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## RAISING THE MINIMUM WAGE

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Over the past century, around the world, the minimum wage has played a growing role in protecting low-wage workers against exploitation. But frozen at \$5.15 for the past nine years, the American federal minimum wage no longer helps buffer families and even single workers against poverty. Despite high popular support, proposed increases succumb annually to corporate opposition on Capitol Hill.

Meanwhile, the debate over the effects of an increase limps along on sound-bite arguments and half-truths. Once the current crisis passes, America needs to buckle down and fix the system, so that the federal and state minimum wages together protect the nation's workers and a national minimum wage commission adjusts the federal minimum regularly.

### Background

The term *minimum wage* refers to any wage designated by law as a minimum. The use of such a law to protect workers from wage exploitation dates back to the 1890s in Australia and New Zealand. There and soon after in Britain and some American states, minimum wage laws protected groups of workers, particularly women and children, in low-wage industries.

In addition to wage protection, the purposes of the minimum wage included preventing the "corruption" of women and the protection of employers from lower-paying competitors.

In the decades since World War II, minimum wage laws have been adopted by more than half of the world's 194 nations.

Early in the 20<sup>th</sup> century in America, the states paved the way toward a federal minimum wage. During the 1920s and 30s, the obstacle to the state minimum wages was not legislators or businessmen but the courts, which ruled that minimum wage laws violated the freedom of contract between employer and worker. However, states continued to pass such laws, the courts became less resistant, Congress found it could protect a federal minimum wage under its authority over interstate commerce, and Franklin Roosevelt's administration pressed for such a wage as part of the Fair Labor Standards Act of 1938.

The first federal minimum wage was 25 cents per hour. Although a commission to revise the minimum wage was proposed, the FLSA was passed without it, leaving amendment of the original law as the only method for changing the amount of the federal minimum.

#### ----- OVERVIEW -----

- A short history of the minimum wage
- America's federal minimum wage law
- Changes in the federal minimum wage over the years
- Opponents and supporters
- The minimum wage and welfare.

The process means that whenever Congress acts on the level of the wage, it can act as well on its coverage and other provisions. Although lawmakers have sometimes cut back the number of workers covered to sweeten a wage increase, coverage on the whole has expanded steadily.

The federal minimum wage now covers employees in most businesses and organizations except those that are very small; it exempts a few categories of workers such as newspaper delivery people and casual baby-sitters; and it provides lower wage-floors for students, tipped employees in restaurants, and workers with disabilities.

Because of inflation, the value of the federal minimum wage falls every year that Congress does not increase it, so its worth since 1938 has been a series of ups and downs. Its value is often expressed in terms of where it falls in the scale of hourly wages overall.

Economists look at the average wage nationally for workers who are not supervisors and calculate the minimum wage as a percentage of that. Just after 1997 when the federal minimum wage was raised to \$5.15 per hour, it was worth 40% of the average wage.

Today, still at \$5.15, it is worth only 31%. It has been at 50% or higher several times, most recently in 1968 (53%) ([Economic Policy Institute](#)). To reach that level today, the federal minimum wage would be over \$8.00 per hour.

With the spread of the minimum wage has come a steady increase in the study of its effects. For the last several decades until the mid-1990s, most economists reasoned that a minimum wage increase meant loss of jobs and wage hours because the labor of some low-skilled workers was not worth the higher wage.

Then in 1995, David Card and Alan B. Krueger's book *Myth and Measurement: The New Economics of the Minimum Wage* brought together several of their studies that showed no significant employment impact following an increase in a minimum wage.

Since then, many studies have confirmed that with the exception of small employment losses among teenagers, minimum wage increases are associated with stable employment and even with business growth.

Today, both opponents and supporters of the minimum wage have plenty of research and professional opinion to turn to. For opponents, the Employment Policy Institute publishes a steady stream of academic criticism of the minimum wage, living wage, and health care policies; the Institute is reportedly funded by the hotel and restaurant industry.

For supporters, the primary research source is the Economic Policy Institute, whose staff analyze economic issues related to low- and middle-income families. It gives foundation grants as the source for the majority of its funding.

Who are the minimum wage opponents?

