

# A \$15.00 FEDERAL MINIMUM WAGE: WHO WOULD BENEFIT?

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**March 2016**

The recent surge of state and local campaigns for a \$15.00 minimum wage has reached the national stage: Democratic presidential candidate Senator Bernie Sanders is calling for a \$15.00 federal minimum wage, a more than doubling of its current \$7.25 per hour level. This report shows that a \$15.00 minimum wage has the potential to deliver raises to 65 million workers—more than two-fifths (44 percent) of the U.S. workforce.

Large proportions of workers from every major demographic group would likely see their wages increase if the federal minimum wage were to rise from \$7.25 to \$15.00 per hour. This includes 36 million White workers (38 percent of all White workers), 9 million African American workers (54 percent of all African American workers), 15 million Latino workers (59 percent of employed Latinos), 24 million parents raising children (42 percent of this group), 33 million working women (46 percent) and 32 million working men (41 percent).<sup>1</sup>

At the same time, within this broad cross-section of the U.S. workforce, working women, African American workers, Latino workers, and workers from lower-income families will benefit disproportionately from raises provided by a \$15.00 federal minimum. Moreover, nearly one-third (32 percent) of the workers who would receive raises are living in households that are poor or near-poor, with incomes that typically fall short of covering their households' basic needs.

So many workers earn wages near or below \$15.00 because their wages have not kept pace with the growth of the U.S. economy. For example, the average pay among workers today is one percent *lower* than

where it was four decades ago, in the mid-1970s. This is while, over this same time period, the average productivity of U.S. workers has risen by nearly 120 percent. Moreover, compared to the mid-1970s, the U.S. economy now produces double the amount of goods and services per person.<sup>2</sup> Take the federal minimum wage itself. Prior to 1970, U.S. lawmakers raised the federal minimum roughly in step with average worker productivity. If this trend had continued, the federal minimum's inflation-adjusted value would exceed \$20.00 today.<sup>3</sup>

## WHO RECEIVES RAISES THROUGH A \$15 FEDERAL MINIMUM WAGE?

Two groups of workers can expect to see their wages rise in response to a minimum wage hike: (1) workers who receive mandated raises to get their pay up to the new wage standard and (2) workers who earn just above the new minimum. An employer may voluntarily give this second group of workers raises in order to maintain the firm's wage hierarchy before and after a minimum wage hike. Employers may want to preserve their wage hierarchy because wage differentials often serve to reward employees for such things as higher skill levels, seniority, and supervisory responsibilities.

Table 1 below presents estimates of the workers likely to receive raises from a \$15.00 minimum. These workers include first, those who would receive mandated raises, i.e., workers currently earning between the current \$7.25 federal minimum and \$15.00. It then also includes workers who would receive ripple-effect raises, i.e., worker who currently earn between \$15.00 and \$19.10.<sup>4</sup> In total, both those receiving mandated and ripple-effect raises make up 43.5 percent of the U.S. workforce, or 64.7 million workers.<sup>5</sup>

## DEMOGRAPHIC CHARACTERISTICS OF WORKERS LIKELY TO GET A RAISE

Large percentages of workers from every major demographic group will likely receive raises from raising the federal minimum from \$7.25 to \$15.00 per hour.

TABLE 1: NUMBER OF WORKERS LIKELY TO RECEIVE RAISES FROM \$15.00 MINIMUM WAGE

	All Employed Workers in the U.S. Economy	Workers Receiving Raises			Unaffected Workers
		Pay range for mandated wage increases: \$7.25 - \$15.00*	Pay range for ripple-effect wage increases: \$15.00 - \$19.10	Total Workers Receiving Raises	
No. of Workers	148.8 million	47.3 million	17.4 million	64.7 million	84.1 million
Percent of Workforce	100%	31.8%	11.7%	43.5%	56.5%

Source: Author's analysis of the Current Population Survey Outgoing Rotation Group data files for 2015. All data files accessed from ceprDATA.org. The total employment level of 148.8 million is based on the 2015 figure published by the Bureau of Labor Statistics of the U.S. Department of Labor. \*I include in this group tipped workers with wages as low as \$2.13 since the federal minimum wage for tipped workers (i.e., with tip credit) is \$2.13. For all other workers, I include those who earn between \$7.25 and \$15.00. See technical notes for details.

These include: 38.2 percent of White workers, 53.8 percent of African American workers, 58.9 percent of Latino workers, 33.7 percent of Asian workers, 52.9 percent of Native American workers, 42.2 percent of adult workers (at least 20 years old), 42.3 percent of parents raising children, 46.0 percent of working women and 41.1 percent of working men.

