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More Money Fewer Problems: Increasing The Minimum Wage

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Abstract

This policy brief examines the minimum wage in North Carolina, its effect, and ways to increase the wage for the betterment of citizens. The minimum wage at its current level of $7.25 is not enough money for citizens to pay for all of their basic needs such as clothing, rent, food, and healthcare. Additionally, with increased inflation in almost all aspects of life, this minimum wage has not increased since 2008 making it even more difficult for individuals to survive. While a wage increase to $15 seems to be the most talked about in the media it can be costly for the deficit and risks layoffs which in the long run is not beneficial for citizens. While increasing the minimum wage to $15 is one of the options and possibly some states' final goal, another option that makes sure citizens are not caught in their current situation of no wage increase in fourteen years, would be increasing the minimum wage to $12. One last solution is to pass a state-by-state regulated wage increase based on inflation during the year. Currently, 13 states have legislation in place to deal with inflation and the minimum wage, showing that this type of legislation can work and be beneficial for citizens while making sure companies can pay the stated wage. Therefore, my final solution is to increase the wage to $12 paired with a year-to-year wage increase based on inflation.

Keywords

North Carolina, minimum wage, solutions

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Executive Summary

This policy brief examines the minimum wage in North Carolina, its effect, and ways to increase the wage for the betterment of citizens. The minimum wage at its current level of $7.25 is not enough money for citizens to pay for all their basic needs such as clothing, rent, food, and healthcare. Additionally, with increased inflation in almost all aspects of life, this minimum wage has not increased since 2008 making it even more difficult for individuals to survive. While a wage increases to $15 seems to be the most talked about in the media it can be costly for the deficit and risks layoffs which in the long run is not beneficial for citizens. Increasing the minimum wage to $15 is one option and possibly some states' final goal. However, another option that makes sure citizens are not caught in their current situation of no wage increase in fourteen years, would be increasing the minimum wage to $12. One last solution is to pass a state-by-state regulated wage increase based on inflation during the year. Currently, 13 states have legislation in place to deal with inflation and the minimum wage, showing that this type of legislation can work and be beneficial for citizens while making sure companies can pay the stated wage. Therefore, my final solution is to increase the wage to $12 paired with a year-to-year wage increase based on inflation.

Introduction

The minimum wage in North Carolina has not been increased from its current level of $7.25 since 2008. The fact that the minimum wage has not been increased in 14 years is detrimental to citizens because the cost of living has increased due to inflation meaning citizens are forced to rely on a minimum wage that is out of date. This is important for public well-being because low pay paired with an increased cost of living leads to poverty. According to the Census Bureau, as of 2021 12.9% of North Carolina citizens currently are impoverished (U.S Census Bureau, 2021). Research also shows that in 2010, nationally 28% of families earn less than 200% of the federal poverty level, a number that is expected to be more substantial given inflation (Annie E Casey Foundation et al., 2010). The poverty rate could be significantly decreased with an increase in the wage for both North Carolina and national citizens, as both the national and state hourly wages are $7.25.

The issue of increasing the minimum wage above $7.25 has been tackled by twenty-nine states showing legislation and change are possible for the betterment of citizens. When some citizens are not able to pay for basic needs because of the hourly wage it is detrimental to society as the quality of life is lowered. The lower quality of life leads to citizens having to rely on government programs that aid with paying for basic needs, which increases governmental spending. Additionally, 75% of North Carolinians support a minimum wage increase (Hawes and Dreir, 2021).

Policy Problem

The low minimum wage in North Carolina drastically affects its citizens. According to Ana Pardo of the North Carolina Justice Center, with the current minimum wage of $7.25 a North Carolina citizen will make $15,080 a year which is almost $1,000 less than the federal poverty level for an adult with one child (Pardo, 2021). Additionally, 1.3 million North Carolinian workers would benefit from a minimum wage increase (Pardo, 2021). These statistics show the urgency and severity of the minimum wage problem in North Carolina. When a regular working-class citizen makes less than the poverty level it creates a systemic cycle of poverty for generations.

In addition to the low wage, inflation has made the issue worse for North Carolina citizens. In 2008 the average house in North Carolina cost roughly $155,423 however in 2020 that number is $251,859 (Fiscal Research Division, 2021). This data shows an increase of almost 100,000 dollars, meanwhile, the hourly wage has stayed stagnant. Additionally, the day-to-day costs of goods such as food and childcare have also increased since 2008. In terms of wage inflation when adjusted, the minimum wage of $7.25 is around 40% lower than the minimum. Although the minimum wage in 1970 was only $1.60, when adjusted to today's standards it would be $12.04 (Statista, 2022). When comparing the wage from when it was first set in January 2008 to October 2022 the wage should be $10.24 when adjusted for inflation ("CPI Inflation Calculator, 2022).

According to MIT's Living Wage Calculator, a single person with no children living in North Carolina's "living wage" is $17.14. Furthermore, an annual income after taxes of $28,809 is needed to pay for basic needs (MIT, 2021). These statistics on the day-to-day cost of living in North Carolina show the severity of the problem. Currently, a North Carolina citizen who is paid minimum wage makes more than $10,000 less than what is needed to pay for everyday needs. This data raises the question: if the minimum wage in North Carolina does not support the average citizen how is one supposed to live?

