum wage workers were employed in this sector in 2012); 70 percent of workers in this sector work in regions where the average wage is more than \$10.10

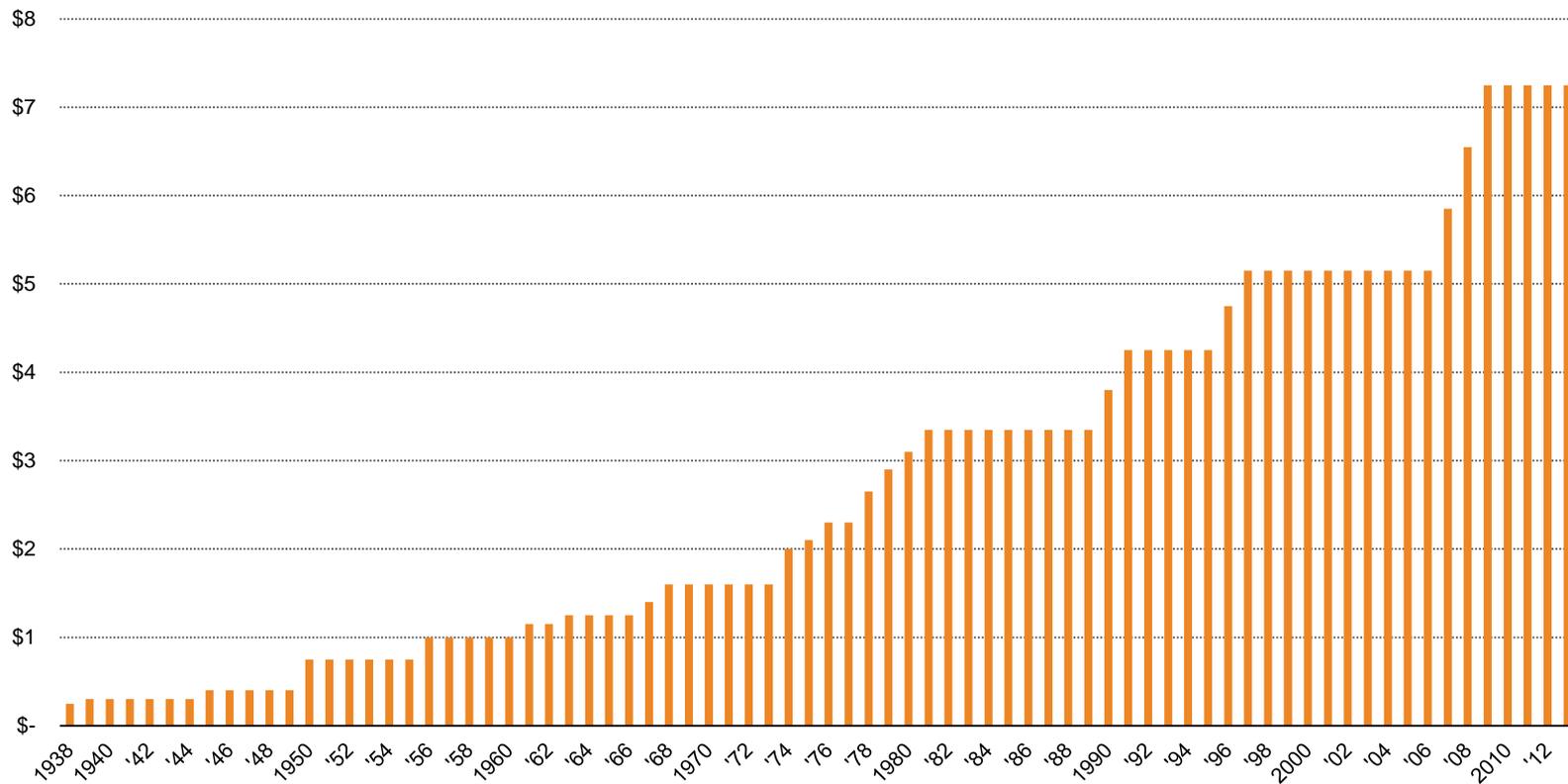
Federal policy also supports low-income workers through the tax code

- » Including the earned income tax credit in the debate could garner bipartisan support. An increase to \$10.10, all other things remaining equal, would decrease the EITC subsidy