At the same time, certain groups of workers disproportionately earn near or below \$15.00 per hour. Table 3 compares demographic characteristics among the

workers who would receive raises alongside that of the entire workforce. Over-represented among workers receiving raises through a \$15 minimum compared to the overall workforce include women (51.2 percent receiving raises vs. 48.3 percent of workforce), African Americans (14.5 percent vs. 11.7 percent) and Latinos (22.8 percent vs. 16.8 percent).

TABLE 2: NUMBER OF WORKERS LIKELY TO RECEIVE RAISES FROM \$15.00 MINIMUM WAGE, BY DEMOGRAPHIC SUBGROUP

Demographic Characteristic	All Workers Receiving Raises (\$7.25 - \$19.10)*	
	No. of Workers	Percent of Subgroup
<b>Race/Ethnicity</b>		
White, Non-Hispanic	36.1 million	38.2%
Black, Non-Hispanic	9.4 million	53.8%
Hispanic, Any Race	14.7 million	58.9%
Asian	3.0 million	33.7%
Native American	492,000	52.9%
Other	948,000	47.3%
<b>Gender</b>		
Female	33.1 million	46.0%
Male	31.6 million	41.1%
<b>Age</b>		
Adults (at least 20 yrs. old)	60.6 million	42.2%
Parents with children	23.9 million	42.3%
<b>Total Workforce</b>	<b>64.7 million</b>	<b>43.5%</b>

Source: Author's analysis of the Current Population Survey Outgoing Rotation Group data files for 2015. All data files accessed from ceprDATA.org. \*I include in this group tipped workers with wages as low as \$2.13 since the federal minimum wage for tipped workers (i.e., with tip credit) is \$2.13. For all other workers, I include those who earn at least \$7.25 per hour. See technical notes for details.

TABLE 3: CHARACTERISTICS OF WORKERS LIKELY TO RECEIVE RAISES FROM \$15.00 MINIMUM WAGE

Demographic Characteristic	All Workers Receiving Raises (\$7.25 - \$19.10)*	Total U.S. Workforce
<b>Racial/Ethnic Group</b>		
% White, Non-Hispanic	55.8%	63.5%
% Black, Non-Hispanic	14.5%	11.7%
% Hispanic, Any Race	22.8%	16.8%
% Asian	4.7%	6.0%
% Native American	0.8%	0.6%
% Other	1.5%	1.3%
<b>Gender</b>		
% Female	51.2%	48.3%
% Male	48.8%	51.7%
<b>Age</b>		
% Adults (at least 20 yrs. old)	93.7%	96.5%
% Parents with children	37.0%	38.1%
<b>Income status</b>		
Median income (2015\$)	\$45,900	\$71,100
% Poor	7.8%	6.6%
% Near Poor	32.1%	20.7%

Source: Author's analysis of the Current Population Survey Outgoing Rotation Group 2015 data files and Annual Social and Economic Supplement data file for March 2015 that covers 2014. All dollar figures are expressed in 2015\$ using the CPI-U. All data files accessed from ceprDATA.org. \*I include in this group tipped workers with wages as low as \$2.13 since the federal minimum wage for tipped workers (i.e., with tip credit) is \$2.13. For all other workers, I include those who earn at least \$7.25 per hour. See technical notes for details.

Additionally, these workers and their families primarily come from the lower half of the income distribution. The median family income among workers who would receive raises is more than \$25,000 below the median income among all workers (\$45,900 vs. \$71,100). The poverty rate, as defined by the U.S. Census Bureau's severe official poverty line, among workers who would receive raises is similar to the poverty rate among workers more generally (7.8 percent vs. 6.6 percent). However, the situation is different when we look at a second income threshold—200 percent of the official poverty line. This near-poor income threshold is significant because families with incomes below such levels—while not officially poor—typically cannot cover their families' basic needs.<sup>6</sup> Nearly one-third (32.1 percent) of the workers who would receive raises from a \$15.00 minimum are poor or near-poor. This figure is 1.5 times the near-poor rate across the total workforce (20.7 percent).

As with U.S. workforce more generally, adults make up the near total of all workers who would receive raises (93.7 percent) and nearly two-fifths (37.0 percent) are raising children at home.

## WHAT ABOUT POTENTIAL JOB LOSSES?

A basic concern about the minimum wage is based on the idea that raising the wages of the lowest paid workers will reduce employers' willingness to hire them—a negative, unintended consequence. Moreover, if raising the federal minimum from \$7.25 to \$15.00 per hour causes large-scale employment losses, the policy would fail to achieve its primary intended consequence: to improve the living standards of low-wage workers and their families.

