



August 5, 2019

Minimum Wages and the Raise the Wage Act (H.R. 582)

Federal Minimum Wage Law

Since 1938, the Fair Labor Standards Act (FLSA, 29 U.S.C. §206) has required that certain workers be paid a minimum wage. Since then, Congress has raised the minimum wage rate 22 times, from \$0.25 per hour in 1938 to its last increase on July 24, 2009, to \$7.25. (P.L. 110-28 increased it from \$5.15 to \$7.25 in three steps beginning in 2007).

Currently, the FLSA covers most, but not all, enterprises and private and public sector employees. Certain employers and employees are exempt from all or parts of the FLSA minimum wage provisions, either because they do not meet individual or enterprise coverage criteria or through specific exemptions included in the act. In addition, the FLSA provides for the payment of subminimum wages (i.e., less than the statutory rate of \$7.25) for certain classes of workers.

State and Local Minimum Wages

While the federal minimum wage is a nationally mandated wage floor, 29 states and Washington, DC, have enacted a higher state minimum wage. These state minimums range from as high as \$14.00 (Washington, DC) to as low as \$7.50 (New Mexico). Although any increase in the federal minimum wage requires congressional action, 18 states and Washington, DC, automatically increase their minimum wage by indexing it to an inflation measure. There are two states that have a state minimum wage below the federal minimum wage and five that have no state minimum wage. The federal minimum wage applies in states that do not have a state minimum wage or have one below the federal minimum. Additionally, several (44) localities have adopted minimum wages that are higher than their respective state minimum wages. As of 2019, 25 states prohibit localities from setting a minimum wage higher than the state level.

These higher state and local minimum wages cover a large portion of the workforce. In a July 2019 report, the Congressional Budget Office (CBO) projected that 34% of all workers are subject to an applicable state minimum wage at or above \$10 an hour in 2019; and by 2025 that percentage would increase to 53% of workers.

Special Federal Subminimum Wages

The FLSA allows the payment of subminimum wages for certain classes of workers, including the following:

- **Tipped Workers.** Under Section 203(m), a “tipped employee”—a worker who “customarily and regularly receives more than \$30 a month in tips”—may have his or her cash wage from an employer reduced to \$2.13 per hour, as long as the combination of tips and the cash wage from the employer equals the federal minimum wage. An employer may count against his or her liability for the required payment of the full federal minimum wage the amount an employee earns in tips;

this is known as the “tip credit.” Under the current federal minimum wage and the current required minimum employer cash wage, the maximum tip credit is \$5.12 per hour (i.e., \$7.25 minus \$2.13). Thus, all workers covered under the tip credit provision of the FLSA are guaranteed the federal minimum wage.

- **Youth.** Under Section 214(c), employers may pay a minimum wage of \$4.25 per hour to individuals under the age of 20 for the first 90 days of employment.
- **Individuals with Disabilities.** Under Section 214(c), employers may apply for special certificates from the Wage and Hour Division of DOL that allow them to pay wages lower than the otherwise applicable federal minimum to persons “whose earning or productive capacity is impaired by age, physical or mental deficiency, or injury.” As elaborated in regulations, disabilities that may affect productive capacity include, but are not limited to, blindness, mental illness, mental retardation, cerebral palsy, alcoholism, and drug addiction. There is no statutory minimum wage required under this provision of the FLSA, but pay is to be broadly commensurate with pay to comparable non-disabled workers and related to an individual’s productivity.

Who Earns the Federal Minimum Wage?

The most recent data available (2018) indicate that there are approximately 1.7 million workers, or 2.1% of all hourly paid workers, whose wages are at or below the federal minimum wage of \$7.25 per hour. Of these 1.7 million workers, approximately 434,000 earn the federal minimum wage of \$7.25 per hour, and the other 1.3 million earn below the federal minimum wage.

As the Bureau of Labor Statistics (BLS) notes, the large number of individuals earning less than the statutory minimum wage does not necessarily indicate violations of the FLSA but may reflect exemptions or misreporting. (See <https://www.bls.gov/opub/reports/minimum-wage/2018/home.htm>). A minimum wage earner is most likely to be female, age 20 or older, part-time, and working in a food service occupation, usually in food preparation and serving.

The Raise the Wage Act (H.R. 582)

H.R. 582 was reported in the House on July 11, 2019, and passed on July 18, 2019, by a vote of 231 to 199.

H.R. 582 would amend the FLSA to

- increase the minimum wage in seven steps until it reached \$15.00 per hour in 2025,
- require automatic increases by indexing the minimum wage to annual changes in the median hourly wage for all workers beginning in 2026,

- phase out and repeal the tipped minimum wage,
- phase out and repeal the youth minimum wage, and
- phase out and repeal the minimum wage for individuals with disabilities.

In addition to these changes, H.R. 582 would require the Government Accountability Office (GAO) to submit a report 90 days prior to the third wage increase on the overall effects of the first two wage increases and a report one year after the enactment of H.R. 582 on the status and structure of the economy of the Commonwealth of the Northern Mariana Islands.