Now, one may be wondering how did this problem progress? For starters, one factor that has contributed to the problem is inflation, as the cost of living rose, ages did not. While bills have been introduced to increase the minimum wage in North Carolina over the past fourteen years little progress has been made. While there is no real clear reason why action has not been taken on increasing the minimum wage it may be due to companies not wanting to spend money on increasing the wage, lobbying efforts, political opinions, and the fear of increasing the deficit. According to Kelly Smith of Forbes Magazine, some argue that raising the minimum wage would increase the price of food, be too expensive for companies, and “kill jobs” (Smith, 2021). An additional reason may be a disconnect between representatives and constituents. According to a report released by the Congressional Research Service, the base salary of a United States representative is $174,000 (Brudnick, 2019), meaning a congressional representative makes roughly 145,000 more dollars than a North Carolina citizen who is paid minimum wage.

While federal poverty programs exist and have reduced the number of citizens living in poverty, there are still inequalities Most of the inequalities are due to systemic bias in the systems due to biased governmental policies and lack of resources and funding. For example, regarding affordable housing due to funding, only 1 in 4 families who are eligible for housing receive it (Saenz and Trisi, 2021). Regarding access to food, 1 in 5 families who are eligible receive food stamps. Additionally, only half of the families who need public health insurance receive it (Annie E Casey Foundation et al., 2010). Even when a family is eligible for federal aid the application for such programs can be lengthy and confusing additionally, there is a stigma around receiving help meaning not as many families will apply.

<u>Policy options</u>

The first solution to fix the low minimum wage is to increase the hourly wage to $12 paired with the expansion of federal poverty programs. Poverty rates are lower for those who make ten to twelve dollars an hour, however "near poverty" levels are higher. Building on this notion is the fact that to benefit workers the most a large increase to the minimum wage is needed. Substantially increasing the wage increases the wages of workers who previously earned less than the new minimum wage while also helping workers with moderately higher wages (Lopresti and Mumford, 2016). While raising the minimum wage to $12 ensures that earnings alone will lift workers and their families out of poverty it does not guarantee that they will stay out of poverty or not be on the edge of being impoverished, therefore an expansion of poverty programs is needed (Romich and Hill, 2018). The federal poverty programs that need to be expanded are the Earned Income Tax Credit (EITC), the Child Tax Credit, and the Supplemental Nutrition Assistance Program (SNAP).

According to research, a ten percent increase in the minimum wage leads to a 1.5% reduction in the poverty rate nationally (Romich and Hill, 2018). This increase from $7.25 to $12 will be done over a two-year period providing flexibility for companies to decide how and when they want to increase the wage as long as it is at or above $12 by the time two years are over. These two years are to account for companies having to adjust to the increased payroll and decide how much they want to raise the wage by. The legislation to increase the minimum wage could be done at the federal or state level because the hourly wage can be changed at either level. Based on Romich and Hill's research, increasing the wage to $12 will result in a possible reduction of employment, however, this is not reflective of how companies will react just an estimate. Additionally, increasing the minimum wage to $12 an hour will also reduce poverty by an estimated 16.1%.

Paired with the increase in minimum wage will be the expansion of federal poverty programs. The first federal poverty program that would be expanded is the Earned Income Tax Credit (EITC). Citizens may claim this program if their income is low to moderate. The program will either reduce the amount of taxes one owes or increase the tax refund putting more money in the pockets of citizens (Internal Revenue Service, 2022). As of right now, the EITC provides $5,600 for a single earner with two children and $6,300 for joint filers with two children; however, a citizen can still apply if they do not have children however the return will be lower.

The next federal program is The Child Tax credit which was increased by the Biden Administration in 2021. This program provides $3,000 per child if they are six to seventeen years old and $3,600 per child if they are under six years old (The White House, 2021). A family will receive the full benefits from the program if they make up to $150,000 for a couple or $112,500 for a family with a single parent (The White House, 2021). However, the expansion of The Child Tax Credit was only passed for a single year meaning it could go back to its previous levels of $2,000 per child with an age cap of sixteen. Overall, this program is beneficial for citizens as it lessens the financial worries and burdens of having children.

The final federal program that would be expanded is the Supplemental Nutrition Assistance Program (SNAP) which provides the greatest number of benefits of these three programs $6,000 or more for a family of three (Romich and Hill, 2018). While this program might currently provide the greatest number of benefits to families it is outdated and does not reflect inflation as the program was last revised in 2006. While SNAP does provide benefits for food it does not ensure an adequate and healthy diet. Citizens who use SNAP benefits report that they need roughly ten to twelve more dollars per person each week to meet their needs.

Similarly, researchers estimate that SNAP benefits fall about $11 short per person of the weekly cost of a nutritious meal plan (Carlson et al., 2021). Additionally, most families run out of SNAP benefits within the first or second week of receiving them making the rest of the month difficult, therefore the SNAP benefits should account for individuals buying items in bulk.

