

# \$15 Minimum Wage: What is the Cost?

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## Introduction and History of Minimum Wage

For the last few years, the Democratic party of the United States has been pushing for a bill to be instated that will raise the minimum wage nationwide to \$15 an hour. Most recently this bill was set to be part of President Biden’s \$1.9 trillion COVID-19 stimulus relief package (King). The \$15 minimum wage bill was rejected as part of the stimulus relief plan, but the Democratic party is scrambling to find a way to implement the bill and see the nationwide minimum wage raise from \$7.25 to \$15 by the year 2025 (King). “The federal minimum wage has remained at \$7.25 an hour since 2009, although many states have higher minimums. House Democrats in July passed the Raise the Wage Act, which would phase it up to \$15 by 2025, but the plan was a nonstarter for Senate Republicans who argue that added labor costs would encourage businesses to hire fewer workers” (Kirchner).

A bill that pushes the federal government to confirm an increase from \$7.25 to \$15 an hour in just four years is unprecedented and short sighted. This would be a 107% increase in the minimum wage in a matter of four years. While that kind of jump sounds appealing to lower class workers and seems like it would solve a lot of problems and help bring people above the poverty line, you also must realize that an unprecedented jump like this is a major gamble and could cascade into many other problems for the American worker to deal with. A spike in wages of 107% could potentially cripple the nation’s economy.

## Arguments For and Against \$15

Those on the Democratic side of this debate are pushing to pass Raise the Wage Act and believe that it will bring about all the following benefits to society. In their eyes, gradually raising the deferral minimum wage to \$15 by 2025 would lift pay for 32 million workers which is about 21% of the U.S. workforce (Economic Policy Institute). “Affected workers who work year-round would earn an extra \$3,300 a year—enough to make a tremendous difference in the life of a cashier, home health aide, or fast-food worker who today struggles to get by on less than \$25,000 a year” (EPI). They found that 59% of workers whose total family income is below the poverty line would receive a pay increase if the minimum wage were raised to \$15 (EPI).

Those against would prefer to see the wage increased according to the tried-and-true method of increases that have been done since 1938. A 107% jump to a \$15 minimum wage feels like a get-rich-quick schemer making a bet on a stock and hoping to see excellent high returns and make a lot more money than they had in their situation before. The problem is, often in risky investment moves like this, you lose. And in this case that means our economy would lose.

The Congressional Budget Office (CBO) found it is likely to cost 1.7 million jobs with no corresponding increase in overall wages” (Skorup). Second, is that it will not help those in poverty as much as one might think. “Many proponents of raising the minimum wage think it helps poor people, but, overall, it doesn’t. Most people who earn low wages aren’t living in poverty — in fact, most live in families earning more than the average U.S. income. That is because most are the second (or third or fourth) income earners in a family. Most people who live in poverty do not work at all, and only 10% of adults in poor households work full time” (Skorup).

