INTRODUCTION

On March 4, 2014, President Barack Obama unveiled his $3.9 trillion federal budget proposal for 2015. Among its many provisions, the president’s spending plan called on Congress to lift the federal minimum wage from $7.25 to $10.10 per hour. In this edition of Close Up In Class, we will examine the debate over whether the impact of raising the federal minimum wage is beneficial for American workers and the overall economy. In order to help you understand the debate, we will explore the history of the minimum wage in the United States, examine several proposals and laws that have been considered or implemented, and weigh the pros and cons of the potential paths forward.

VIDEO: Should the government set a federal minimum wage?

BACKGROUND

The federal minimum wage has been in place since the 1930s, when the United States was struggling to recover from the Great Depression. But in the years since then, both Congress and individual states have made dozens of changes to the minimum wage, creating the patchwork of policies that exists today.

When Did the Federal Minimum Wage Begin? The federal minimum wage was first enacted in the United States during the aftermath of the Great Depression. On June 25, 1938, President Franklin Roosevelt signed the landmark Fair Labor Standards Act (FLSA), which established restrictions for child labor, set the maximum workweek at 44 hours, and guaranteed for the first time a minimum hourly wage of 25 cents for many American workers.

But as prices and the cost of living increased during the subsequent decades, the federal minimum wage did not rise automatically. Instead, it has been the responsibility of Congress to pass—and the president to sign—bills that amend the FLSA and adjust the federal minimum wage. Since 1938, Congress has increased the wage 22 separate times, most recently under the Fair Minimum Wage Act of 2007. Signed into law by President George W. Bush, the act gradually raised the federal minimum wage over a period of two years, from $5.15 per hour in 2007 to the current rate of $7.25 per hour in 2009.

GRAPH: How has the federal minimum wage changed since 1938?
Who Receives the Federal Minimum Wage? Although federal law sets a minimum wage across the country, it does not apply to all Americans. Workers covered by the federal minimum wage include:

- Employees of businesses that have an annual gross volume of sales of at least $500,000.
- Employees of small firms who are engaged in, or produce goods for, interstate commerce.
- Guards, janitors, and maintenance employees who perform duties closely related to interstate activities.
- Employees of federal, state, or local government agencies, hospitals, and schools.

Under specific circumstances, several types of employees are exempt from earning the federal minimum wage. They include:

- Tipped employees, who may earn $2.13 per hour if that amount plus tips equals at least the federal minimum wage.
- Full-time students, who may earn no less than 85 percent of the federal minimum wage under the Department of Labor Full-Time Student Program.
- Student-learners, who may earn no less than 75 percent of the federal minimum wage when enrolled in vocational programs.
- Youth under the age of 20, who may earn a minimum wage of $4.25 per hour during their first 90 days of employment.
- Workers with disabilities, who are subject to special minimum wages.

According to the Bureau of Labor Statistics (BLS), 1.6 million hourly workers earned exactly the federal minimum wage in 2012, while another two million earned lower wages due to their various exempted types of employment. Together, these 3.6 million workers earning the federal minimum wage or less represented 4.7 percent of the nation’s hourly workers, and 2.8 percent of all American workers.

So who are these Americans earning hourly wages at or below the federal minimum? According to BLS figures, slightly more than half of them in 2012 were young people under the age of 25. Nearly 51 percent of them were employed in the leisure and hospitality industry—where tips often supplement hourly wages—while 16 percent were retail employees. And roughly 64 percent of them were working only part-time.
Do States Have Minimum Wage Laws? Although the FLSA mandates a federal minimum wage of $7.25 per hour for covered employees, many states have their own minimum wage laws as well. When the state wage differs from the federal wage, employees are entitled to the higher of the two.

According to the Department of Labor, 21 states and the District of Columbia had a minimum wage that was higher than the federal rate as of January 1, 2014. At the same time, 20 states had a minimum wage equal to the federal rate, while four states—Arkansas, Georgia, Minnesota, and Wyoming—had minimum wages that were lower than the federal rate. The remaining five states—Alabama, Louisiana, Mississippi, South Carolina, and Tennessee—had no state minimum wage laws.

THE CURRENT SITUATION

President Obama brought the issue to the forefront in early 2014, when he signed an executive order increasing the federal minimum wage for government contractors. Since then, the president has also called on Congress to raise the federal minimum wage across the board—but elected officials remain deeply divided over whether such a policy would help or hurt American workers.

THE POWER OF THE PURSE

When adjusted for inflation, the federal minimum wage reached its high point in 1968—at $1.60 per hour, or $10.75 in 2014 dollars. At that time, the earnings of a full-time minimum wage worker were high enough to keep a family of three above the federal poverty line, according to the Economic Policy Institute. But by 2012, a full-time federal minimum wage job at $7.25 per hour yielded an annual income of $15,080—falling below the federal poverty line for families of two or more.

