

A PROPOSAL TO LIFT INDIVIDUALS AND FAMILIES OUT OF POVERTY AND PUT THEM ON  
A PATH TO UPWARD MOBILITY

by  
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A capstone project submitted to Johns Hopkins University in conformity with the  
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## **ABSTRACT**

The minimum wage was enacted by Congress in 1938 to be a wage floor. Once created, the value steadily rose up until 1968 but since then, the value of the federal minimum wage has steadily declined. Today, an individual working full-time and earning the federal minimum wage has annual earnings below the federal poverty line. In 2021 74 counties, cities and states have raised their minimum wage. Congress on the other hand, has not raised the federal minimum wage in nearly 12 years.

This capstone will take a look at the history of the federal minimum wage, earned income tax credit as an alternative solution and impact of a minimum wage increase. It also takes a look at public and other stakeholders' responses. The policy proposal and recommendation to the Speaker of the House is a \$15 minimum wage increase by 2025 along with increasing and expanding federal targeted federal tax credits. This policy proposal will ensure anyone working full-time will not live in poverty and put them on a path to upward mobility.

Advised by: Professor Paul Weinstein

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## MEMORANDUM

**TO:** Speaker of the House, Nancy Pelosi (D-CA)

**FROM:** Martin Gutierrez

**SUBJECT:** President Biden Calls for \$15 Federal Minimum Wage

**DATE:** March 30, 2021

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### Action Forcing Event

In a January 14 speech about his \$1.9 trillion-dollar economic relief package, President Joe Biden said he would ask Congress to raise the minimum wage from \$7.25 to \$15 per hour.<sup>1</sup> It is estimated that 382,000 workers in the United States earn \$7.25 an hour.<sup>2</sup> Biden stated that “Nobody working 40 hours a week should be living below the poverty line.”<sup>3</sup>

### Statement of the Problem

The problem is the value of the federal minimum wage, adjusted for inflation, has steadily declined since reaching its peak value in 1968 causing it to be a poverty wage today. The federal minimum wage in the United States was established in 1938 by Congress under the Fair Labor Standards Act (FLSA) to be a wage floor in the United States<sup>4</sup>. The FLSA imposed a minimum wage of \$.25 per hour but was not indexed to inflation, meaning Congress could only raise it. Congress has raised the federal minimum

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<sup>1</sup> Biden, Joseph. “COVID-19 Economic Recovery Plan.” C-SPAN video, 26:05. Posted January 15, 2021. <https://www.c-span.org/video/?507983-1/president-elect-biden-unveils-19-trillion-covid-19-relief-proposal>

<sup>2</sup> “Characteristics of Minimum Wage Workers, 2019 : BLS Reports.” U.S. BLS Reports . U.S. Bureau of Labor Statistics, April 1, 2020. <https://www.bls.gov/opub/reports/minimum-wage/2019/home.htm>.

<sup>3</sup> Biden, “COVID-19 Economic Recovery Plan”, 26:05.

<sup>4</sup> U.S Library of Congress, Congressional Research Service, *The Federal Minimum Wage: In Brief*, by David H. Bradley R43089 (2021) 9.

wage twenty-two times but the increases have been too infrequent to keep up with inflation.<sup>5</sup>

The value of the federal minimum wage steadily increased the three decades immediately following its creation in 1938, reaching its peak value in 1968 and then steadily eroding in value since then. As a result of the decline in real value of the federal minimum wage, more people today working full-time earning minimum wage are living in poverty.

The federal minimum wage today is a poverty wage for single adults and many families. A single full-time worker earning minimum wage, has gross annual earnings below the federal poverty line. All families with a single full-time worker earning the federal minimum wage has gross annual earnings below the federal poverty line. According to the U.S. Census Bureau 2020 poverty threshold's, a single parent with one child working forty hours a week would have to earn \$8.58 per hour or work 47.5 hours a week at minimum wage to have annual earnings above the federal poverty line.<sup>6</sup> The federal poverty threshold for a family of two with one child under the age of 18 years old is \$17,839.<sup>7</sup> A single parent with two children making minimum wage would have to work 2,886 hours a year, an average of 55.5 plus hours a week to have annual earnings above the federal poverty line.<sup>8</sup> The federal poverty threshold for a family of three with two children under the age of eighteen years old is \$20,852.<sup>9</sup>

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<sup>5</sup> U.S Library of Congress, Congressional Research Service, *The Federal Minimum Wage: In Brief*,

<sup>6</sup> "Poverty Thresholds for 2020 by Size of Family and Number of Related Children Under 18 Years," published by U.S. Census Bureau, accessed February 16, 2021, <https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-poverty-thresholds.html>.

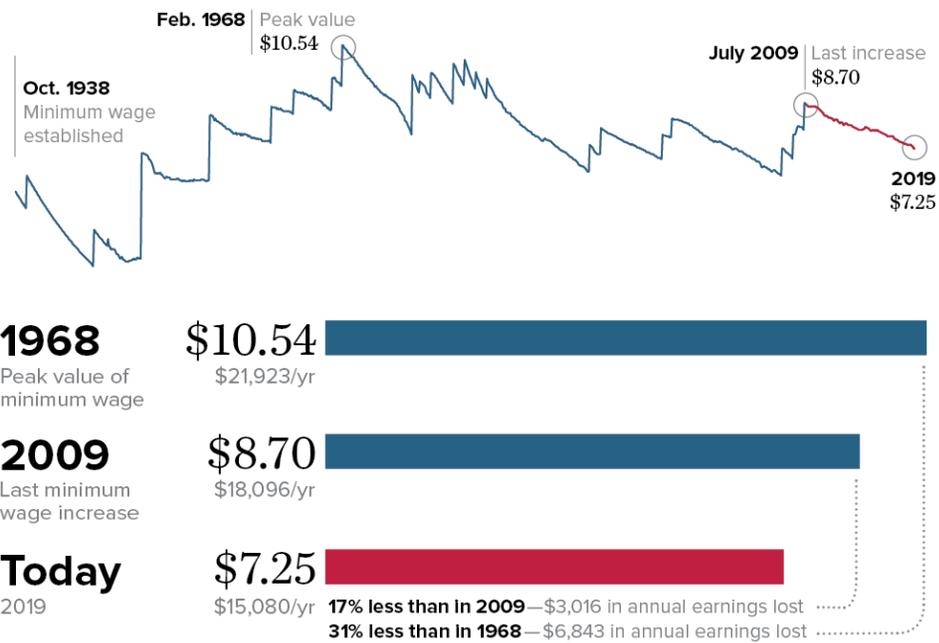
<sup>7</sup> "Poverty Thresholds for 2020 by Size of Family and Number of Related Children Under 18 Years," published by U.S. Census Bureau.