Jerold Waltman describes their core value this way: "In a way that few other policies do, the minimum wage offends free market fundamentalism" (*The Politics of the Minimum Wage*, 2000). Employers from industries relying heavily on low-wage labor have traditionally shared this attitude. Today, these industries include the hospitality businesses — hotels and restaurants — and major retailers.

Powerful industry groups such as the [National Restaurant Association](#) operate behind the scenes while conservative legislators keep the sympathetic spotlight on small businesses feeling the pinch of higher energy and health costs.

In fact, the attitude of small-business owners varies. Many are sympathetic to the plight of low-wage workers and appreciate the minimum wage because it affects all businesses equally, and many very small businesses are simply exempt from minimum wage laws.

Supporters of a federal minimum increase include progressives and others concerned that freedom in the marketplace has led to a curtailing of the right of low-wage workers to jobs that will sustain them.

For the last several decades, public support for raising the minimum wage has ranged between 75% and 80% and today, in a [recent Pew poll](#), it has reached 83%.

Churches and other religious organizations often actively support minimum wage increases. Finally, although union workers earn well above the minimum wage, organized labor supports a minimum wage increase for the boost it gives to all wage workers.

Unions play active roles in many state campaigns to raise state minimum wages. The largest national community organization engaged in minimum wage and living wage campaigns is [ACORN](#), the Association of Community Organizations for Reform Now.

Another important piece of background information: recent changes in the nation's welfare policies have made the minimum wage issue especially urgent.

During most of the second half of the twentieth century, direct cash payments were the preferred way to help the poor, despite intense criticism of the system.

Many poor people were unaffected by the level of the minimum wage because they did not work. Compared to welfare, the minimum wage was a secondary social policy. This situation ended in the mid-1990s as welfare was restricted to various forms of temporary assistance. The minimum wage became not an option but an inevitability for millions of Americans.

Unfortunately the years of the welfare-to-work transition were also years when the minimum wage stalled. Opponents of the minimum wage argue that it is the wrong device to assist the working poor. They prefer the earned income tax credit that provides some added income to low-income families who apply for it.

Minimum wage supporters reply that the tax credit helps but is no substitute for work that pays a decent wage. In any event, America's years of weaning itself and its poor off of welfare have stumbled badly without a reliable minimum wage to take its place.

## Where Things Stand Now

One way to grasp how low the federal minimum wage has fallen is to realize how little it provides a full-time worker in a month and in a year. At 40 hours per week, over 4.3 weeks, \$5.15 means \$885.80 per month.

Depending where in the country the worker lives, rent alone will eat up all or much of that. Over a full year, the worker will earn \$10,712 – not enough for even a healthy single adult to live on. In 2005, 479,000 people earned this wage either full or part-time, according to the [Bureau of Labor Statistics](#).

Over the last few years, the erosion of the federal minimum wage has contributed to two grassroots movements.

One is the living wage movement. The goal of living wage campaigns is the passage of municipal ordinances that set wage minimums for the workers of companies who are hired or subsidized by the municipalities. The wages are usually in the range of \$9 to \$12 per hour and may include two minimums, for wages with and without health benefits.

As of mid-2006, ACORN, The Association of Community Organizations for Reform Now, records 140 successful campaigns since 1988. The broad principle underlying the living wage is simple and powerful: public funds—people’s taxes--should not be used to pay poverty wages.

The other consequence of the stagnant federal minimum wage is, of course, the tide of states that are increasing their state minimums. As of the close of 2006, twenty-nine states and the District of Columbia paid minimum wages higher than the federal one.

Ten states index their minimum wages to the nation’s inflation rate so that the minimum wage rises (or will rise) each year. **Washington (1997) was the first to approve indexing. Oregon followed suit in 2002.**

The solid economic growth in Washington and Oregon is strong evidence that a minimum wage annually adjusted to hold its value is not a threat to a local economy.

But it takes Congress and the President to raise the federal minimum wage. Senator Edward Kennedy has proposed increases since 1999. In January 2007, he plans to do so again — this time, to a Congress controlled by Democrats. His bill is expected to call for increases from \$5.15 to \$7.25 in three steps over two years. This 41% increase is proportionally large, a feature that opponents attack, but supporters argue that it only restores the minimum to its earlier value.

As the 2008 presidential election approaches, the Democrats can be expected to keep their focus on the minimum wage because it is a position that attracts voters and is one that can be held against Republicans in general.