Research on the question of the minimum wage's impact on employment has found that past minimum wage hikes have either no, or small effects on employment—including both positive and negative effects. This research therefore indicates, at minimum, that businesses find other ways to adjust to minimum wage hikes aside from reducing jobs. These other adjustment mechanisms include modestly raising prices, finding cost savings from lower worker turnover, and the redistribution of revenue gains from the normal trajectory of U.S. economic growth.

We can build on past research to make reasonable as-

sumptions about how, and to what extent, business could adjust, while taking into account that raising the federal minimum from \$7.25 to \$15.00 per hour is a historically large minimum wage hike. We can then design a policy proposal that minimizes the likelihood of job losses. Prof. Robert Pollin and I conduct this type of research exercise, looking specifically at fast food restaurants as of 2013—the sector typically most impacted by minimum wage hikes.

We find that fast food restaurants could adjust to increasing the federal minimum to \$15.00, gradually over a four-year period, without shedding jobs. In particular, we estimate that the average fast-food restaurant is likely to see its overall business costs increase by about 3.4 percent per year through the four-year phase-in period. About half of this cost increase could be covered through raising prices by 3 percent per year and assuming that demand will fall due to the higher prices by about 1.5 percent. This would mean, for example, that the average McDonalds' outlet could cover about half of its total cost increase by raising the price of a Big Mac by 15 cents per year for four years—such as from \$4.80 to \$5.40.

The remaining half of the cost increase could then be covered through cost-savings due to lower turnover and a modestly more equal distribution of normal revenue growth produced by a healthy U.S. economy. We also find that these adjustments can cover the costs of a \$15.00 minimum wage without requiring businesses to reduce their profit rate. The broader implication of this exercise is that other, less affected, sectors should be able to adjust similarly.<sup>7</sup>

## CONCLUSION

Raising the federal minimum wage from \$7.25 to \$15.00 per hour has the potential to dramatically lift the bottom of the U.S. wage structure and improve the living standards for a wide swath of the U.S. middle- and working-class. About 64.7 million U.S. workers earn wages below or near \$15.00 per hour as a direct result of four decades of slow wage growth assisted by the failure of policymakers to maintain a robust federal minimum. A \$15.00 federal minimum could provide raises for these workers, representing more than two-fifths of the U.S. workforce. Women, African American and Latino workers, in particular, would benefit disproportionately, as would lower income households.

## Technical Notes

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### *Exemptions from Minimum Wage Provisions*

I take account of workers who are exempt from the minimum wage provisions of the FLSA either under Title 29, Part 541 of the Code of Federal Regulations, Section 13(a)(1) or otherwise by using the guidelines explained by the Department of Labor (2001).

In particular, I exclude certain broad occupational groups due to the exemption of executive, administrative and professionals as described in Sect 13(a)(1). These include the following categories: management occupations, business operations and financial specialists, computer and mathematical occupations, architecture and engineering occupations, life/physical/social science occupations, community and social services occupations, legal occupations, education/training/library occupations, arts/design/entertainment/sports/media occupations and healthcare practitioners and technical occupations, and other supervisory occupations and outdoor salespersons. Workers who are paid hourly or below the salary cap of \$455 weekly (with the exception of a few occupational groups) are considered nonexempt. I also included, as nonexempt, home care workers due to the 2015 change in the FLSA regulations.

Finally, certain industries had meaningful shares of workers not covered by the FLSA minimum wage provisions for reasons other than the guidelines in Section 13(a)(1). These include: agriculture/forestry/fishing, retail, services and private households. I therefore reduce the sampling weights of workers in those industries by an amount equal to the percent of workers not subject to the FLSA minimum wage provisions as documented in Table 2 of the Department of Labor (p. 26, 2001).

These exemptions result in excluding roughly 30 percent of the 2015 U.S. workforce from the pool of potentially affected workers. This matches the estimates published by in Department of Labor (2001). Implementing these exclusions likely produces an underestimate of the number of affected workers given the potential for ripple-effect raises to spillover to workers not covered by the FLSA.

### *Estimating Ripple-Effect Raises*

Projecting which workers can expect to receive ripple-effect raises from a national \$15.00 minimum wage is

necessarily somewhat speculative for two reasons. First, as noted earlier, ripple-effect raises are given at the employers' discretion. Second, the patterns of ripple effect raises from past state and federal minimum wage hikes provide limited guidance because they have been much more modest than the current \$15.00 an hour proposal.