<sup>8</sup> Poverty Thresholds for 2020 by Size of Family and Number of Related Children Under 18 Years,"

<sup>9</sup> Poverty Thresholds for 2020 by Size of Family and Number of Related Children Under 18 Years,"

Adjusted to June 2019 dollars, the federal minimum wage in 1968 would be \$10.54 per hour.<sup>10</sup> “More concretely, full-time workers at the federal minimum wage earn \$6,800 less per year in real wage income compared with their counterparts five decades ago.”<sup>11</sup> As shown in figure 1, since 1968 the value of the federal minimum wage has drastically eroded. Today, the federal minimum wage is worth 31% less than 1968 and 17% less than 2009, the last time Congress raised the federal minimum wage.<sup>12</sup> Every year Congress doesn’t raise the federal minimum wage, the purchasing power for single parents and their families declines.

Figure 1 Real Value of the Minimum Wage Since 1938<sup>13</sup>  
 Real value of the minimum wage (adjusted for inflation)



<sup>10</sup> Cooper, David, Elise Gould, and Ben Zipperer. “Low-Wage Workers Are Suffering from a Decline in the Real Value of the Federal Minimum Wage.” Economic Policy Institute, August 27, 2019. <https://www.epi.org/publication/labor-day-2019-minimum-wage/>.

<sup>11</sup> Cooper, Gould, and Zipperer “Low-Wage Workers Are Suffering from a Decline in the Real Value of the Federal Minimum Wage.”

<sup>12</sup> “Low-Wage Workers Are Suffering from a Decline in the Real Value of the Federal Minimum Wage.”

<sup>13</sup> “Low-Wage Workers Are Suffering from a Decline in the Real Value of the Federal Minimum Wage.”

## Background & History

The history of the federal minimum wage in the United States begins with President Franklin D. Roosevelt ushering in a new era of progressive policies in the 1930s under the New Deal, a series of new government programs and reforms. The New Deal focused on the 3Rs: relief for the poor, recovery from the Depression and reform of the financial system.<sup>14</sup> President Roosevelt promised to end “starvation wages” by creating a wage floor in the United States. FDR kept his promise and in 1938 he signed the Fair Labor Standards Act (FLSA) into law, establishing a federal minimum wage. Effective October of 1938, the effective federal minimum wage in the United States was \$.25 per hour.<sup>15</sup>

The federal minimum wage was only for covered workers: “the FLSA would not cover agricultural workers, domestic workers, or employees in retail or service firms doing less than half of their business in interstate commerce.”<sup>16</sup> It was estimated that only one fifth of the workforce was subject to federal minimum wage laws. In 1945, more industries were exempted from the minimum wage: laundries, cleaning and tailoring. Congress would raise the federal minimum wage to \$.75 per hour in 1949 and then to a dollar in 1955.<sup>17</sup>

It wasn’t until the 1960s when Congress revisited exemptions and increased the number of workers subject to federal minimum wage laws. In 1961, Congress amended

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<sup>14</sup> “President Franklin Delano Roosevelt and the New Deal,” The Library of Congress, accessed February 25, 2021.

<sup>15</sup> “President Franklin Delano Roosevelt and the New Deal,”

<sup>16</sup> Collin Gordon, “Growing Apart: A Political History of American Inequality,” *Journal of American History* 102, no. 2 (2015): pp. 500-504, <https://doi.org/10.1093/jahist/jav402>.

<sup>17</sup> Collin Gordon, “Growing Apart: A Political History of American Inequality,” *Journal of American History* 102, no. 2 (2015): pp. 500-504, <https://doi.org/10.1093/jahist/jav402>.

the FLSA to cover workers in large retail and service enterprises, more specifically those working in retail trade sector enterprises with sales exceeding \$1 million annually.<sup>18</sup> In addition, the amendments increased the federal minimum wage to \$1.15 and \$1.25 by 1963 for workers previously subject to the federal minimum wage. “The minimum wage for workers newly subject to the Act was set at \$1.00 an hour effective September 1961, \$1.15 an hour in September 1964, and \$1.25 an hour in September 1965.”<sup>19</sup> The amendments allowed 2.2 million workers in the retail trade industry to be covered.

Congress expanded the scope of the FLSA in 1966 by lowering the annual amount of sales for retail enterprises to be subject to minimum wage laws. The annual sales amount was lowered from \$1 million to \$500,000 in sales in 1967 and then \$250,000 in 1969.<sup>20</sup> Construction workers, laundries, nursing homes, public schools and farm workers were now subject to federal minimum wage laws. Newly covered farm workers were subject to a lower federal minimum wage, \$1 per hour effective in 1967, \$1.15 in 1968, \$1.30 in 1969, \$1.45 in 1970 and \$1.60 in 1971.<sup>21</sup>

Congress would raise the federal minimum wage in 1974 to \$2.00 hour, gradually increasing to \$2.10 in 1975 and \$2.30 in 1976.<sup>22</sup> Farm workers were exempt from the increases, whose wage was \$1.60. In addition to raising the federal minimum wage, Congress also amended federal minimum wage laws in 1974 to cover non-

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<sup>18</sup> “History of Changes to the Minimum Wage Law.” U.S. Department of Labor . Accessed February 27, 2021. <https://www.dol.gov/agencies/whd/minimum-wage/history>.