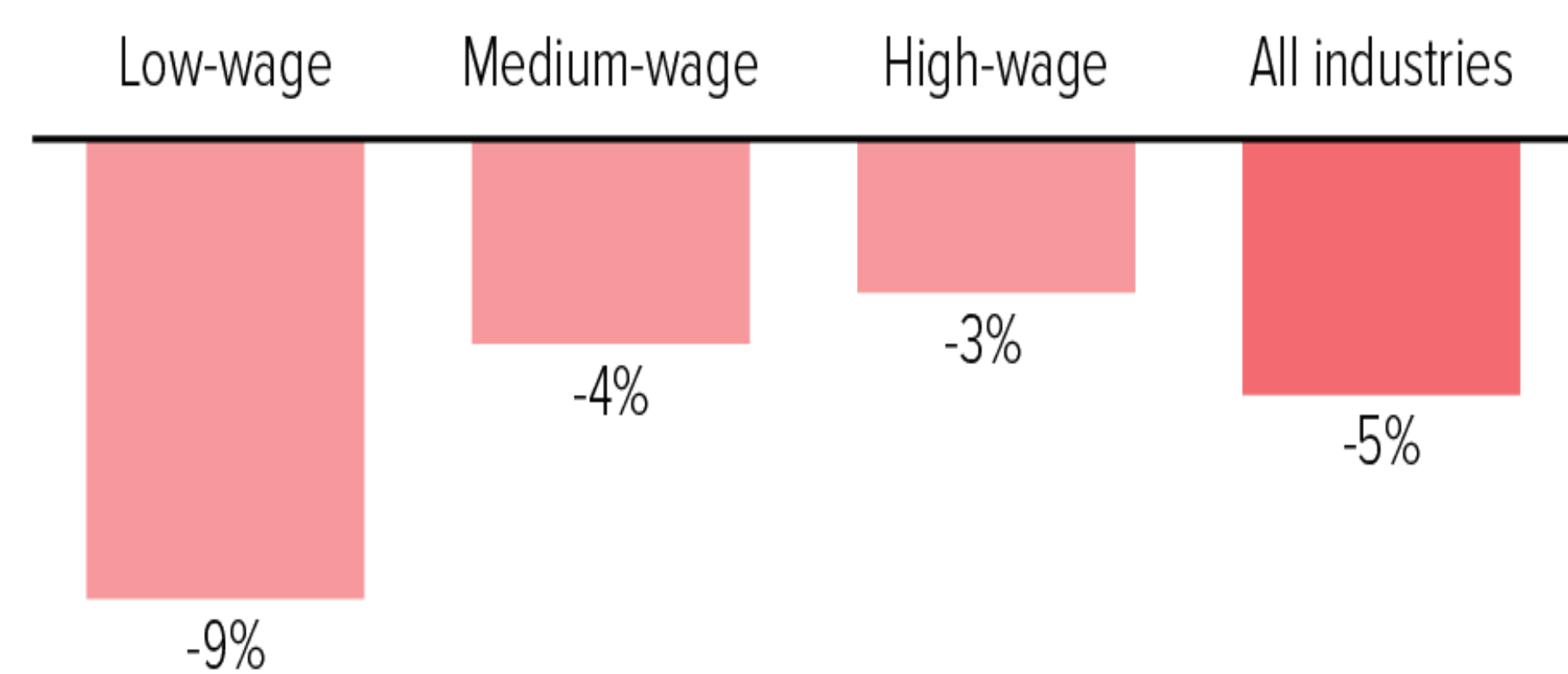
“A study by the Congressional Budget Office entitled “The Effects on Employment and Family Income of Increasing the Federal Minimum Wage,” was conducted to determine how increasing the federal minimum wage from \$7.25 to \$10, \$12 or \$15 per hour by 2025 would affect employment and family income. The conclusion was that increasing the federal minimum wage would have two major impacts on low-wage workers: earnings would increase for many, which would lift some families out of poverty” (Kelly).

## COVID-19 Complications

At the start of the COVID-19 pandemic, unemployment skyrocketed to a level that we haven’t seen in decades. This was even worse for low wage workers who made up more than 56% of the unemployed (Center on Budget and Policy Priorities). The chart below shows the job losses among different industries between February 2020 to March 2021, which shows the loss among low-wage industries still takes the lead.