The strategy makes sense, since public support for an increase is very high (at 83%) and minimum wage measures do bring out voters who might not otherwise go to the polls.

### ----- OVERVIEW -----

- Two responses to the stalled federal minimum wage
- America’s federal minimum wage
- The living wage and the state minimum wage increases;
- The influence of the hospitality industry;
- Four minimum wage arguments that are too good to be true.

But with the federal minimum wage so low and support so high, what is the resistance to it? Where does the determined opposition come from?

The problem is a familiar one: the power of campaign contributions and aggressive lobbying on Capital Hill. Despite the lip service to the well-being of young adults and small businesses, it is the profits of the corporations in the hotel, restaurant, and retail industries that the congressional “no” votes are protecting.

A chief opposition player is the NRA — not the gun group but the National Restaurant Association. Its [position on the minimum wage](#) is explicit and its recruiting video reflects its political energy. Low-wage workers and even organized labor can hardly compete with the influence of such lobbies.

Power politics is played out behind the scenes, but meanwhile at the front of the stage, in the media, on blogs, and in lawmakers’ speeches, the dance of the debate goes on.

The minimum wage suffers the fate of any issue that becomes ideological and polarized. Experts acknowledge opposing points only in order to rebut them, numbers are selected for their drama, and arguments that sound so convincing rarely resolve questions or change anybody’s mind. What follows are four such arguments, three by minimum wage opponents and one from the advocates, that appear to score points but are only partially true.

**Too-Good-an-Argument-To-Be-True #1**, from opponents: *Raising the minimum wage won't help poor people because most minimum wage earners are not poor.*

Half true - the second half. Most people who are paid the minimum wage do not fall into the official category of “poor.” The catch is the way we measure poverty.

The Census Bureau’s federal poverty measure looks at the total income of families and households, and an individual adult or child is “poor” only if the total income of the family lies below a certain level. For example, in 2005, the [poverty threshold](#) for a family of five that included two children was \$23,891.

If the three adults earned \$10,000, \$10,000, and \$5,000, the family earnings totaled \$25,000 and all five people were considered “not poor” – even though the adults might all be working minimum wage jobs.

Conversely, for a single adult with two children, the family threshold was \$15,735. The adult might earn \$7 per hour full time, well above the minimum wage, and bring home only \$14,000. The family was still considered poor although the adult was paid above the minimum wage. (The poverty threshold is figured before taxes. If the families qualify and apply for the Earned Income Tax Credit, they will have added income.)

In short, many minimum wage workers are not officially poor (because the combined family income is above the poverty level — sometimes far above it) and many poor people (whose total family income classifies them as “in poverty”) are earning above the minimum wage. So opponents focus on the comparatively small group of people who are both poor *and* earning the minimum wage. Supporters, on the other had, focus on *both* groups — those who are poor but earning above minimum wage and those who earn minimum wage but are not technically poor — and they number in the millions.

There is another problem with the federal poverty threshold. It is low. It is low because, although it increases yearly to reflect inflation, it reflects a formula from the 1940s that was based on food (which is now relatively cheap) and not on housing (which is now more expensive). The \$15,735 poverty threshold for a single adult and two children is not even close to the estimated cost of simple living for a family of that size in even low-cost rural areas.

The Economic Policy Institute calculates \$25,464 as the current cost for such a family in rural Mississippi, for example. In other states and in urban areas, the gap between the actual poverty line and the federal poverty threshold (\$15,735 for one adult and two children whether they live in Mississippi or Manhattan) is much larger. In the next section are alternative methods for calculating an appropriate minimum wage.

**Too-Good-an-Argument-To-Be-True #2**, from opponents: *Raising the minimum wage hurts employment and the economy. As everyone knows, if you raise the price of a widget, fewer people will buy it. So if you raise the cost of the labor for making gizmos, fewer employees will be hired at the gizmo factory. Or, if you try not to lay off any employees when their wages go up, the cost will be passed to the consumers, who will buy fewer gizmos at the higher price, which will mean the gizmo business will shrink, and—same result-- fewer employees will be hired.*

The analogy between the cost of widgets and the cost of labor just doesn't hold this neatly. In actual economies, increasing the minimum wage simply has not been followed by overall decline in employment or other economic indicators. It hasn't happened in [the states that have raised the minimums](#) and it hasn't happened in Great Britain where the minimum wage has risen regularly each year since 1999.