<sup>19</sup> “History of Changes to the Minimum Wage Law.” U.S. Department of Labor . Accessed February 27, 2021.

<sup>20</sup> “History of Changes to the Minimum Wage Law.”

<sup>21</sup> Patrick J. Kiger, “Minimum Wage in America: A Timeline,” History.com (A&E Television Networks, October 18, 2019), <https://www.history.com/news/minimum-wage-america-timeline>

<sup>22</sup> Patrick J. Kiger, “Minimum Wage in America: A Timeline,” History.com

supervisory government employees at all levels of government and many domestic workers. This amendment would later get struck down by the United States Supreme Court in 1976.

In 1977, Congress eliminated the separate lower minimum wages for farm workers and increased the federal minimum wage for all covered workers. The federal minimum wage would gradually increase over the years starting in 1978 to \$2.56 per hour, \$2.90 in 1979, \$3.10 in 1980 and \$3.35 in 1981.<sup>23</sup> Minimum wage workers would not see another increase for a nearly a decade. President Ronald Reagan called the federal minimum wage “public enemy number one” because it increased the cost of doing business and therefore did not raise the minimum wage during his time in the White House.

In 1989 Congress would amend the FLSA to include small retail firms if they engage in commerce or production of goods for commerce and increase the federal minimum wage for all covered employees to \$3.80 in 1990.<sup>24</sup> Federal minimum wage workers would see the first increase in nearly a decade. The minimum wage would gradually increase the years after to \$4.25 in 1991, \$4.75 in 1996 and \$5.15 in 1997.<sup>25</sup> It would once again be another decade before Congress would raise the federal minimum wage workers. In 2007 Congress approved a gradual three step increase. Effective July 2007,

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<sup>23</sup> “Changes in Basic Minimum Wages in Non-Farm Employment Under State Law: Selected Years 1968 to 2020,” U.S. Department of Labor , January 2021, <https://www.dol.gov/agencies/whd/state/minimum-wage/history>.

<sup>24</sup> “Changes in Basic Minimum Wages in Non-Farm Employment Under State Law: Selected Years 1968 to 2020,”

<sup>25</sup> “Changes in Basic Minimum Wages in Non-Farm Employment Under State Law: Selected Years 1968 to 2020,”

the federal minimum wage would be \$5.85, gradually increasing to \$6.55 in 2008 and \$7.25 July of 2009.<sup>26</sup> Congress has not increased the federal minimum wage since July of 2009.

### *Earned Income Tax Credit (EITC)*

The Earned Income Tax Credit (EITC) was enacted as part of the Tax Reduction Act of 1975 to provide financial assistance to low-income working families with children. When first enacted, the EITC was 10% of the first \$4000 in earnings and phased out over the incomes between \$4000 and \$8000.<sup>27</sup> The idea of an EITC helped create the idea for other refundable tax credits like the Child Tax Credit (CTC) and Child and Dependent Care Tax Credit (CDCTC). It has also been seen as an alternative to raising the minimum wage because it boosts the earnings of low-income workers without placing the increased cost of labor on businesses. The EITC was developed during a debate about welfare reform in the late 1960s and early 70s. It was during this debate that Senator Russell Long proposed a “work bonus” to supplement the income of low wage workers. Senator long intended this “work bonus” to motivate people to enter the labor force and reduce the number of workers dependent on welfare.

Over the past four decades, the ETIC has become one of the largest antipoverty programs. During those forty years, the EITC has experienced various legislative changes. In 1978, the EITC was made permanent by the Revenue Act of 1978 and then

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<sup>26</sup> “Changes in Basic Minimum Wages in Non-Farm Employment Under State Law: Selected Years 1968 to 2020,”

<sup>27</sup> Margot L. Crandall-Hollick, “The Earned Income Tax Credit (EITC): A Brief Legislative History,” *The Earned Income Tax Credit (EITC): A Brief Legislative History* § (n.d.), pp. 1-13.

became permanently adjusted to inflation annually under the Tax Reform Act of 1986. During the 1990s legislative changes increased the amount of EITC and expanded it to include childless adults. Some of the most significant changes came about in the 1990s, where Congress restructured the EITC based on family size under the Omnibus Reconciliation Act of 1990 and expanded the credit to childless adults for the first time through the Omnibus Reconciliation Act of 1993. Later in the 1990s, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) and Taxpayer Relief Act of 1997 modified the EITC. The modifications were intended to reduce fraud, limit eligibility of workers authorized to work in the United States and ensure those who don't need it are not eligible. During the 2000s, modifications to the EITC were about marital status and family size. There was bipartisan support to reduce the penalties for marriage and Congress was able to make legislative changes that expanded the credit for married couples and families with three or more children. The most recent change came under the American Rescue Plan, where the EITC was expanded and credit amount was increased.

### *State Minimum Wage Laws*

In the United States, states are allowed to implement their own minimum wage laws independent of the federal government. States can implement their own minimum wage policies three different ways. "(1) they can set their own minimum wage provisions that differ from those in the FLSA, (2) they can explicitly tie their minimum wage

provisions to the FLSA, or (3) they can include no specific minimum wage provisions in state law.”<sup>28</sup>

In 2021, 30 states and the District of Columbia have minimum wage above the federal minimum wage rate of \$7.25. Of the 30 states with minimum wages above \$7.25, five of them have a state minimum wage between \$8.25 - \$9.25, seven have a minimum wage between \$9.25 and \$10.25 and five have a minimum wage between \$10.25 and \$11.25.<sup>29</sup> The remaining thirteen states and the District of Columbia have a state minimum wage of \$11.26 or greater. “Currently nine states—California, Connecticut, Florida, Illinois, Maryland, Massachusetts, New Jersey, New York, Virginia—and the District of Columbia have scheduled rate increases to \$15.00 per hour at some point between 2020 and 2026.”<sup>30</sup>

Georgia and Wyoming have a state minimum wage below the federal minimum wage, both states minimum wages are \$5.15 per hour. While Georgia and Wyoming have minimum wages below \$7.25, all employers in both states are subject to the FLSA and must pay covered employees \$7.25 per hour.<sup>31</sup> Only employees not covered by the FLSA are subject to the \$5.15 per hour. Five states do not have their own minimum wage laws and the remaining 13 states have a state minimum wage of \$7.25 per hour.<sup>32</sup>

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<sup>28</sup> U.S Library of Congress, Congressional Research Service, *State Minimum Wages: An Overview*, by David H. Bradley and Abigail R. Overbay R43792 (2020) 20.