### Job Losses Largest in Low-Wage Industries

Percent change in number of jobs, February 2020 to March 2021

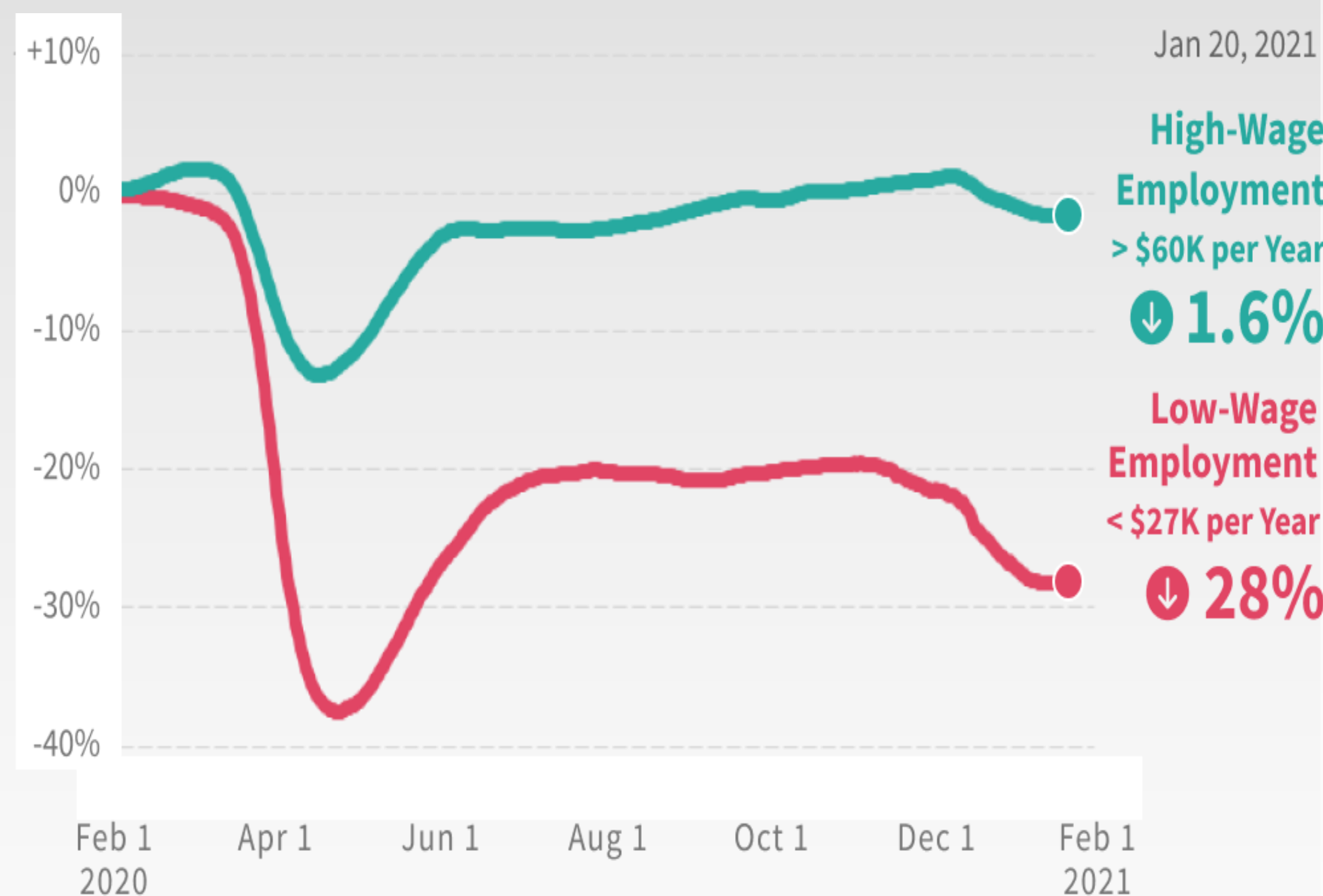


Note: Industries were ranked by average wages in February 2020 and divided into three groups containing roughly the same number of jobs.

Source: CBPP calculations of Bureau of Labor Statistics data

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Unemployment levels have come back up significantly for high-wage industries; to almost the level they were at before the COVID-19 pandemic. However, for low-wage industries, the unemployment levels continue to fall. (Economic Tracker)