FEDERAL MINIMUM WAGE HAS INCREASED 22 TIMES SINCE THE FAIR LABOR STANDARDS ACT OF 1938

Most recent increase was in 2007, which phased in current \$7.25 rate by 2009

History of the federal minimum wage, 1938-2013



Note: Coverage has varied for different workers, gradually encompassing a larger group over time. Data do not take into account the 1961 and 1966 amendments
 Source: Department of Labor, [Wage and Hour Division](#)

FIVE STATES PASSED INCREASES IN 2013; MORE EFFORTS UNDERWAY IN 2014

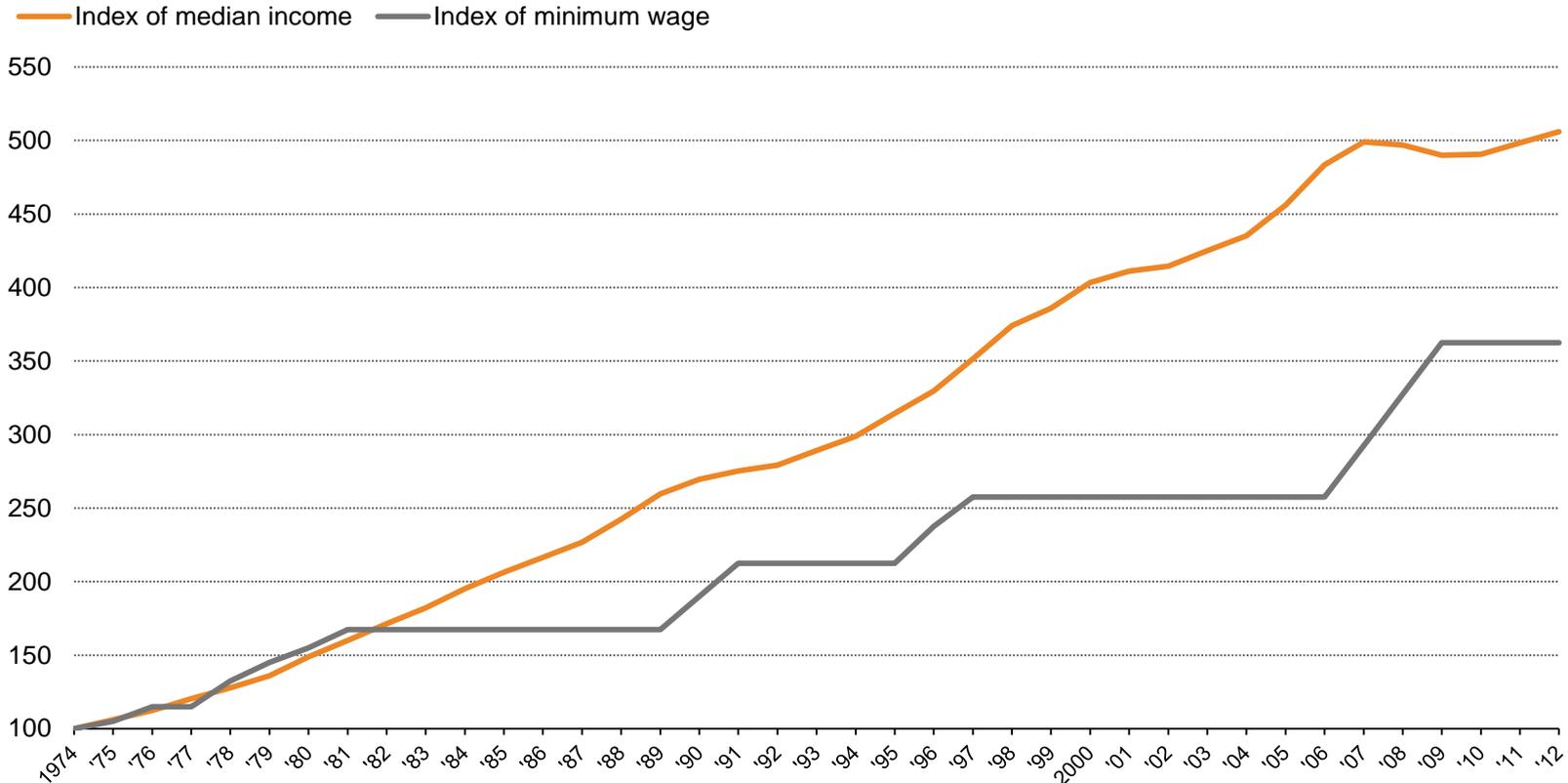
Initiatives at state and local levels seek to raise minimum wage, potentially pushing more districts above federal level