<sup>29</sup> U.S Library of Congress, Congressional Research Service, *State Minimum Wages: An Overview*,

<sup>30</sup> “*State Minimum Wages: An Overview*,”

<sup>31</sup> Saige Draeger, “State Minimum Wages,” National Conference of State Legislatures, April 20, 2021, <https://www.ncsl.org/research/labor-and-employment/state-minimum-wage-chart.aspx>.

<sup>32</sup> Saige Draeger, “State Minimum Wages,” National Conference of State Legislatures, April 20, 2021,

### *Local Minimum Wage Ordinances*

Over the last two decades, local municipal governments have taken it upon themselves to pass their own minimum wage ordinances. The first two cities to introduce local minimum wage ordinances were San Francisco, California and Santa Fe, Mexico in 2003.<sup>33</sup> By 2010 there were three cities in the United States with a minimum wage ordinance that enacted a minimum wage higher than \$7.25. Today, 42 cities have local minimum wage ordinances.<sup>34</sup>

Seattle, Washington was the first city to implement a local minimum wage of \$15 per hour and by July of 2018, San Francisco was the first city to reach \$15.00 per hour.<sup>35</sup> New York City, Los Angeles, Washington DC, Chicago and Minneapolis are some of the big cities in the country to pass a local ordinance to increase their minimum wage to \$15.00 per hour.<sup>36</sup> California has the most cities, seven, with local ordinances minimum wage ordinances above the federal minimum wage.<sup>37</sup> In 2021, 74 local municipal governments and states have raised their minimum wage, some to \$15 per hour.

### *History of Political Thought*

Since enacted in 1938, the federal minimum wage has been subject to economic and political debates, largely because of difference of opinions on the effects of the

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<sup>33</sup> "State Minimum Wages," National Conference of State Legislatures

<sup>34</sup> "Drew DeSilver, "When It Comes to Raising the Minimum Wage, Most of the Action Is in Cities and States, Not Congress," Pew Research Center, March 22, 2021, <https://www.pewresearch.org/fact-tank/2021/03/12/when-it-comes-to-raising-the-minimum-wage-most-of-the-action-is-in-cities-and-states-not-congress/>.

<sup>35</sup> Drew DeSilver, "When It Comes to Raising the Minimum Wage, Most of the Action Is in Cities and States, Not Congress," Pew Research Center, March 22, 2021

<sup>36</sup> Yannet Lathrop, "Raises From Coast to Coast in 2021," National Employment Law Project, January 29, 2021, <https://www.nelp.org/publication/raises-from-coast-to-coast-in-2021/>.

<sup>37</sup> Yannet Lathrop, "Raises From Coast to Coast in 2021," National Employment Law Project, January 29, 2021,

minimum wage on the economy. Driving these differences are ideological differences about the economy and role of government.

Republicans argue that increasing the minimum wage can lead to increased unemployment, thereby increasing poverty rates. Republicans support free market policies and therefore believe that wages should be based on skills, education and the law of supply and demand. Republicans argue that raising the minimum wage, especially drastic increases, increase the operating cost of a business and will lead to increase in unemployment. Republicans believes that loss of jobs outweighs the benefits of the government raising the federal minimum wage. In the end, economic growth will translate to higher wages for workers.

Democrats on the other hand argue that increasing the federal minimum wage supports the worker by improving their living standards, thereby reducing poverty. Democrats are in favor of minimum wage increases because of the belief by many prominent democrats that a minimum wage should be a living wage. They believe raising the minimum wage has little effect on employment but will lead to positive economic effects such as increasing employment rates and economic activity. In the end, government intervention to raise the minimum wage will lead to positive effects on the economic well-being of a society.

#### *History of the Value of the Federal Minimum Wage*

When the federal minimum was created in 1938, it was not indexed to inflation, leaving it up to Congress to raise it. Since established, Congress has raised the federal minimum wage twenty-two time.<sup>38</sup> The nominal and real value of the federal minimum

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<sup>38</sup> U.S. Library of Congress, Congressional Research Service, *State Minimum Wages: An Overview*, by David H. Bradley, and Abigail R. Overbay, R43792, (2020).

wage generally rose for three decades after it was enacted. “From an initial rate of \$0.25 per hour in 1938(\$4.57 in inflation-adjusted terms), the minimum wage increased to \$1.60 per hour in 1968 (\$11.84 in inflation-adjusted terms).”<sup>39</sup> The value of the minimum wage reached its peak value in 1968, since then the value has steadily declined despite periodic increases. The last time Congress raised the federal minimum wage was 2009, since then the real value has fallen by \$1.45.<sup>40</sup>

## **Policy Proposal**

### Policy Authorization Tool

Your policy proposal will be legislation titled the American Economic Opportunity Act with two important components: increasing the federal minimum wage and expansion of targeted federal tax credits. The first component will amend the Fair Labor Standards Act (FLSA) to increase the federal minimum wage to \$15 per hour by 2025. The FLSA allows the Department of Labor’s (DOL) Wage and Hour Division to administer the minimum wage increase and enforce the new minimum wage. The second component will expand and increase three federal tax credits: Earned Income Tax Credit (EITC), Child Tax Credit (CTC) and Child and Dependent Care Tax Credit (CDCTC). All tax credits will be implemented and administered by the Internal Revenue Service (IRS). These two components will ensure that federal minimum wage is not a poverty wage for anyone working full-time and the tradeoff between higher wages and lower employment levels is worthwhile. Targeted federal tax credits along with increasing the minimum wage have proven to lift lower income families and individuals out of poverty. Your proposal will be its own piece of legislation you will introduce at a press conference

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<sup>39</sup> U.S. Library of Congress, Congressional Research Service, *State Minimum Wages: An Overview*,

<sup>40</sup> “*State Minimum Wages: An Overview*,”

but use key provisions of legislation that has been proposed and make provisions of legislation that has passed permanent.