The much larger mandated raises due to the \$15.00 minimum may impact the extent and size of ripple-effects raises two offsetting ways. On the one hand, the greater number of raises that employers must provide to comply with a \$15.00 minimum may require employers to implement more extensive ripple-effect raises to preserve existing wage hierarchies. On the other hand, more extensive ripple-effect raises increase employers' business costs. Employers therefore have an incentive to minimize such raises as much as possible.

To estimate the extent of ripple effect raises, I combine estimates from past research on (1) the impact of minimum wage hikes on highly-impacted employers such as in the retail sector and (2) living wage ordinances that typically call for wage hikes similar in size to the proposal for a \$15.00 minimum.<sup>8</sup> This research indicates that employers do use their discretion to limit the size and extent of ripple effect raises. Extrapolating from that research, I estimate that ripple-effect raises from a \$15.00 minimum extend up to, but not beyond, workers earning \$19.10 per hour.

This past research also reveals that employers tend to provide ripple-effect raises only large enough to preserve workers' relative ranking in the wage hierarchy. In other words, ripple-effect raises typically do not preserve the size of wage gap between workers at different wage levels. Take for example Worker A earning today's \$7.25 minimum. A \$15.00 minimum would raise this worker's wage by 107 percent, to \$15.00. Worker B, earning \$17.00, however, would likely receive only a 10 percent raise, or up to \$18.70. The wage gap between Worker A and Worker B would therefore shrink from \$9.75 to \$3.70. In other words, ripple-effect raises tend to *compress* the wage structure at the bottom rather than causing a wholesale shift toward higher wages.<sup>9</sup>

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## Endnotes

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<sup>1</sup> These figures do not total to 64.7 million because they include overlapping categories. Note that in order to avoid overstating the impact of a \$15 federal minimum wage, I assume that workers who are exempt from the Fair Labor Standards Act (FLSA) minimum wage provisions or otherwise not subject to these provisions will not be impacted. See technical notes for details.

<sup>2</sup> These estimates are based on data published by the Department of Labor and the Bureau of Economic Analysis. For average wages, I use: the average hourly rates of private, nonsupervisory and production workers, adjusted by the CPI-U (see: <http://www.bls.gov/ces/#data>), from 1974 to 2015. For worker productivity, I use the business sector output per hour series (see: <http://www.bls.gov/lpc/>). Per Capita GDP figures are from the Bureau of Economic Analysis' "Table 7.1. Selected Per Capita Product and Income Series in Current and Chained Dollars," (see: [www.bea.gov](http://www.bea.gov) ; accessed March 2, 2016).

<sup>3</sup> See these historical trends side-by-side in Schmitt (2012), available at: <http://cepr.net/documents/publications/min-wage1-2012-03.pdf>; accessed March 2, 2016). The 1970 federal minimum wage of \$1.60 is equal to \$9.77 in inflation adjusted terms (using the CPI-U). Increasing this figure by the increase in worker productivity (123.5 percent) would result in a \$23.20 federal minimum.

<sup>4</sup> Projecting which workers can expect to receive raises from a \$15.00 minimum wage is challenging because of these potential ripple-effect raises. Estimates of ripple-effect raises (also called "spillover" raises) from a national \$15.00 minimum wage are necessarily somewhat speculative because ripple-effect raises are given at the employers' discretion. Also, note that workers earning near but below \$15.00 would likely receive mandated raises to get them at least up to the new \$15.00 minimum but also ripple-effect raises to above \$15.00 in order to maintain their position in the wage hierarchy. See technical notes for details.

<sup>5</sup> I use an hourly wage rate that combines wages and tips for workers in occupations that typically receive a significant proportion of their wages in tips, including hairdressers, barbers, waiters/waitresses, gaming service workers, bartenders, miscellaneous personal appearance workers, and massage therapists (ceprDATA's *rw\_ot* wage measure). See Filion and Allegretto (2011) for a discussion of tipped occupations. For all other workers I used ceprDATA's *rw* wage variable that does not include tips.

<sup>6</sup> The Economic Policy Institute's estimates of family budgets typically exceed more than double the federal poverty line. The EPI family budget covers expenses for basic needs only, including housing, food, transportation, child care health care, taxes and other necessities (e.g., clothing, personal care and household supplies). These budgets do not provide for any emergency, education or retirement savings, and assume all food is eaten and prepared at home. For more information see, Gould et al. (2015).

<sup>7</sup> See Pollin and Wicks-Lim (2015), including for more discussion on past research on the minimum wage and employment debate.

<sup>8</sup> A full discussion of how I estimate ripple-effect raises can be found Pollin and Wicks-Lim (2015).

<sup>9</sup> See, for example, Wicks-Lim (2008).

## About the Author

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## About the Political Economy Research Institute

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