What holds for widgets doesn't hold for people. When the minimum wage goes up, workers, employers, and the public respond in more complex ways. For example, if the employers become more efficient and employees less likely to quit because the wages are a little better, the gizmo business will expand, not shrink.

**Too-Good-an-Argument-To-Be-True #3**, from opponents: *Raising the minimum wage raises wages for a while, but after costs and prices also go up, inflation puts minimum wage workers right back where they started.*

Prices do go up, but very little, and they are offset by boosts to the local economy. As Florida prepared to vote on raising its minimum wage in 2004 from \$5.15 to \$6.15 (a 19.4% increase), economists figured out [what to expect economically](#).

To cover the anticipated costs, a representative restaurant was expected to raise the price of a \$20 meal to \$20.14. A representative clothing store would re-price a \$20 sweatshirt to \$20.01. Such costs would be well outweighed by the gains. The disposable income of low-wage workers would increase by \$500 to \$600 per year, a modest but significant amount.

From this income, stores in low-income neighborhoods were expected to see net sales increases, with retail growth around 3% expected in the low-income Miami area. With retail growth comes stronger employment. Low-wage workers will spend their new dollars in low-cost local stores and services, which in turn will hire more low-wage workers (more than offsetting any small reduction in local teenage employment).

**Too-Good-an-Argument-To-Be-True #4**, from supporters: *No one will get hurt when the minimum wage goes up. All the working poor will earn a little more.*

In reality, some people will lose their jobs. Some teenagers, including minority teenagers, will be let go or turned away by employers.

How many? Over the years, studies on this issue, in the U.S. and other countries, suggest that a minimum wage increase of 10% will probably reduce teenage employment in the range of 1% to 3% (that's *teenage* employment, not *overall* employment).

Some people argue that helping most of the working poor is not worth harming the youngest workers. Others support the minimum wage in the belief that the benefits of a decent minimum wage for the work force, for families, for local businesses and communities well outweigh the job loss of a very small percentage of young workers who are least reliant on the income—and that in a strong economy a teenager out of a job is likely to find another one soon.

But there are solutions to this dilemma and to other problems with the minimum wage that America needs to consider in the future.

## The Future

Sooner or later the federal minimum wage will be raised — and then our real challenge will begin. America needs to figure out a better federal minimum wage system.

Especially in light of both the decline of welfare support and the accumulated knowledge worldwide about the minimum wage as a labor market institution, we cannot let a social policy of this importance remain flawed and so completely at the mercy of the politics of the moment.

Here are four interconnected recommendations.

### **(1) Roles of the Federal and State Minimum Wages**

The tide of states that are raising their minimum wages is impressive. But it is not without its risks. Supporters shouldn't be lulled into thinking that 30 or 40 states with their own minimum wages can take the place of the federal minimum wage. This is not a struggle that can be won solely at the state level any more than civil rights issues could be.

What's more, a minimum wage that is based on state decisions is the very thing that President Bush and many conservatives wholeheartedly approve of. What they have wanted is a federal minimum wage that states can decide to opt out of — a very bad idea.

What America needs is *both* a federal minimum wage to set a wage floor for all workers *and* state minimums set above the federal level for workers in high-cost regions.

It has taken a century of painful progress to get as far as we have towards this balance and we need to clarify our direction.

#### ----- OVERVIEW -----

- Four recommendations for a sounder minimum wage
- State minimum wages permanently set above the federal minimum in those regions where the cost of living is high
- A clearer definition of the federal minimum wage itself
- The formation of a national minimum wage commission to oversee changes to the minimum wage
- A sub-minimum wage for teenagers.

We need the federal minimum wage especially to protect workers in the many low-wage states — Alabama, Kentucky, Louisiana, North Dakota, Montana, South Carolina, Utah and others — where business and political forces seem unlikely to set such a wage floor on their own. And we need the state (and even city) minimum wages because, even after the federal minimum has gone up, there will be plenty of places where it is not enough to get by on.

So, what should happen? Some [states](#) in the past set the state rate as a certain fixed amount above the federal level (for those times, unlike now, when the federal rate was considered reasonable). In Massachusetts, the figure is 10 cents higher than the federal wage; for the District of Columbia, \$1; for Connecticut, .5%.