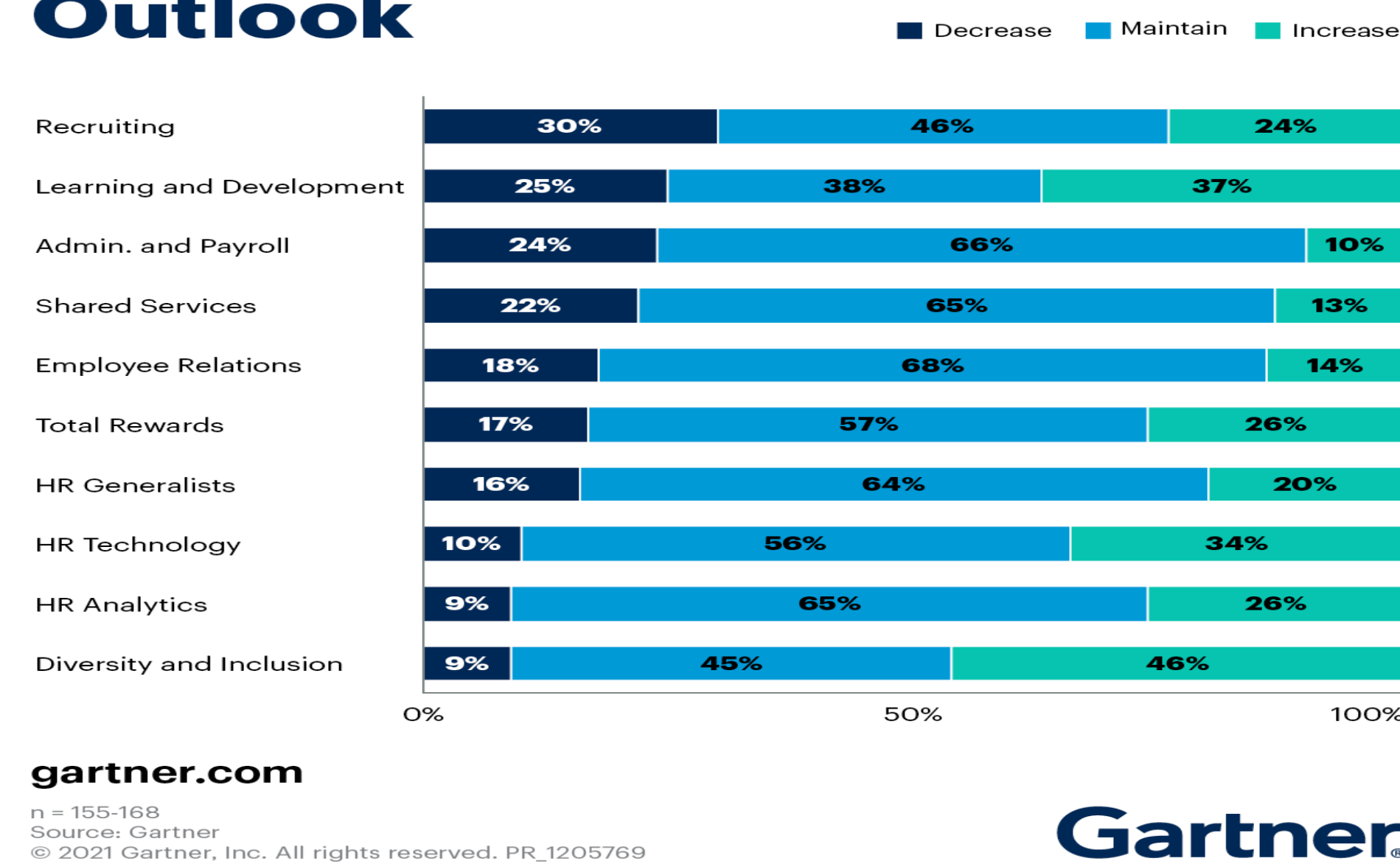
## Effects on HR

“The popularity of wage increase propositions means that CHROs and HR leaders should begin thinking about how those increases could affect their internal processes and, in order to remain compliant with local, state and federal law if propositions pass in your area, consider regulatory outcomes” (ADP).

There are 4 major ways a \$15 minimum wage could impact companies’ HR teams. The 4 impacting outcomes are as follows (ADP):

1. Be Ready for Widespread Wage Impact
  - “Organizations should prepare to observe regional pay scale increases in response to both legislative and economic conditions” (ADP).
2. Calculate the Risk of Phase-In Legislation
  - “The American Enterprise Institute reports, there is a potential for significant impact on small and mid-sized employers who choose to wait until the last possible minute to raise wages. To avoid negative impacts on morale or employee retention, employers could consider proactively raising wages ahead of the legislative schedule if their phase-in date is relatively late” (ADP).
3. Prepare to Recalculate Pay Ranges for Exempt Employees
  - “Regional requirements will vary, but HR teams may need to recalculate the wages of their lowest-earning exempt employees to remain compliant” (ADP).
4. Be Conscious of Regional Variations
  - “For national organizations with multiple geographic locations, variation in minimum wages may already be a reality. SHRM recommends that all employers begin considering regional variation as a key factor in wage calculations” (ADP).

## Subfunctional Budget Outlook



30% of organizations are planning on reducing the budget for recruiting in 2021 (Zuech). This is because many organizations are retaining hiring freezes to cut down on costs and reduce the need for recruiting activities (Zuech). A 107% spike in wages would now be a benefit for less potential workers because of this, and if it would be implemented it would force HR departments to cut budgets and jobs even further.

## Proposed Solution and Conclusion

During a hearing called by the House Committee on Small Business, Representative Dean Phillips, D-Minnesota said, “We want to see Americans’ wages go up, we want to see more jobs created — not fewer — and we want to see businesses thrive, especially small businesses that are the backbone of our economy” (Leonhardt). A drastic spike in wages is not a strategy that could solve all of these at once, it is more likely that it makes one category better and others far worse.

This leads to a final strategy that has been suggested to counter the \$15 minimum wage and likely lead to a better outcome for our country and its lowest paid workers. Senators Mitt Romney, R-Utah and Tom Cotton, R-Arkansas announced in February of 2021 a new plan to counter the Democrats’ \$15 minimum wage bill (Leonhardt). Romney’s proposed bill “would be to increase the federal minimum wage to \$10 per hour by 2025 and then automatically increase it every two years to match the rate of inflation. However, the bill also mandates that employers use e-verify to ensure that businesses are not hiring illegal immigrants” (Leonhardt).

I agree with Mitt Romney’s method that the federal government should implement a much steadier and safer approach that raises the minimum wage to \$10 an hour by 2025. In the years that follow the government could then evaluate the effects/benefits of the raise in wages and from their make a new four-year plan for 2025-2029. At this point we would have seen the effects of a 37.9% raise over 4 years and our country could then make the decision to increase the wage year after year equal to inflation like Romney suggested. If the effects of a 37.9% boost were positive for the economy, employment rates, cost of living, and the poverty line; we could then go forward with another 37-40% boost of the wage during the next four years.

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