### Policy Implementation Tool

The first component of your legislation will be to raise the federal minimum wage to \$15 per hour by 2025. The American Rescue Plan and the Raise the Wage Act of 2021, which you introduced with Democrats in the House, included a provision to gradually raise the federal minimum wage to \$15 per hour by 2025. Your policy proposal will include this same provision but add a slower phase-in for small businesses with 50 employees or less to raise it by 2027. In addition, your proposal will provide grants to small businesses with 50 employees or less that are subject to the minimum wage increase. The grants would start in 2021 and total \$5000 per employee per year until 2025. These grants will offset the increased cost of labor and ensure the benefits of higher wages outweighs the lower employment levels.

The second component of your legislation will expand and increase three targeted federal tax credits: EITC, CTC & CDCTC. The recent American Rescue Plan expanded and increased the EITC and CTC but the changes are only for 2021. It is estimated that these tax credits will cost about \$25 billion annually but will increase every year. Your proposal will make the changes permanent beyond 2021 and increase the CDCTC.

The American Rescue Plan increased the CTC from \$2,000 per child to \$3,000 per child, increased it to \$3,600 for children under the age of six and made 17-year-olds eligible.<sup>41</sup> Most importantly the CTC was made fully refundable and the earnings

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<sup>41</sup> Watson, Garrett, and Erica York. "The American Rescue Plan: Details & Summary." Tax Foundation, March 12, 2021. <https://taxfoundation.org/american-rescue-plan-covid-relief/>.

requirement of \$2,500 was removed.<sup>42</sup> Together these provisions will allow low-income families to receive the full benefit of the CTC. It is estimated that an average of \$4,570 will go to low income families making less than \$21,300 per year and lift 4.1 million children out of poverty.<sup>43</sup> Your proposal will make these changes to the CTC permanent.

The EITC is one of the most effective ways to lift individuals and families out of poverty. Instead of placing the burden of higher wages on small businesses, it places it on government. The EITC boost income of low-income workers without crushing small businesses who may not be able to afford to pay their workers a higher wage. The American Rescue Plan increased the EITC for childless workers from about \$540 to \$1500, raised the income cap for qualifying from around 16,000 to about 21,000 and expanded the age range for eligibility.<sup>44</sup> Single adults age 19 -24 who are not full-time students and those over 65 are now eligible for the EITC.<sup>45</sup> The current EITC is not enough to lift some individuals out of poverty, the increase of \$1000 will provide enough supplemental income to lift individual full-time minimum wage workers out of poverty. Your proposal will make the changes to the EITC permanent.

The CDCTC is another targeted tax credit your legislation will permanently expand and increase starting in 2021. Your proposal will mirror Section 301 of the Economic Mobility Act of 2019 by Chairman Richard Neal. The bill was voted out of committee but never made it to the floor for a vote. The maximum credit for one child is

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<sup>42</sup> Watson, Garrett, and Erica York. "The American Rescue Plan: Details & Summary."

<sup>43</sup> CBPP Staff. "American Rescue Plan Act Will Help Millions and Bolster the Economy." Center on Budget and Policy Priorities, March 10, 2021. <https://www.cbpp.org/research/poverty-and-inequality/american-rescue-plan-act-will-help-millions-and-bolster-the-economy#tax>.

<sup>44</sup> "American Rescue Plan Act Will Help Millions and Bolster the Economy." Center on Budget and Policy Priorities, March 10, 2021.

<sup>45</sup> "American Rescue Plan Act Will Help Millions and Bolster the Economy."

\$3,000 and \$6,000 for two children. Your proposal would double the credit and will make the CDCTC fully refundable, allowing low-income and middle-class families who do not have federal income tax liability to offset, eligible.<sup>46</sup> In addition, your proposal would also expand the CDCTC to allow families making up to \$120K eligible to claim 50% of qualifying expenses.<sup>47</sup> Expanding and increasing the CDCTC will help alleviate the cost of childcare and provide an incentive for parents to want to work.

## **Policy Analysis**

### *Minimum Wage*

According to the most recent data from the Bureau of Labor and Statistics, 73.3 million are hourly workers, 247,000 workers earn the federal minimum wage and another 865,000 workers earn below the federal minimum wage.<sup>48</sup> According to the Congressional Budget Office (CBO) raising the federal minimum wage to \$15 would generate a \$107 billion in higher wages and boost the wages for 27 million Americans; 17 million Americans who are making at or below \$15 an hour now and another 10 million workers who earn just above \$15 per hour.<sup>49</sup> In addition, 15 million children would benefit and 900,000 individuals will be lifted out of poverty.<sup>50</sup> It is estimated that

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<sup>46</sup> "Economic Mobility Act of 2019 Section-by-Section." House Ways and Means Committee, June 19, 2019. <https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/Economic%20Mobility%20Act%20of%202019%20Section-By-Section.pdf>.

<sup>47</sup> "Economic Mobility Act of 2019 Section-by-Section." House Ways and Means Committee, June 19, 2019.