As shown in **Table 1**, the bill would increase the regular minimum wage to \$15 in seven steps. Following an initial increase to \$8.40, the regular rate would increase by \$1.10 per year until 2025, at which point it would be adjusted annually based on changes in the median hourly wage of all workers. Similarly, the minimum wage for individuals with disabilities would increase to \$4.25 in 2020, followed by annual increases of \$2.15 until it converged with the regular rate in 2025. Finally, the tipped and youth wages would increase by \$1.50 and \$1.25 per year, respectively, until converging with the regular rate (estimated to be in 2028).

Table 1. Actual and Projected Minimum Wage Increases Under Provisions of H.R. 582

Year	Regular Rate	Tipped Wage	Youth Wage	Individuals with Disabilities Wage
Current	\$7.25	\$2.13	\$4.25	\$0.00
2019	\$8.40	\$3.60	\$5.50	\$0.00
2020	\$9.50	\$5.10	\$6.75	\$4.25
2021	\$10.60	\$6.60	\$8.00	\$6.40
2022	\$11.70	\$8.10	\$9.25	\$8.55
2023	\$12.80	\$9.60	\$10.50	\$10.70
2024	\$13.90	\$11.10	\$11.75	\$12.85
2025	\$15.00	\$12.60	\$13.00	\$15.00
2026	<i>\$15.40</i>	<i>\$14.10</i>	<i>\$14.25</i>	<i>\$15.40</i>
2027	<i>\$15.80</i>	<i>\$15.60</i>	<i>\$15.50</i>	<i>\$15.80</i>
2028	<i>\$16.20</i>	<i>\$16.20</i>	<i>\$16.20</i>	<i>\$16.20</i>
2029	<i>\$16.60</i>	<i>\$16.60</i>	<i>\$16.60</i>	<i>\$16.60</i>

Source: CRS analysis of H.R. 582, as engrossed in the House, July 18, 2019.

Notes: The schedule in **Table 1** assumes that H.R. 582 is enacted and becomes effective in calendar year 2019. Because median hourly wage for all workers is not reported by BLS, illustrative CRS projections for 2026 and beyond (shown in italics) apply the average percentage increase of “median hourly earnings of wage and salary workers paid hourly rates” from 1999 to 2018 (2.41%, as calculated from the Current Population Survey, rounded up to the nearest \$0.05) as the projected increase in the regular rate beginning in 2026.

Estimating the Impact of Raising the Minimum Wage to \$15 per Hour

The impact of an increase in the minimum wage depends in great part on whether the increase would cause a loss in employment. Some economic studies have found that increases in minimum wages cause job loss; other economic studies have found no such job loss. A previous consensus that increasing the minimum wage reduces employment, at least among teenagers, has been challenged by numerous recent studies suggesting little or no dis-employment effects of minimum wage increases. Producing *projected* impacts adds methodological complexity and requires potentially strong assumptions about overall wage growth and how employers will respond to wage changes in an unknown economic environment. The impact of an increase to \$15 imposes additional uncertainty on estimating potential job losses because of the magnitude of the change (from \$7.25 to \$15 in seven years), particularly in areas that have an applicable minimum wage at or near \$7.25. The additional impact would be smaller (or nonexistent) in those states that have already opted to enact minimum wage increases close to those in H.R. 582 that take effect by 2025.

In its July 2019 report, CBO estimated employment and income effects of three stylized minimum wage options: \$10, \$12, and \$15 by 2025. Under the \$15 option, CBO estimated that in an average week in 2025

- the change in the number of workers who would otherwise have been employed but now would be unemployed would range between zero and 3.7 million, with a median estimate of 1.3 million; and
- 17 million workers whose wages would otherwise be below \$15 per hour, as well as the 10 million workers whose wages would be slightly above the new federal minimum, would see wage increases, resulting in 1.3 million workers moving out of poverty in 2025.

These effects for \$10 and \$12 options would be smaller. In all cases, as CBO notes, there is uncertainty around these estimates due to uncertainty about future wage growth and about the responsiveness of employment to wage increases.

Additional Resources

CRS Report R43089, *The Federal Minimum Wage: In Brief*

CRS Report R43792, *State Minimum Wages: An Overview*

CRS Report R44667, *The Federal Minimum Wage: Indexation*

CRS In Focus IF10917, *Tip Credit and Tip Pooling Provisions of the Fair Labor Standards Act*

CRS Report R43468, *Special Minimum Wages for Workers with Disabilities: Frequently Asked Questions*

Congressional Budget Office, *The Effects on Employment and Family Income of Increasing the Federal Minimum Wage*, 55410, July 8, 2019, <https://www.cbo.gov/publication/55410>

David H. Bradley, Coordinator of Research Planning
Julie M. Whittaker, Specialist in Income Security