In 2013, the National Low Income Housing Coalition released a report calculating how many weekly hours a minimum wage employee would need to work in order to pay fair market rent on a two-bedroom apartment. North Dakota boasted the lowest number of working hours, at 67 per week, while New Yorkers were faced with 139 hours of minimum wage work each week. According to the report, Alaska, California, Connecticut, Florida, Massachusetts, and the District of Columbia would all require a minimum wage employee to work at least 98 hours each week to pay rent.

VIDEO: A history of the value of the minimum wage
What Does the President Want to Do? Following through on a promise made in his State of the Union address, President Obama signed an executive order on February 12, 2014, increasing the minimum wage for federal government contractors. The order—which requires companies that do business with the federal government to pay their employees at least $10.10 per hour—would affect several hundred thousand workers, according to White House estimates.

But President Obama did not stop there. One month later, he unveiled a $3.9 trillion budget proposal for 2015 that called on Congress to increase the federal minimum wage to $10.10 across the board—a jump from his 2013 proposal to raise the wage to $9. Although the president’s budget is non-binding, he has also endorsed the Fair Minimum Wage Act of 2013, a bill sponsored by Senator Tom Harkin of Iowa and Rep. George Miller of California, both Democrats. If passed by Congress, the bill would:

- Raise the federal minimum wage from $7.25 to $10.10 per hour, in three 95-cent increments over two years.
- Allow automatic annual increases to the federal minimum wage, linked to changes in the cost of living (indexed to inflation).
- Gradually raise the minimum wage for tipped workers to 70 percent of the federal minimum.

The day after releasing his budget proposal, President Obama traveled to Connecticut to meet with elected officials and make the case for raising the federal minimum wage. “It’s common sense, that’s all I’m trying to say,” he said. “It’s just common sense.”

Why Is This Controversial? In January 2014, a poll conducted by the Pew Research Center and USA Today found that 73 percent of Americans favored raising the federal minimum wage to $10.10 per hour. So why is this proposal generating controversy?

In February 2014, the nonpartisan Congressional Budget Office (CBO) released a report assessing the potential effects of raising the federal minimum wage to $10.10 per hour. According to the CBO, the proposal could lift 900,000 people out of poverty, while increasing the average weekly incomes of 16.5 million low-wage workers. However, the report also concluded that the new wage would reduce total employment by 500,000 workers once it was fully implemented. Why? Raising the minimum wage also increases costs for employers, who would be required to pay their workers a higher wage. Some employers—especially small businesses—would not be able to afford the extra costs, and they could be forced to cut jobs in order to stay in business. According to the Small Business Administration, small businesses created 64 percent of the net new jobs between 1993 and 2011, and accounted for half of private-sector employment in 2012. But 28 percent of small business owners told Gallup in 2013 that a minimum wage increase would lead them to reduce their workforce; 31 percent said it would result in a reduction in worker benefits.

The CBO report provided instant fodder for both supporters and opponents of raising the federal minimum wage. While many Republicans insisted the policy would damage the already fragile economy and make it more difficult for businesses to hire and retain employees, many Democrats promised the wage increase would help the poorest and most vulnerable Americans. Economists, such as Federal Reserve Chair Janet Yellen, believed both sides had a point. Testifying before Congress in February, she said, “Almost all economists think that the minimum wage has two main effects. One is to give higher wages to those who continue to have jobs and were earning the minimum wage, and then second, that there would be some amount of negative impact on employment as a consequence.”

As Congress looks ahead to the midterm elections in November 2014, the passage of minimum wage legislation in the Republican-controlled House of Representatives and the Democrat-controlled Senate is anything but assured. In March 2013, the House voted 233 to 184 against a proposal to raise the federal minimum wage to $10.10 per hour by 2015, with every Republican member opposing the bill.
What Are the States Doing? If Congress increases the minimum wage to $10.10 per hour, the effects will be felt in every state across the country. Even Washington—which had the highest state minimum wage at $9.32 per hour in early 2014—would see a 78-cent increase in its minimum wage if the federal proposal was approved. Only in cities with minimum wages that already surpass the federal proposal—such as San Francisco's $10.55 per hour minimum wage—would the wage structure remain unchanged.

Meanwhile, in the absence of federal action, many states and cities have begun considering changes to their minimum wage laws. During the 2013 legislative session, 34 states, the District of Columbia, and Puerto Rico introduced some form of minimum wage legislation, according to the National Conference of State Legislatures. The legislatures of four states—California, Connecticut, New York, and Rhode Island—enacted minimum wage increases that were signed into law, while the legislatures of Maine, New Jersey, and New Mexico passed minimum wage increases that were eventually vetoed. But in November 2013, New Jersey voters approved a state constitutional amendment to raise the minimum wage and index it to inflation.

