



# A YEAR OF ACTION: PROGRESS REPORT ON RAISING THE MINIMUM WAGE

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In his State of the Union address on January 28, 2014, President Obama called on Congress to raise the minimum wage to \$10.10 an hour. But as part of what he termed a “year of action,” the President also made clear that even as he pressed Congress to act, it was possible to make progress in the meantime – through steps that states, cities, counties and businesses could take to raise wages, as well as through executive action.

Despite efforts by leaders like Senator Tom Harkin and Representative George Miller to pass a \$10.10 minimum wage, Congressional Republicans have thus far blocked proposals to raise the national minimum wage. But state legislatures and governors; mayors, county executives and city councils; and business leaders have answered the call, and the President has taken action on his own to raise the minimum wage for workers on new Federal contracts. Together, their efforts will result in higher wages for millions of Americans across the country. They also illustrate how the broad-based support for a higher minimum wage – bolstered by economic evidence on the benefits of higher wages to workers, businesses and the economy – has helped build momentum for wage increases across the country.

***This report provides an update on the progress that has been made as a result of a nationwide push for a higher minimum wage, including:***

- **About 7 million workers will benefit from state minimum wage increases passed since the President’s initial call in 2013:** Since the President called for a minimum wage increase in early 2013, 13 states and the District of Columbia have passed increases to their minimum wage. According to new estimates from the Council of Economic Advisers (CEA), about 7 million workers will benefit from these increases as of 2017.
- **The Administration is implementing the President’s Executive Order to raise the minimum wage for workers on new Federal contracts – which will benefit nearly 200,000 workers:** The Administration is on track to implement by the end of the year a new Executive Order raising the minimum wage for workers on new Federal contracts to \$10.10 an hour, which is estimated to benefit nearly 200,000 workers by 2019.
- **Cities and counties have also taken steps to raise their wages:** Cities like Philadelphia, Louisville, and St. Louis have raised the minimum wage for their employees and contractors, joining other cities and counties that have raised wages for all local workers.
- **Businesses – both large and small – are taking action:** Since the beginning of the year, large companies like Gap Inc., Disney, and IKEA as well as small businesses across the country have announced increases to their starting wages. For example, Gap Inc.’s increase in its starting wage to \$10 an hour by next year will benefit 65,000 workers – and has already helped increase applicants for new positions by 10 percent.

## States, Cities and Businesses Taking Action to Raise Their Workers' Wages

Even in the absence of Congressional action, states are taking steps to raise wages. During his State of the Union address this January, as the President called on Congress to raise the federal minimum wage to \$10.10, he also urged state and local officials to pass minimum wage: "To every mayor, governor, and state legislator in America, I say, you don't have to wait for Congress to act." State legislatures and governors; mayors, county executives and city councils; and business leaders have all identified the benefits that come with raising the minimum wage – from increased spending in the local economy to higher productivity on the job – and responded.

### *THE CASE FOR RAISING THE MINIMUM WAGE*

- ❖ **Adjusted for inflation, the value of the minimum wage has fallen by a third from its peak:** In real terms, the minimum wage is now less than it was in 1981, at the beginning of the Reagan Administration. The Federal minimum wage is now only about 36 percent of the average wage, down from its peak of over 50 percent.
- ❖ **Raising the minimum wage would benefit about 28 million workers:** According to CEA estimates, about 28 million workers would benefit from an increase of the minimum wage – with more than 19 million earning less than \$10.10 and benefiting directly, and an additional 9 million low-wage workers benefitting from the "ripple effect" of an increase.
- ❖ **A minimum wage increase would disproportionately benefit working women:** Women account for more than half (55 percent) of all workers who would benefit from increasing the minimum wage to \$10.10, and account for 72 percent of workers in predominantly tipped occupations (like restaurant servers, bartenders, and hairstylists) who would benefit from the first increase in the tipped minimum wage in over 20 years. More broadly, only 12 percent of workers benefiting from a minimum wage increase are teenagers and the remainder of the beneficiaries include a wide cross section of families with children, couples, and others.
- ❖ **Raising the minimum wage would help the economy today:** Because low-wage workers are most likely to spend the additional money they earn, increasing their wages would help to increase aggregate demand and strengthen the economy today. For example, a study released by economists at the Federal Reserve Bank of Chicago found that raising the minimum wage would raise growth by 0.3 percentage point in the short run.
- ❖ **A \$10.10 minimum wage would lift 2 million out of poverty:** Currently, a family of four with one full-time worker earning the \$7.25 minimum wage is 17 percent below the poverty line, including tax credits. A \$10.10 minimum wage would raise that family of four to above the poverty line – and in total, would lift an estimated 2 million families out of poverty.