All these programs together total above $10,000 meaning families will have a better cushion to lean on not only relying on pay, however, there is still work that needs to be done as there are downfalls with each program. Expanding these programs would be done on the federal level because they are federally run. One way they could be expanded would be to change the income level these programs operate at to reflect the change in income associated with increasing the wage. Additionally, more money and time could be spent to streamline the application process so all families eligible will be able to apply, as successfully filling out the application is a large barrier for most families. In addition to streamlining the application process, more money could be invested in these programs so the aid each family receives would increase.

There are some barriers when it comes to increasing poverty programs, the largest one is the deficit. As a result of an increase in federal investment more money will have to be spent leading to a large amount of debt. Some technical complexities are where to cap who gets aid from the government and how long and continuous the expansion will be. A political complexity is how the politicians and constituents feel about the national debt and assisting those in need.

A second solution is discussed regularly, increasing the minimum wage to $15. Increasing the minimum wage to $15 an hour would lift the pay of 25 million workers in America and reduce the number of people living in poverty by 2.7 million while ensuring an annual pay increase of $3,000 (Cooper et al., 2021). Currently, California is the only state with a minimum wage of $15 requiring this wage for companies with twenty-six or more employees

(Jacquinot, 2022). This option of $15 would also be the closest to the living wage estimates for North Carolina, and well above the poverty rate of $6.18 an hour (MIT, 2021). This increase could be done on the federal or state-wide level. Current bills being introduced recommend a gradual increase in the wage until you reach $15 in 2027 to give companies and the government time to adjust appropriately. The proposed legislation states that the minimum wage would be $9.50 in 2023, $11.00 in 2024, $12.50 in 2025, $14.00 in 2026, and $15.00 in 2027 (Alsalam et al., 2021). Multiple states have passed legislation for a gradual increase to $15 including Florida, Maryland, Delaware, and New Jersey, among others (Jacquinot, 2022). There are some downfalls to increasing the wage. The deficit would increase by $54 billion due to the reduction in unemployment leading to an increase in government spending on unemployment programs. And research estimates that employment would be reduced by 1.4 million workers or 0.9 percent. Additionally adding to the deficit would be Social Security because spending would rise as a result of the average salary rising (Alsalam et al., 2021). However, the actual reaction of companies to this increase is just a prediction. Some argue that the price increase would lead to people not buying goods however research shows that Americans continue to pay for the items. The top 5% of Americans buy more goods and continue to purchase them regardless of the price (MaCurdy, 2015).

While increasing the minimum wage and investments in federal poverty programs are important, making sure the minimum wage does not stay stagnant over the years should be a priority. The third solution is to develop a cost-of-living adjustment for inflation. This legislation would be done on a state-by-state basis with every state setting the parameters for increasing the minimum wage due to differing inflation levels per state. There are currently thirteen states who have this legislation in place and most use the Consumer Price Index (CPI) in a variety of ways to determine the wage. The CPI is "a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services" ("Consumer Price Index", 2022). Some examples of how states use this information are: South Dakota, Vermont and Washington use the CPI's August-August information. With this information the states chose to round to five cents, enact a 5% increase, or conduct no rounding. On the other hand, Washington D.C uses the previous year's CPI rounding by five cents. There are some issues such as when to cap the increase, as some states have capped it near $15 (Kamper and Hickey, 2022). Historically, the wage should be higher, in 1968 a minimum wage worker earned $10.59 per hour when adjusted for inflation roughly 46% higher than today's wage (Cooper et al., 2021).

Recommendation and Conclusion

The final proposal is a mix of solutions one and two, increasing the minimum wage to $12 with an adjustment for inflation while also extending state and federal poverty programs. I chose these because while $15 will bring 2.7 million citizens out of poverty many political and technical complexities get in the way of achieving that goal. A $15 minimum wage would increase the deficit by 54 billion dollars, something that many politicians and citizens are wary of. It would also increase the amount of money spent on social security whose future is already questioned given the amount of money allotted and the growing population above 65. For the nation and state to eventually reach $15 smaller steps need to be taken first. While increasing the minimum wage and expanding access to poverty programs will still increase government spending, the betterment of the nation outweighs the downfalls of the policy as it will help ensure every citizen can have a good and comfortable living. Reexamining and adjusting the hourly wage each year based on inflation means the nation will hopefully not be stuck in the current situation of no change in fourteen years. Adjusting the minimum wage for inflation would have to be done on a state-by-state basis meaning the state and companies would take on the burden of debt. However, each state can cap how much they want the wage to raise, meaning the wage won't rise indefinitely.

Overall, raising the minimum wage is a complex issue. On one hand increasing the wage will lead to less poverty for citizens but it will also increase the deficit leading to political and technical complexities. However, the good outweighs the bad in this scenario. As inflation continues to rise, the cost of living becomes higher for citizens making a comfortable and safe living scenario difficult. All citizens should be able to earn a wage that can support them to the point where they can pay for basic needs. The fact that citizens are in poverty and struggling to survive should be a concern for the leaders of America. A representative must defend not only the constitution but the people's beliefs, wants, and needs, therefore when a citizen is struggling action should be taken.

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