Federal	Democrats in Congress and White House push for federal increase	<ul style="list-style-type: none"> • S. 1737: would increase minimum wage in three 95-cent increments to reach \$10.10 an hour over three years and then link to index to consumer price index; includes tax breaks to benefit small business • H.R. 1010: similar proposal as above without tax provisions • President Obama called for increase in 2014 State of the Union address; announced executive order to raise wage for federal contractors to \$10.10
	Passed increase in 2013	<ul style="list-style-type: none"> • California: increases to \$9 from \$8 on July 1, second increase to \$10 in 2016 • Connecticut: increased to \$8.70 from \$8.25 on Jan. 1, second increase to \$9 in 2015 • New Jersey: increased by ballot initiative to \$8.25 from \$7.25 on Jan. 1, then linked to CPI • New York: increased to \$8 from \$7.25 on Dec. 31, increases to \$8.75 late 2014 and \$9 late 2015 • Rhode Island: increased to \$8 from \$7.75 on Jan. 1
State	Legislators have introduced proposals to increase rates	<ul style="list-style-type: none"> • Delaware: would gradually increase to \$8.75, then link to CPI • Massachusetts: would gradually increase to \$11, then link to CPI; approved by state Senate • Minnesota: state Senate passed bill that would gradually increase to \$7.75; state House passed bill that would gradually increase to \$9.50 and linked to CPI • New Hampshire: would establish minimum wage and gradually increase to \$9, then link to CPI • New Mexico: would have increased to \$8.50 from \$7.50; vetoed by governor
	Ballot initiatives for November 2014 elections	<ul style="list-style-type: none"> • Alaska: would gradually increase to \$9.75 from \$7.75, then link to CPI • Arkansas: would gradually increase to \$8.50 from \$6.25 • Idaho: would gradually increase to \$9.80 from \$7.25, then link to CPI • Massachusetts: would gradually increase to \$10.50 from \$8, then link to CPI • Missouri: would increase to \$9.25 from \$7.50, then link to CPI • South Dakota: would increase to \$8.50 from \$7.25, then link to CPI
Local	Cities and counties pass increases	SeaTac, Wash. ; Washington, D.C. ; Albuquerque, N.M. ; San Jose and Long Beach, Calif. ; Montgomery County and Prince George's County , Md.

PRESIDENT OBAMA ENDORSES \$10.10... WHY?

Federal minimum wage has consistently lagged median income

If the minimum wage had increased by as much as median income since 1974, it would have been exactly \$10.10 at the end of 2012 (nominal as opposed to real values); 1974 = 100



Source: Department of Labor, U.S. Census Bureau

MINIMUM WAGE IS NOT THE MAIN DRIVER OF UNEMPLOYMENT

Historically, increases in the minimum wage have been followed by periods of both rising and falling unemployment

Academic opinion is divided down political lines on the effects of an increase in the minimum wage: different statistical approaches yield contrasting findings