<sup>48</sup> U.S Department of Labor Bureau of Labor Statistics, *Characteristics of Minimum Wage Worker, 2020*, (Washington, D.C.: BLS, 2021), <https://www.bls.gov/opub/reports/minimum-wage/2020/home.htm>

<sup>49</sup> Congressional Budget Office. *The Budgetary Effects of the Raise the Wage Act of 2021*, February 2021. <https://www.cbo.gov/system/files/2021-02/56975-Minimum-Wage.pdf>

<sup>50</sup> Lempinen , Edward. "A \$15 Minimum Wage Would Cost Jobs, Right? Probably Not, Economists Say." Berkeley News. University of California at Berkley, March 19, 2021. <https://news.berkeley.edu/2021/03/18/a-15-minimum-wage-would-cost-jobs-right-probably-not-economists-say/>

an individual worker earning minimum wage will see a \$3,000 boost in annual income.<sup>51</sup> The Institute for Research on Labor and Employment at the University of California at Berkley estimate the a \$15 minimum wage increase would boost wages for 41.5 million workers and a 17.3% increase in pay.<sup>52</sup>

This boost in income will cause workers to be less dependent upon social safety net programs. As shown in figure 2 it is estimated that by 2025, government spending on public assistance and government transfers decrease anywhere from \$13 billion and \$31 billion.

Figure 2 Decrease in Government Transfers and Tax Credits<sup>53</sup>

**Reductions in government transfers and tax credits due to a national \$15 minimum wage in 2025, billions (2021\$)**

Methodology	Major government transfers and tax credits	SNAP and other major transfers	EITC and CTC
<i>Dube 2019b and EPI 2021</i>	-\$31.0	-\$10.3	-\$20.7
<i>Dube 2019b and CBO 2019</i>	-\$15.5	-\$5.2	-\$10.3
<i>Cooper 2016 and EPI 2021</i>	-\$13.4	-\$7.0	-\$6.5

**Note:** SNAP stands for Supplemental Nutrition Assistance Program; EITC stands for earned income tax credit; CTC stands for child tax credit.

**Sources:** CBO 2019, Cooper 2016, Dube 2019b, EPI 2021.

Economic Policy Institute

<sup>51</sup> “Fact Sheet: Why the U.S. Needs a \$15 Minimum Wage.” Economic Policy Institute, January 26, 2021. <https://www.epi.org/publication/why-america-needs-a-15-minimum-wage/>.

<sup>52</sup> Michael Reich, Sylvia Allegretto, and Claire Montialoux, “The Employment Effects of a \$15 Minimum Wage in the U.S. and in Mississippi: A Simulation Approach,” 2019, pp. 4-6.

<sup>53</sup> Ben Zipperer, David Cooper, and Josh Bivens, “A \$15 Minimum Wage Would Have Significant and Direct Effects on the Federal Budget,” Economic Policy Institute, February 2, 2021, <https://www.epi.org/publication/a-15-minimum-wage-would-have-significant-and-direct-effects-on-the-federal-budget/>.

More specifically, we would see Supplemental Nutrition Assistance Program (SNAP) spending decrease between \$3 and \$5 billion.<sup>54</sup> Conservative estimates have government spending on SNAP and other government transfers decreasing by \$5.3 billion annually and more aggressive estimates have spending fall by \$10.3 billion annually.<sup>55</sup> This minimum wage increase will create more tax revenue for the federal government yielding \$65.4 billion a year.<sup>56</sup>

When the federal minimum wage was introduced in 1938 by President Franklin D. Roosevelt, it was intended to be a living wage. Today the federal minimum wage is not a living wage but actually a poverty wage. In 2019, 38 million households did not have gross annual earnings to make ends meet, of those 14 million had children.<sup>57</sup> A recent report by the National Low-Income Housing Coalition stated that an individual earning minimum wage cannot afford a modest two bedroom in the United States. To afford a modest two-bedroom rental home you will need to make \$23.96 per hour and \$19.56 for a modest one-bedroom rental home.<sup>58</sup>

A \$15 minimum wage increase would benefit single-adult households the most. As seen in figure 3 below, single-adult households make up 19 million of the struggling households in the U.S. A \$15 minimum wage would allow 75% of these households to be self-sustaining. Households with children represent 14 million households struggling to

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<sup>54</sup> Ben Zipperer, David Cooper, and Josh Bivens, "A \$15 Minimum Wage Would Have Significant and Direct Effects on the Federal Budget," Economic Policy Institute, February 2, 2021,

<sup>55</sup> "A \$15 Minimum Wage Would Have Significant and Direct Effects on the Federal Budget,"

<sup>56</sup> Fact Sheet: Why the U.S. Needs a \$15 Minimum Wage." Economic Policy Institute, January 26, 2021.

<sup>57</sup> Joseph Parilla and Sifan Liu, "A \$15 Minimum Wage Would Help Millions of Struggling Households in Small and Mid-Sized Cities Achieve Self-Sufficiency," Brookings (Brookings, March 17, 2021), <https://www.brookings.edu/blog/the-avenue/2021/03/17/higher-regional-minimum-wages-can-lift-half-of-struggling-households-into-economic-self-sufficiency/>.

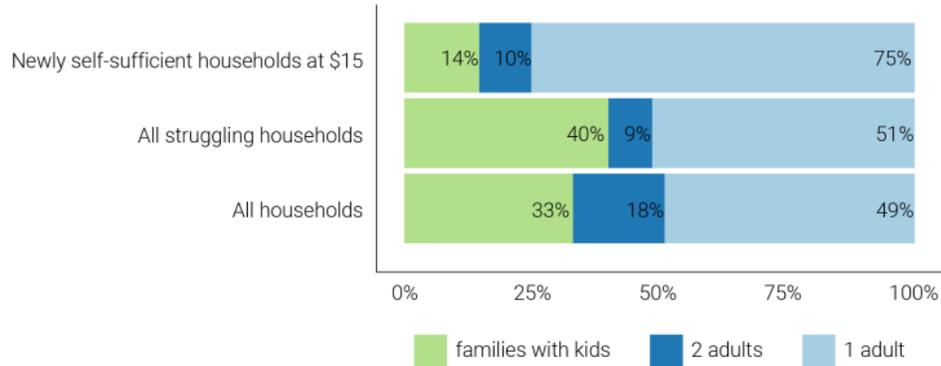
<sup>58</sup> Aurand, Andrew, and et. al. "Out of Reach - The High Cost of Housing." National Low Income Housing Coalition , May 19, 2020. [https://reports.nlihc.org/sites/default/files/oor/OOR\\_BOOK\\_2020.pdf](https://reports.nlihc.org/sites/default/files/oor/OOR_BOOK_2020.pdf).