## State Activity



Since the President first proposed raising the federal minimum wage in his 2013 State of the Union Address, 13 states and the District of Columbia have passed laws to increase the minimum wage. Jeanne Mejeur, a senior researcher at the National Conference of State Legislatures, noted in the *New York Times* of the nationwide effort to raise wages: “This is the first time where there have been quite a few states that have gone over the threshold of \$10 per hour ... This is the first time that I’ve seen the states proposing these kinds of numbers.”

As one example of the momentum to raise wages in states across the country, on March 5, four governors – Dannel Malloy of Connecticut, Deval Patrick of Massachusetts, Lincoln Chafee of Rhode Island, and Peter Shumlin of Vermont – appeared with the President in Connecticut to support raising the minimum wage to \$10.10. Three weeks later, the Connecticut legislature passed and Governor Malloy signed an increase in the state’s minimum wage to \$10.10 by 2017, legislation closely aligned with the Harkin-Miller bill in Congress. Governor Malloy signed the bill at Café Beauregard, a small business in New Britain that pays its employees above the minimum wage – a location where President Obama and the four Governors dined at during the President’s visit to Connecticut. As Governor Malloy explained, “Connecticut was the first state that answered the President’s call to increase our state’s minimum wage to \$10.10 because it’s the right thing to

do for our workers, for our businesses, and our communities. Full time workers shouldn't live in poverty and we know higher wages boost economic activity.”

The three additional governors who stood with the President in March – Patrick, Chafee, and Shumlin – have all signed minimum wage increases in their states. Massachusetts raised its minimum wage to \$11 by 2017, Rhode Island raised it to \$9 by 2015, and Vermont raised it to \$10.50 by 2018. Additional states including Maryland, Hawaii and Minnesota have used the President’s call to action to help catalyze efforts to pass minimum wage increases to or near \$10.10 an hour. As Maryland Del. Tom Hucker said: “President Obama’s call to action was a powerful shot in the arm for efforts to raise the minimum wage in Maryland to \$10.10 an hour. Before the President issued his challenge to states, previous efforts to raise Maryland's minimum wage had failed. His challenge was the catalyst that helped spur successful legislative action in Maryland and other states and cities.”

New estimates by the Council of Economic Advisers illustrate how these statewide increases are poised to raise wages for millions of workers across the country. According to these estimates, more than 7 million workers will experience an increase in their wages as of 2017 as a result of statewide actions, compared to current law.<sup>1</sup>

### States That Have Passed Increases to the Minimum Wage in 2013 and 2014

State	New Minimum Wage <sup>2</sup>	# of Workers Benefitting as of 2017
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#### *States That Passed Increases in 2014*

<b>Connecticut</b>	\$10.10 by 2017	138,000
<b>Delaware</b>	\$8.25 by 2015	30,000
<b>Hawaii</b>	\$10.10 by 2018	71,000
<b>Massachusetts</b>	\$11 by 2017	540,000
<b>Maryland</b>	\$10.10 by 2018	286,000
<b>Minnesota</b>	\$9.50 by 2016, indexed for inflation	347,000
<b>Michigan</b>	\$9.25 by 2018, indexed for inflation	482,000
<b>Rhode Island</b>	\$9 by 2015	51,000
<b>Vermont</b>	\$10.50 by 2018, indexed for inflation	20,000
<b>West Virginia</b>	\$8.75 by 2016	95,000

<sup>1</sup> This estimate includes people who will benefit from the executive order raising the minimum wage for federal contractors to \$10.10, those who live in cities who plan to raise their minimum wage above that of the state's current level and those who work for companies who have announced plans to raise their minimum wage above that of the state's current level.