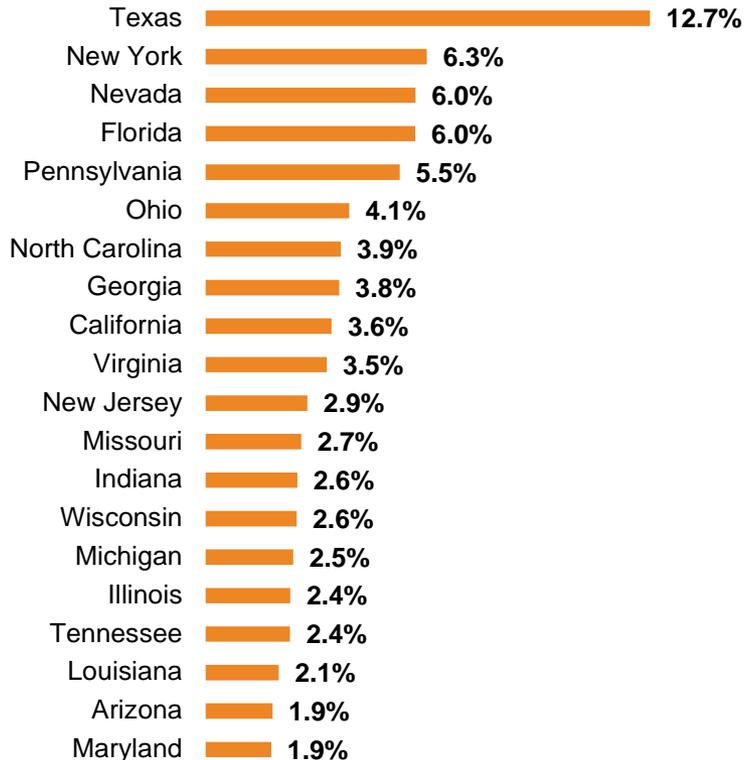


Source: Department of Labor, Bloomberg LP

INCREASE IN FEDERAL MINIMUM WAGE WOULD AFFECT STATES DIFFERENTLY

Texas has the largest number of minimum wage workers

Top 20 states with minimum wage workers at the federal rate, 2012 annual average



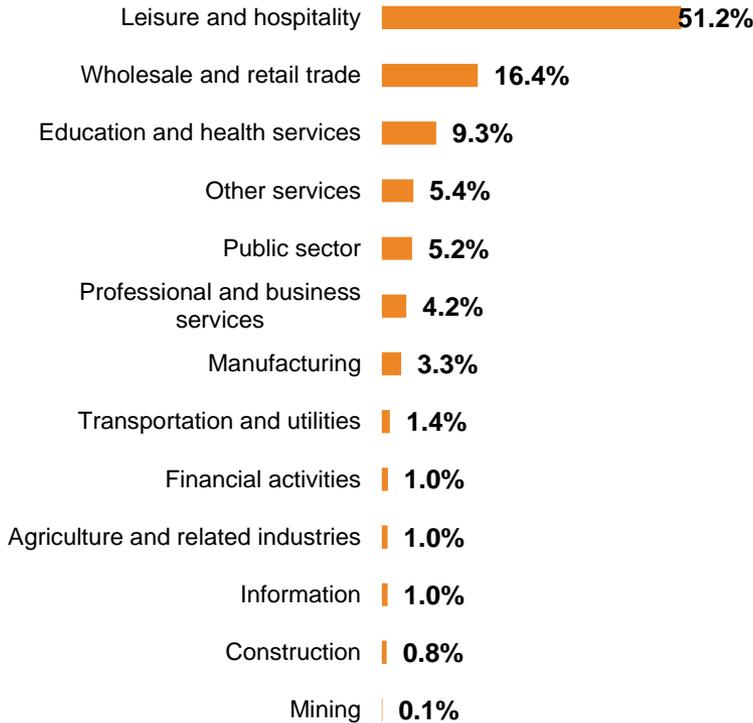
Some states wouldn't feel immediate impact of an increase

- » Seven states and D.C. have rates that would exceed the proposed initial increase to \$8.20, as of Jan. 1
- » Washington state, with the highest rate in the country, would exceed the second-phase increase to \$9.15, as of Jan. 1
- » 10 states link their minimum wages to a consumer price index, normally triggering increases each year

LEISURE AND HOSPITALITY INDUSTRY MOST AFFECTED

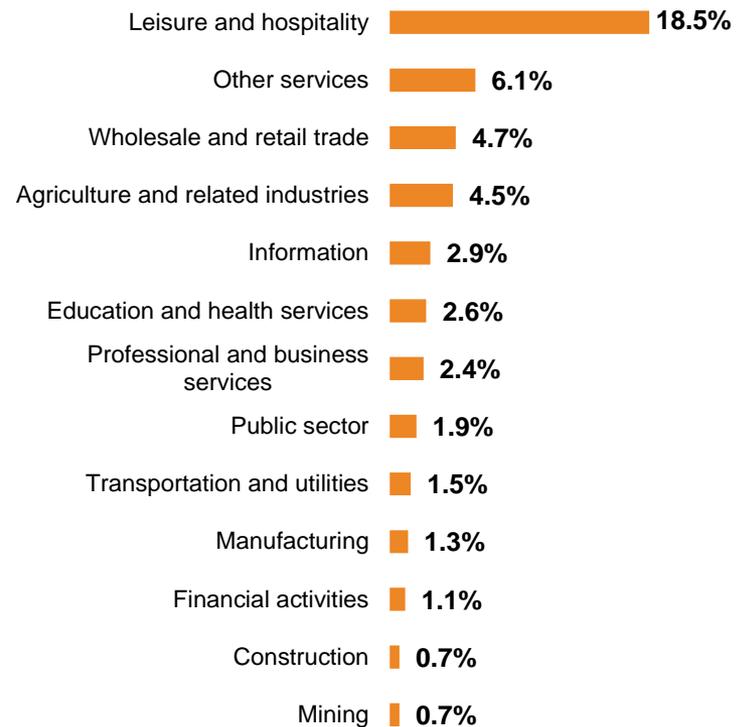
51 percent of minimum wage workers employed in leisure and hospitality