On January 1, 2014, a series of smaller, inflation-related adjustments also took effect in Arizona, Colorado, Florida, Missouri, Montana, Ohio, Oregon, Vermont, and Washington. According to the National Employment Law Project, as many as 11 states—including Maryland, Massachusetts, Minnesota, New Hampshire and South Dakota—and the District of Columbia are expected to consider minimum wage increases in 2014, either through legislation or ballot initiatives.

THE DEBATE

Key Question: Should Congress raise the federal minimum wage?

As President Obama continues to push for increasing the federal minimum wage to $10.10 per hour, members of Congress—in the midst of an election year—remain deeply divided over whether the proposal would help or hurt American workers.

Proponents of raising the federal minimum wage point to the CBO report, which estimated that a $10.10 minimum wage could lift 900,000 people out of poverty and increase the average weekly incomes of 16.5 million low-wage workers. As a result, this policy would not only help the nation's poorest and most vulnerable citizens—it would provide millions of Americans with extra income to spend and invest, thus increasing economic activity and stimulating growth. As it currently stands at $7.25 per hour, the federal minimum wage is less valuable than it was in 1968, when adjusted for inflation. Therefore, although most of the nation has grown and prospered over the last several decades, Americans who depend on the federal minimum wage have been left behind. Advocates note that in 2012, a full-time minimum wage job yielded an annual income of only $15,080—which fell below the poverty line for families of two or more. Such an insufficient and unfair wage traps many Americans in poverty and dampens social mobility—contributing to record levels of income inequality.
Furthermore, advocates of a higher minimum wage point to the state of Washington, where residents voted in 1998 to raise the state's minimum wage and link it to the cost of living. Washington’s state minimum wage of $9.32 per hour was the highest in the country in early 2014—yet job growth in the state has continued at an annual average rate of 0.8 percent since 1998, 0.3 percentage points above the national rate. The level of poverty in Washington has also trailed the national level for seven years.

But opponents of increasing the federal minimum wage disagree. They, too, point to the CBO report, which estimated that increasing the federal minimum wage to $10.10 per hour would reduce total employment by 500,000 workers by 2016. In February 2014, the BLS reported that 10.5 million Americans were unemployed, while another 2.3 million wanted work but had not searched for a job in the past month. On top of that, another 7.2 million Americans were involuntarily employed only part-time. In the face of such dismal employment statistics, it would be foolish and harmful to make it harder for employers to hire workers by raising the minimum wage. Such policies increase costs for employers, forcing many of them to lay off workers in order to save money and stay in business. And in 2007, economists at the Federal Reserve Board of Governors and the University of California Irvine comprehensively reviewed two decades of economic research, and concluded that minimum wage increases reduce employment opportunities for the least-skilled workers. Therefore, increasing the federal minimum wage will only provide a disservice to the very Americans who need assistance the most.

Furthermore, critics refute the idea that millions of Americans are struggling to support an entire family with a full-time minimum wage job. According to the BLS, most of the workers who earned hourly wages at or below the federal minimum in 2012 were under the age of 25. Only three percent of hourly workers aged 25 or older were earning the federal minimum wage or less—compared to roughly 21 percent of teenaged workers. The BLS found that approximately 1.3 million workers—or a mere one percent of the American workforce—were working full-time at or below the minimum wage. “The minimum wage is mostly an entry-level wage for young people,” Senate Minority Leader Mitch McConnell said in January. “We have a crisis in employment among young people right now, and ... people that got out of college are finding there are no jobs for them. The last thing we want to do is have even fewer jobs for younger people.”
KEY TERMS—THE MINIMUM WAGE

COST OF LIVING
The cost of purchasing goods and services that are included in an accepted standard level of consumption.

FAIR MARKET RENT
Fair market rent reflects the average cost of affordable housing in a geographic area, as defined by the Department of Housing and Urban Development.

FEDERAL MINIMUM WAGE
The hourly minimum wage that covered employees must receive across the country. In 2014, the federal minimum wage stood at $7.25 per hour.

FEDERAL POVERTY LEVEL
A measure of income issued annually by the Department of Health and Human Services. Federal poverty levels are used to determine Americans’ eligibility for certain programs and benefits.

INFLATION
The rate at which prices rise and purchasing power falls. When the minimum wage is indexed to inflation, it is automatically adjusted over a period of time to reflect changes in the cost of living.

INTERSTATE COMMERCE
The commercial trade, transportation, or movement of goods or money from one state to another.

STATE MINIMUM WAGE
The hourly minimum wage that covered employees must receive in a particular state. If the state and federal minimum wages are different, an employee is entitled to the higher wage.