<sup>2</sup> For states that passed increases in both 2013 and 2014, only the 2014 increase is listed.

### **States That Passed Increases in 2013**

<b>California</b>	\$10 by 2016	3,323,000
<b>D.C.</b>	\$11.50 by 2016, indexed for inflation	43,000
<b>New Jersey</b>	\$8.25 by 2014, indexed for inflation	510,000
<b>New York</b>	\$9 by 2016	994,000
<b><i>TOTAL</i></b>		<b><i>7,038,000</i></b>

### **Local Activity**

Just as states have taken action, cities and counties have also pursued steps to raise minimum wages on their own – whether for their own workers, for their contractors, or for all workers.

Cities like Louisville, Philadelphia, St. Louis, Santa Monica, Calif., and Ypsilanti, Mich. have raised wages to \$10.10 or higher for their city workers or contractors. In January, St. Louis Mayor Francis Slay described his action to raise wages for city workers and contractors as responding to the President’s call: “Tonight during the State of the Union speech, President Obama announced his intention to re-set the minimum hourly wage for employees on new federal contracts to \$10.10, a step toward a larger goal of setting all workers' wages at levels high enough to support families. This is a useful step and an important goal. I hope other employers will follow the President's example. The City of St. Louis will.” In May, Philadelphia Mayor Michael Nutter similarly cited the President’s efforts as helping to drive his action to raise wages for contract workers: “Today, I will in fact answer the president's call,” Nutter said. “I will sign an executive order that gives Philadelphians a raise right now.”

Other cities like Seattle, Richmond, Calif., Berkeley, Calif., and Las Cruces, N.M. have raised wages citywide, as have counties like Montgomery and Prince George’s in Maryland, which raised them in tandem with Washington, D.C.

Mayors across the country have also called for additional steps to raise wages. In addition to endorsing a national increase of the minimum wage to \$10.10 per hour, the United States Conference of Mayors passed a resolution earlier this year supporting “state and local government efforts to set their own minimum wages above the federal minimum wage to help [the] lowest paid workers keep pace with the rising cost of living.”

### **Business Activity**

The President also called on business leaders to “do what you can to raise your employees’ wages.” As the Council of Economic Advisers explained in a February presentation, “The Economic Case for Raising the Minimum Wage,” decades of research on the minimum wage illustrates how raising the minimum wage could help businesses in several key ways. As the CEA [summarized](#) its findings (citations available in the original document):

- **Raising wages can increase productivity:** First of all, raising the minimum wage can increase motivation. Workers are motivated directly by feeling they are receiving a fair wage. Higher wages can increase employee morale, which raises productivity. In addition, higher wages help workers maintain better physical and mental health, allowing them to be more productive at work.
- **Raising wages can reduce turnover and save on recruiting/training costs:** Higher wages lead to lower turnover, reducing the amount employers must spend recruiting and training new employees.
- **Raising wages can reduce absenteeism:** When workers are paid higher wages, they are absent from work less often, increasing both their own productivity and that of their coworkers.

Businesses have taken their own steps to raise wages above the level required by law, following the lead of businesses like Costco that had already set an example by paying its workers well above the minimum. Gap Inc. will establish a minimum of \$10 next year, benefiting 65,000 of its 90,000 American employees. The company has reported that job applications at Gap and Old Navy have since increased at least 10 percent. IKEA took a similar step raising hourly wages at its 38 stores across the United States, and Disney recently announced starting wages at Walt Disney World would increase to \$10 an hour in 2016.