The minimum wage workforce, by sector, 2012 annual average



18.5 percent of leisure and hospitality workers are paid minimum wage

Percentage of workers earning minimum wage, by industry, 2012 annual average



Source: Bureau of Labor Statistics

MINIMUM WAGE LAGS MARKET AVERAGE WAGE RATE IN LEISURE AND HOSPITALITY INDUSTRY

\$10.10 proposal is more than average wage in some regions, less in others

Workers in regions with average wages more than \$10.10 account for 70 percent of all the leisure and hospitality workers; 2012 annual average

Region	Hourly minimum wage	Actual hourly minimum wage*	Weekly minimum wage*	Actual average weekly wage
Federal	\$7.25	\$11.58	\$244	\$389
New England	\$7.89	\$11.69	\$265	\$393
Middle Atlantic	\$7.25	\$13.33	\$244	\$448
East North Central	\$7.57	\$9.84	\$254	\$330
West North Central	\$7.25	\$9.18	\$244	\$309
South Atlantic	\$7.37	\$11.09	\$248	\$373
East South Central	\$7.25	\$9.53	\$244	\$320
West South Central	\$7.25	\$10.40	\$244	\$350
Mountain	\$7.56	\$11.51	\$254	\$387
Pacific	\$8.15	\$13.63	\$274	\$458

*Calculations assume a 33.6-hour work week, per Bureau of Labor Statistics data on average number of hours worked. Data for hourly wages for each region is the average of the states, weighted by number of workers on the minimum wage. Data for weekly wages for each region is the average of the states, weighted by number of workers paid hourly rates. Regions are defined by the BLS

Sources: Bureau of Labor Statistics, Bloomberg Government calculations

FOOD AND RETAIL COMPANIES' COMMENTS ON MINIMUM WAGE DEBATE

At least 50 businesses and industry groups have lobbied Congress on minimum wage in 2013

- » Companies include Yum! Brands Inc., operator of Kentucky Fried Chicken and Taco Bell stores; Wal-Mart Stores Inc.; and Burger King Worldwide Inc.

Some companies cite minimum wage as a risk factor in SEC filings; increased labor costs could reduce profitability

- » Examples include Darden Restaurants Inc., which owns Red Lobster and Olive Garden, and Rite Aid Corp.

Others say increases are good for business, reducing employee turnover and increasing productivity

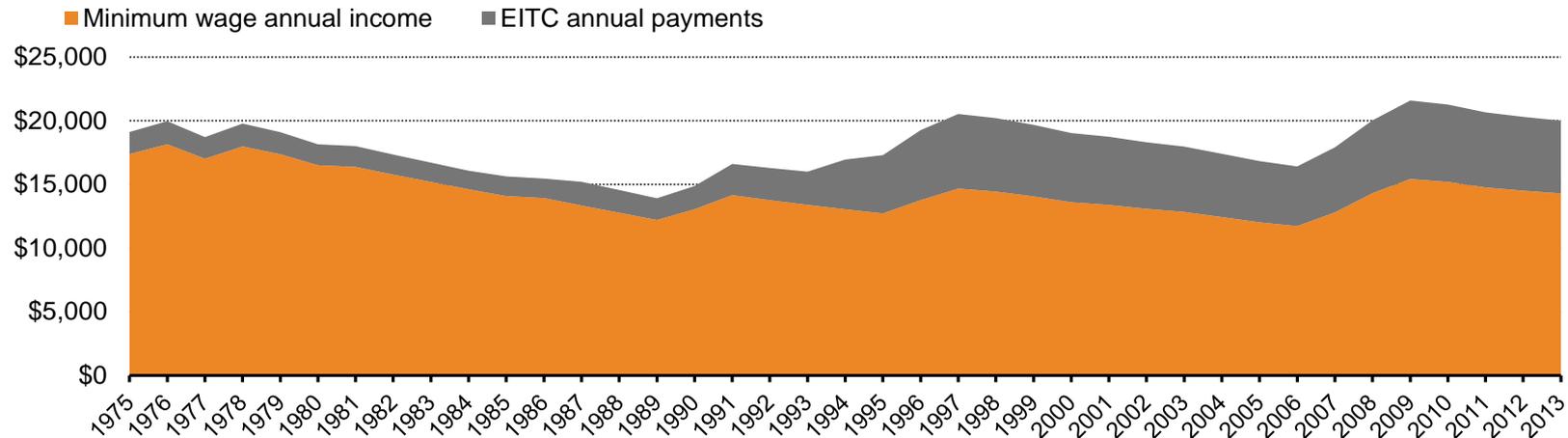
- » Costco Wholesale Corp. is one of the largest retailers to [publicly support](#) minimum wage increase; Obama spoke at a Costco store regarding minimum wage after his State of the Union address