Such amounts need to be larger, but they point in the right direction.

After the federal minimum wage is finally raised, states should take a good look at the way the minimum wage is calculated, consider whether the overall cost of living in their area is significantly higher, and, if it is, adopt a formula for keeping theirs at the appropriate level. In that way, the federal minimum remains the national wage floor while states take the responsibility to protect workers where costs are higher.

But the advantages of such a system presuppose that the level of any minimum wage, state or federal, rests on clearer concepts and calculations than it does now.

## **(2) Setting the Level of the Minimum Wage**

How are we to gauge whether a minimum wage is too high or too low or about right? Several good methods for calculating a desirable minimum wage are possible.

One approach is to base the minimum wage on the scale of wages overall. This position is figured in terms of the average hourly wage nationally for non-supervisory workers. Our lowly federal minimum wage currently falls at 32.2% of average earnings.

By comparison, the national minimum wage in the United Kingdom equals 43.2% of the average wages there, and in Australia the figure is 58.8%. These ranges are judged adequate not only abroad but in the U.S. as well.

The states that have raised their state minimums have done so into the 40% to 50% range, and the living wages set by municipal ordinances are in that range or higher. Our federal minimum reached 40% just after it was last raised in 1997. The last time it was over 50% was 1968 (53%). To reach such levels today, the federal minimum would be above \$8.00 per hour.

One risk of keeping the minimum wage as a high portion of national wages is inflation. That is, if all the minimum wages rose to stay at 50% of the national average, they would lift the national average wage itself, the next minimum wage increase would be based on this higher median, that new increase would raise the average further, and so on.

But keeping the federal minimum wage within a range — say, between 45% and 50%, depending on economic factors — would be feasible. Solution number one.

Such calculation begs a basic question, though. What *is* the minimum wage? What is it intended to do or be? Many conservatives define the minimum wage as a “starting wage” and think that \$5.15 is fair enough since most starting employees will soon get a raise. Workers whose wage is stuck at or near \$5.15 an hour don’t agree.

The definition in [law that created the federal minimum wage in 1938](#) is that it is the amount required by the "minimum standard of living necessary for health, efficiency, and general well-being." And then there is the language found in the familiar calls for a minimum wage that provides "a decent standard of living for families" and the like. But how big is a "family," and how much is required for their "decent" life and their "well-being"?

The most common protest about the current federal minimum wage does include the crucial components of family size and income level: It is insufficient to keep one working adult and two children above the poverty line of \$15,735 (for 2005).

An advantage of this benchmark is that it captures the reality of the many poor and near-poor families that consist of a single mother with two children. But one of its limitations is that the federal poverty measure in general is woefully low for almost all parts of the country. So solution number two is to use a *multiple* of the poverty threshold — let's say, 150% of the inflation-adjusted poverty threshold for a family of three — as a basis for the federal minimum wage, together with higher state minimums where the cost of living was higher.

A third approach is to do away with the nationwide minimum wage and adopt instead a flexible, [universal, living wage formula](#) in its place.

This minimum/living wage would vary around the country to reflect local housing costs and should be high enough to provide a family of three or four with adequate housing, health care, child care, food, clothing, and basic transportation. Such an approach would mean wages ranging from about \$9 to \$12 per hour, depending on the local cost of living.

For many living wage supporters, it doesn't make sense to hang on to the antiquated idea of a *minimum* wage when families clearly need a wage they can actually live on.

But to throw away the minimum wage in place of a nationwide living wage system is to throw away the difference between the purposes that the two wages serve.

The distinction between the living wage as a local family wage and a minimum wage as a national rock-bottom is worth keeping. Governments took on the minimum wage for the purpose of protecting vulnerable and non-organized workers against exploitation.

The minimum wage is not a "good" wage and it's not a family wage; employers should not feel proud of paying it and employees should not try to raise a family on it by themselves. Its function is protection against wage abuse.

So a fourth option is to define the minimum wage as the wage that one worker himself or herself needs to live adequately—a living wage for one adult.

For what is most tragic about the current federal minimum is not that it fails to keep a family of three above the federal poverty level but that it fails to keep even a *single* adult worker above an *actual* poverty level. In rural areas of states with *low* costs, an hourly wage from \$6 to \$9 will provide a single adult with efficiency apartment, food, clothing, a cell phone, basic transportation, and basic health care.