### ***WHAT RESEARCH SAYS ABOUT THE IMPACT OF THE MINIMUM WAGE ON EMPLOYMENT***

A wide range of economic research has found no significant impact on employment from raising the minimum wage. As summarized by CEA [earlier this year](#):

- Seven Nobel Prize Winners, eight former Presidents of the American Economic Association and over 600 other economists recently summarized the literature on the employment effects of the minimum wage in this way: “In recent years there have been important developments in the academic literature on the effect of increases in the minimum wage on employment, with the weight of evidence now showing that increases in the minimum wage have had little or no negative effect on the employment of minimum-wage workers, even during times of weakness in the labor market.”
- Pioneering research conducted by David Card and Alan Krueger in a 1994 study published in the *American Economic Review* in 1994 found that fast food restaurants in New Jersey did not cut back employment relative to Pennsylvania after the former State raised its minimum wage. They concluded, “We find no indication that the rise in the minimum wage reduced employment.” The Card-Krueger research was generalized by Arindrajit Dube, T. William Lester, and Michael Reich who compared 288 pairs of contiguous U.S. counties with minimum wage differentials from 1990 to 2006. Based on this, researchers found “no adverse employment effects” from a minimum wage increase.
- A recent literature review of the extensive published work on the minimum wage concluded: “[W]ith 64 studies containing approximately 1,500 estimates, we have reason to believe that if there is some adverse employment effect from minimum-wage raises, it must be of a small and policy-irrelevant magnitude.”
- John Schmitt at the Center for Economic Policy Research concluded that “The employment effects of the minimum wage are one of the most studied topics in all of economics. This report examines the most recent wave of this research – roughly since 2000 – to determine the best estimates of the impact of increases in the minimum wage on the employment prospects of low-wage workers. The weight of that evidence points to little or no employment response to modest increases in the minimum wage.”

Small businesses have also acted – consistent with multiple surveys of small businesses conducted by the American Sustainable Business Council, Business for a Fair Minimum Wage, and the Small Business Majority that show a majority of small businesses supporting an increase in the minimum wage. For example:

- Chuck and Don’s – a 25-store chain of pet food stores based in Minnesota – raised its minimum wage to \$10.10 in March, retroactive to the 2014 State of the Union. “We want everyone who contributes to the company to share in its successes,” said CEO Bob Hartzell.
- Euclid Hospitality Group, owners of the Pi Pizzeria and Gringo restaurants in St. Louis, implemented a \$10.10 per hour minimum wage in restaurants in March 2014, with co-owner Chris Sommers noting, “We began researching it in the fall and concluded that we can pay for this through (savings) associated with turnover and improved morale.
- Pizza King Indianapolis franchise owner Aaron Schaler pledged to pay all of his workers more than \$10 per hour in April, noting that “happy employees are productive employees.”

- RecycleForce, a social enterprise that provides recycling services and workforce training, announced in February that it was raising its minimum wage to \$10.10 per hour for its hourly staff, explaining that raising wages is smart for helping families. RecycleForce President Gregg Keesling explained: “After the President’s speech, two of our employees asked, ‘Are you one of those federal contractors the President’s order impacts?’ While the executive order does not apply to us at this time, their attention to the President’s speech impressed me and prompted me to consider voluntarily raising our minimum wage to \$10.10 per hour.”

Similarly, colleges and universities have raised wages for their workers. Earlier this year, Centenary College in Louisiana announced it would raise wages for its staff to at least \$10.10 an hour. Hampton University President William Harvey took a similar step, donating \$108,000 to raise that university’s minimum wage for permanent full-time staff to \$9 an hour—benefiting 121 housekeepers, cafeteria workers, and maintenance staff. Recently, Kentucky State University interim president Raymond Burse decided to return \$90,000 of his salary in order to raise the university’s minimum wage to \$10.25.

### *WHY BUSINESSES INCREASE THEIR WAGES*

❖ **Glenn K. Murphy, Chairman and CEO, Gap Inc.**

To us, this is not a political issue. Our decision to invest in front-line employees will directly support our business, and is one that we expect to deliver a return many times over.