make ends meet but only 14% of households would be self-sufficient with a \$15 minimum wage increase.<sup>59</sup>

Figure 3: Who Benefits from a \$15 Minimum Wage increase<sup>60</sup>

**Chart 1. Single-adult households are 75% of the struggling households that could achieve self-sufficiency as a result of a \$15 federal minimum wage**

Percentage of households by family composition



Source: Brookings analysis of American Community Survey 2019 data and Economic Policy Institute 2018 Family Budget Calculator.

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While raising the federal minimum wage to \$15 per hour will boost the income for households across the country, it will also cost 1.4 million jobs and have other unintended consequences.<sup>61</sup> The higher cost of labor will cause businesses to cut their workforce to compensate for higher wages. Occupations hit hardest by the pandemic were those in hospitality, leisure, restaurants, bars, transportation and entertainment services. It is estimated that three fifths of workers who earn at or below minimum wage

<sup>59</sup> Joseph Parilla and Sifan Liu, “A \$15 Minimum Wage Would Help Millions of Struggling Households in Small and Mid-Sized Cities Achieve Self-Sufficiency,” Brookings (Brookings, March 17, 2021),

<sup>60</sup> “A \$15 Minimum Wage Would Help Millions of Struggling Households in Small and Mid-Sized Cities Achieve Self-Sufficiency,” Brookings

<sup>61</sup> Congressional Budget Office. The Budgetary Effects of the Raise the Wage Act of 2021, February 2021.

worked in these sectors. The businesses that would be subject to a \$15 minimum wage increase are also the ones who suffered the most during the pandemic.

Small to medium sized businesses will be negatively impacted by \$15. It is already hard to run a business and the pandemic hasn't made it any easier. According to a recent survey of small businesses with 50 employees or less, 53% of them stated the pandemic has had a moderate to severe impact on their businesses.<sup>62</sup> Many small to medium sized businesses would be forced to cut their workforce because they can't afford the higher cost of labor like corporations can. Larger corporations like Amazon, Target, Wal-Mart and Costco who have already agreed to increase their minimum wage to \$15 per hour. While small and medium sized businesses would like to compete and offer higher wages, some are unable to because of small margins.

In addition, raising the minimum wage could raise the cost of child care, one of the biggest barriers to working because of the high cost. According to the Heritage Foundation raising the federal minimum wage to \$15 per hour would increase the cost of childcare by an average of 21%, for a family with two children, this would be an additional \$3,728 a year spent on childcare.<sup>63</sup> This increase would negatively impact single parents, the people you're trying to help in your proposal. Single parents who work full-time will be forced to pay the higher cost of childcare if they want to continue working.

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<sup>62</sup> "Main Street Index - COVID-19 Impacts & Recovery." CBIZ, Inc., February 2021. <https://www.cbiz.com/insights/main-street-index>.

<sup>63</sup> Greszler, Rachel. "The Impact of a \$15 Federal Minimum Wage on the Cost of Childcare." The Heritage Foundation, February 11, 2021. <https://www.heritage.org/jobs-and-labor/report/the-impact-15-federal-minimum-wage-the-cost-childcare>.

### *Earned Income Tax Credit*

The Earned Income Tax Credit (EITC) is one of the largest federal antipoverty programs and one of the most effective ways to lift individuals and families out of poverty. According to the IRS, the EITC lifted about 5.6 million people, including 3 million children out of poverty in 2018.<sup>64</sup> This federal antipoverty program was established in 1975 and is a federal tax credit that serves as a wage subsidy for low income working families and individuals. In 2020, the EITC cost the federal government \$62 billion dollars and boosted wages for 25 million Americans who received an average EITC of \$2,461, which is a \$205 boost in wages per month.<sup>65</sup>

Unfortunately, not all Americans are benefiting from the EITC. It is estimated that only four out of five eligible Americans are not claiming the credit on their tax returns. This means millions of Americans who are eligible for the EITC are not claiming it. This is why outreach is so important because a change in marital, parental or financial status could make an individual eligible. Another group of people not benefiting from the EITC are adults without children. Prior to the American Rescue Plan, which expanded and increased the EITC, single adults without children were actually being taxed into, or deeper into, poverty. The EITC is a powerful wage subsidy but childless adults are not eligible to claim the full credit, the maximum EITC prior to the American Rescue Plan was approximately \$540. This small wage subsidy is not enough to lift single low-income childless workers out of poverty. The American Rescue Plan temporary changes actually fixed this flaw and provide a boost in income for 17 million low-income workers

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<sup>64</sup> "Policy Basics: The Earned Income Tax Credit." Center on Budget and Policy Priorities, December 10, 2019. <https://www.cbpp.org/research/federal-tax/the-earned-income-tax-credit>.

<sup>65</sup> "Earned Income Tax Credit & Other Refundable Tax Credits." About the EITC. Internal Revenue Source (IRS), January 19, 2021. <https://www.eitc.irs.gov/eitc-central/about-eitc/about-eitc>

including 5.8 million childless adults.<sup>66</sup> By making the changes to the EITC permanent, you will help lift childless adults out of poverty.

The EITC has various problems: it's complicated, means tested and creates a disparity between workers with and without children. One of the major issues with the EITC is it's complicated causing a high error rate, according to the IRS 25% of the \$73.6 billion in EITC outlays in 2018 were incorrect.<sup>67</sup> This error rate for EITC reached a low of 23% in 2003 but has consistently remained above 20% for the last two decades.<sup>68</sup> The IRS identified three major reasons for errors: "claimants incorrectly claimed children for the credit, misreported their income, and/or used an incorrect filing status when they claimed the credit."<sup>69</sup> These three common errors can likely be attributed to the complexity of the EITC.