CEOs downplay role of minimum wage

- » [Wal-Mart Stores Inc.](#) and [McDonald's Corp.](#) say they employ few minimum wage workers, aren't as concerned about increases

FEDERAL POLICY ALSO SUPPORTS LOW-INCOME WORKERS THROUGH THE TAX CODE

Minimum wage income supplemented with the earned income tax credit



Including EITC in the minimum wage debate could reap bipartisan support

The EITC has been popular across party lines throughout its history:

- » After its creation in 1975, it was expanded in 1986, 1990 and 1993, under both Republican and Democratic administrations
- » Simpson-Bowles plan (2010) proposed [eliminating](#) highly political tax benefits but not EITC*
- » Former NYC Mayor Bloomberg [implemented](#) the EITC for working single adults to address the declining labor-force participation rate of young men (2013)
- » In his 2014 State of the Union, Obama recommended [expanding](#) the EITC to better aid low-income childless workers

*Assumes full-time employment of 2000 hours per year

Note: Bloomberg is the founder and majority owner of Bloomberg LP, the parent of Bloomberg Government.

Sources: Department of Labor, [Tax Policy Center](#)

EXAMPLE: A WORKER'S EITC BENEFIT VARIES AS MINIMUM WAGE INCREASES

If the minimum wage is increased to \$10.10, a worker's EITC could:

- » **Decrease:** a couple each earning minimum wage with two children could see wages increase by \$11,400 and EITC subsidy decrease by \$2,400 (shown below)
- » **Increase:** a part-time employed parent with two children would see wages increase by \$2,900 and EITC increase by \$1,100

Current law	Annual wages at \$7.25	EITC	EITC as a % of wages
Married, full-time, 2 children	\$29,000	\$4,100	14%
Single, part-time, 2 children	\$7,250	\$2,900	40%
Single, 0 children	\$14,500	Not eligible	N/A

Proposed Law	Annual wages at \$10.10	EITC	EITC as a % of wages
Married, full-time, 2 children	\$40,400	\$1,700	4%
Single, part-time, 2 children	\$10,100	\$4,000	40%
Single, 0 children	\$20,200	Not eligible	N/A

Change	Wages (Cost to business)	EITC (Cost to government)	Net income increase
Married, full-time, 2 children	\$11,400	-\$2,400	\$9,000
Single, part-time, 2 children	\$2,850	\$1,100	\$3,950
Single, 0 children	\$5,700	\$0	\$5,700

Assumptions: Full-time is 2,000 hours per year and part-time is 1,000 hours per year; "married" and "single" indicate filing status; married parents both working full-time
 Note: Depending on income levels before and after a potential minimum wage increase, workers may experience either an increase or decrease in their EITC payments.

Many minimum wage workers are part-time employees

Source: [Tax Policy Center](#)

Conflict with Congress

- » In his State of the Union address, the president reiterated his call to raise the minimum wage for all workers and announced an executive order to increase the minimum wage for new and future federal contracts
- » Increasing the minimum wage rate for federal contractors is largely symbolic because very few federal contractors are paid at an hourly rate below \$10.10
- » House Republicans, including Speaker John Boehner and Budget Committee Chairman Paul Ryan, said they oppose increasing the minimum wage

More bipartisan support through the tax code

- » Obama hopes to extend the earned income tax credit to childless workers
- » The EITC has potential for more bipartisan backing than the minimum wage

Political impact of upcoming elections

- » Minimum wage rates will be one of several "income inequality" issues that Democrats will focus on in the 2014 midterm elections
- » Electorates in many states will have the opportunity to vote on increasing local minimum wage rates



ABOUT THE ANALYSTS



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