❖ **Craig Jelinek, CEO and President, Costco**

At Costco, we know that paying employees good wages makes good sense for business. We pay a starting hourly wage of \$11.50 in all states where we do business, and we are still able to keep our overhead costs low. An important reason for the success of Costco's business model is the attraction and retention of great employees. Instead of minimizing wages, we know it's a lot more profitable in the long term to minimize employee turnover and maximize employee productivity, commitment and loyalty. We support efforts to increase the federal minimum wage.

❖ **Rob Olson, U.S. Acting President and Chief Financial Officer, IKEA**

At IKEA, we are guided by our mission 'to create a better everyday life for the many people,' a vision that includes our co-workers, customers and the communities impacted by our business. The transition to the new minimum hourly wage structure is not only the right thing to do, it makes good business sense. We are basing our wages on our co-workers and their needs, rather than what the local employment market dictates. Our focus is to ensure that IKEA is a great place to work by providing an environment that develops our co-workers and also meets our customers' expectations. All of this contributes to our business success.

❖ **Randy Garutti, CEO, Shake Shack**

Our turnover is lower, we can hire the best, they stay longer, and we can grow them into management. If the team feels taken care of, then they'll go out and take care of the guests.

❖ **Gina Schaefer, Owner, A Few Cool Hardware Stores, a group of nine Ace Hardware stores in Washington, D.C., and Maryland.**

As a small business owner, I am a firm believer that raising the minimum wage is the right thing to do. It will mean more money in the hands of those who need it, allowing them to pay for daily necessities without sacrificing their other basic needs. And increased wages means more money in peoples' pockets that they then put back into the economy, which is good for businesses.

## **Taking Action to Support Federal Contract Workers**

In January, the President made clear that while he was calling on state, local and business leaders to take action, he would also take the available actions within his power to raise wages. On February 12, 2014, he issued Executive Order 13658, which increased the minimum wage to \$10.10 for workers on Federal contracts and indexed the applicable minimum wage to inflation starting in 2016. The Executive Order will also increase the tipped minimum wage for federal contractors to \$4.90, with additional increases of \$0.95 annually until it reaches 70 percent of the full minimum wage.

As noted elsewhere in this report, existing evidence suggests that raising the wages of contracted workers will boost their morale, productivity, and quality of work. It will also lower turnover and

the costs of hiring new workers and supervisory costs. Together, these effects will increase efficiency and cost savings in government contracting.

To implement the Executive Order, the Department of Labor published a Notice of Proposed Rulemaking on June 17. A final rule is to be issued by October 1, 2014, with the \$10.10 minimum wage required for new contracts when the solicitation is issued on or after January 1, 2015. Additionally, the Office of Management and Budget and the Department of Labor issued a memorandum to Federal agencies strongly encouraging them to begin implementing a \$10.10 minimum wage as soon as possible.

The proposed rule covers contracts for construction covered by the Davis-Bacon Act; contracts for services under the Service Contract Act; concessions contracts, such as contracts to provide food, lodging, fuel, souvenirs, newspaper stands, and recreational equipment on federal property; and contracts entered into by the federal government in connection with federal property or lands and related to offering services for federal employees, their dependents, or the general public, such as child care or dry cleaning in Federal buildings.

The proposed rule would cover workers doing work under these contracts who are otherwise entitled to the Fair Labor Standards Act minimum wage or prevailing wages under the Davis-Bacon Act or the Service Contract Act. The Executive Order also specifically noted that the minimum wage requirement would apply to workers with disabilities whose wages are calculated pursuant to 29 U.S.C. 214(c).

The rule's economic analysis estimates that the Executive Order will directly benefit nearly 200,000 Federal contract workers by 2019.

## Next Steps

As this report shows, efforts by states, cities and businesses – as well as executive action taken by the President – is set to raise wages for millions of Americans across the country. Over the coming months, the Administration will continue to implement the President's Executive Order raising wages for new workers on Federal contractors. At the same time, he will continue to make the case for a minimum wage increase – both for Congressional action to raise it nationally, and for additional progress among states, cities and businesses raising wages themselves.