Higher state minimums and some city minimum would be needed where costs are higher, as described earlier. Basing the minimum wage on the amount needed to support just one worker is a moderate measure; in fact, it will seem harsh to living wage supporters. But it has self-evidence and lack of ambiguity to recommend it.

### **(3) Keeping Up with Inflation with a National Minimum Wage Commission**

No matter how it is set, the federal minimum wage must go up — regularly. The working poor get poorer because the value of the minimum wage sinks beneath inflation, and the rich can lobby effectively against an increase in part because “catch-up” increases seem so large — 41% for the current proposals. The solution: small, regular increases.

Such increases are standard procedure in some major federal programs, and they should be in this federal mandate as well. Social Security goes up, Medicare goes up, even the federal poverty line goes up each year - all are indexed to increases in the cost of living in an inconspicuous, non-controversial process that sustains millions of Americans.

There are two basic ways to increase a minimum wage regularly. One is to index it directly to another economic indicator such as inflation or average wages.

Four states have been indexing their minimums to inflation. Florida, Vermont, Oregon, **and Washington** have systems for raising the state minimums each year according to the previous year’s increase in the cost of living in the United States as a whole. Six more states voted to do so in the 2006 elections. As a result, the value of their minimum wages remains or will remain steady. But among nations around the world, rigid indexing is a rarity.

Of the more than 60 countries with established methods for adjusting their minimum wages (Francois Eyraud and Catherine Saget, *The fundamentals of minimum wage fixing*, 2005), only Israel pegs its minimum wage inflexibly to another number (the average wage) in the economy.

The other and much more common method is for representatives from business, labor, and government to recommend or to carry out the change.

Such a process has been established in at least one state, New Jersey, which in 2005, while increasing its state minimum, also set up a [five-person commission](#) with representation from state government, the AFL-CIO, and the business community.

The law includes the provision that after the commission’s recommendation (the first is expected in 2008), the legislature must reply within a fixed time frame. Ironically, the first federal minimum wage legislation, back in 1938, almost included a similar commission but it was dropped from the final bill.

Today, minimum wage commissions of one type or another exist in many nations. An outstanding model is Great Britain’s. Since 1999, the [Low Pay Commission](#) has sent an annual report to the government, which has accepted its recommended changes in wage levels.

What is the purpose of a commission system? Or, to put it another way, if it is so vital to adjust the minimum wage so that its value keeps up with inflation, then what would justify a commission’s recommending anything *less* than a cost-of-living increase?

David Card and Alan Krueger, the researchers who famously found no employment ill-effects from minimum wage increases, urged renewed consideration of indexation, but they raised cautions as well (394-395). Depending on the distribution of wages across the economy, the minimum wage, which is itself a contributing factor in how many people earn which wages, should not be raised strictly by the cost-of-living increase in those years when doing so might contribute to inflation or unemployment the following year.

Conversely, when it appears that low-wage workers are not benefiting from the minimum wage as intended and the economy has suffered no significant adverse effects from recent increases, the federal minimum wage could be increased in a given year *above* the inflation level.

(There are no better models of this kind of analysis than the easily-available reports from Britain's Low Pay Commission.)

#### **(4) A Minimum Wage for Teenagers**

For all the fuss that opponents make about the damage that a minimum wage increase would do to teenage employment, it is surprising that neither opponents nor supporters say much about an obvious solution: lower minimum wages for workers in their teens.

More than 30 countries around the world have youth minimum wages (Eyraud). Great Britain, in fact, has three minimum wage rates:

- the Adult rate of the equivalent of \$9.72 for those 22 and older
- the Development rate equal to \$8.08 for 18- to 21-year-olds and to adults during their first six months on a new job with a new employer, and
- a 16 to 17-year-old rate equivalent to \$5.99 for those under 18 who have completed compulsory education (at 15 or 16, as in the U.S.).

The Low Pay Commission assesses the two wages for teenagers carefully for their impact on teen employment and school enrollment. Such wage refinement is yet another reason to look to the English model of a commission whose year-round business is to track the effects of the wage, to educate continually both employers and employees, and to consider ways to improve its level, its coverage, and its enforcement.

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