While the EITC does reward work, it creates a disparity between workers with children and those without children. While the American Rescue plan helped to decrease that disparity by increasing the EITC for childless adults, there is still a disparity. The maximum credit that a childless adult can receive is \$1500, prior to this temporary increase, it was only \$540. The maximum credit for a single worker with one child is \$3,526, with an average EITC of nearly \$2,500.<sup>70</sup> The maximum credit for an adult with a child is more than double the amount of a single worker with no kid, and a \$1000 more

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<sup>66</sup> Marr, Chuck. Et al. "American Rescue Plan Act Includes Critical Expansions of Child Tax Credit and EITC." Center on Budget and Policy Priorities, March 12, 2021. <https://www.cbpp.org/research/federal-tax/american-rescue-plan-act-includes-critical-expansions-of-child-tax-credit-and>

<sup>67</sup> Department of the Treasury, "Agency Financial Report: Fiscal Year 2018," Nov. 15, 2018, 43, [https://home.treasury.gov/system/files/236/AFR\\_Full%20111518\\_clean\\_508.pdf](https://home.treasury.gov/system/files/236/AFR_Full%20111518_clean_508.pdf).

<sup>68</sup> Bellafiore, Robert. "Earned Income Tax Credit (EITC): A Primer." Tax Foundation, July 30, 2020. [https://taxfoundation.org/earned-income-tax-credit-eitc/#\\_ftn17](https://taxfoundation.org/earned-income-tax-credit-eitc/#_ftn17).

<sup>69</sup> Internal Revenue Service, "Compliance estimates for the Earned Income Tax Credit Claimed on 2006-2008 Returns," August 2014, <https://www.irs.gov/pub/irs-soi/EITCComplianceStudyTY2006-2008.pdf>, 27.

<sup>70</sup> Bellafiore, Robert. "Earned Income Tax Credit (EITC): A Primer." Tax Foundation, July 30, 2020.

based on the average EITC given out in 2020. This disparity puts people against each other because family status decides who benefits from the EITC more.

### *Child Tax Credit*

The temporary provisions in the American Rescue plan to expand and increase the Child Tax Credit (CTC) are going to benefit 83 million children in America and cost the federal government \$110 billion.<sup>71</sup> Of the children that will benefit, it is estimated that families with children would see a \$2,750 boost in income with low income families seeing an average boost of \$4,570.<sup>72</sup>

The provisions in your proposal will allow a single parent with children who are out of work an extended period of time because of a health condition or families where only one adult works, to see a boost in the amount of CTC they receive. The CTC expansion will help provide a boost to working individuals and families who do important work but are paid very little. Making the CTC fully refundable allows low- and middle-income families to receive the full benefit of the CTC. Low income families would not benefit from the CTC because they did not meet the earnings requirement. The removal of the \$2,500 earnings requirement will allow more than \$27 million children to see the full benefit of the CTC.<sup>73</sup>

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<sup>71</sup> Hendricks, Galen, and Lorena Roque. "An Expanded Child Tax Credit Would Lift Millions of Children Out of Poverty." Center for American Progress, February 23, 2021.

<https://www.americanprogress.org/issues/economy/reports/2021/02/23/495784/expanded-child-tax-credit-lift-millions-children-poverty/>

<sup>72</sup> Davis, Aidan, Jessica Schieder, and Steve Wamhoff. "Child Tax Credit Enhancements Under the American Rescue Plan." Institute on Taxation and Economic Policy, January 26, 2021.

<https://itep.org/child-tax-credit-enhancements-under-the-american-rescue-plan/>.

<sup>73</sup> Maag, Elaine, and Nikhita Airi. "The Child Tax Credit Grows Up to Lift Millions of Children Out of Poverty." Tax Policy Center, March 16, 2021. <https://www.taxpolicycenter.org/taxvox/child-tax-credit-grows-lift-millions-children-out-poverty>.

While the CTC is an effective targeted tax credit that helps lift children out of poverty the conservative's criticism of the CTC is it disincentives work. There is concern from conservatives that making it fully refundable and removing the earnings requirement could disincentivize work. Making it refundable means working individuals and families with kids may not have to work as many hours to receive the full benefit. While there is evidence that parent might not work as many hours, that will actually benefit the child because parents are spending more time with their children. When the CTC was created in 1997, it was intended to allow parents to spend more time with their children.

More progressive policy makers criticism of the CTC is it doesn't benefit the poorest families, for the reason that the incentive to work ignores the larger issues of why families cannot work. The working poor have jobs that are highly unstable. These jobs have high turnover, little wage growth and unpredictable hours. Low wage workers tend to experience unemployment more often than other careers. As long as the CTC is tied to incoming earnings, the poorest families will continue to miss out on the full benefit of the credit. But outside of working a highly unstable job, there are other good reasons why people are out of the workforce that are ignored by the IRS. In 2019, two of the most common reasons for parents being out of work were enrolled in school and illness or disability. Of the 2 million who listed disability or illness, not all received federal disability.<sup>74</sup> Other parents who were out of work, stated they were in between jobs, taking care of children or caring for a family member. Over the years the definition of work has

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<sup>74</sup> Trisi, Danilo, and Ife Floyd. "Benefits of Expanding Child Tax Credit Outweigh Small Employment Effects." Center on Budget and Policy Priorities, March 1, 2021. <https://www.cbpp.org/research/federal-tax/benefits-of-expanding-child-tax-credit-outweigh-small-employment-effects>.

changed and the CTC doesn't recognize that. Taking care of other children or a family member with an illness or disability is just as important as any other job. Prior to the American Rescue plan, low-income families were unable to see the full benefit of the CTC. Your changes will allow low-income families to see the full benefits of the CTC and help eradicate child poverty.

### *Child and Dependent Care Tax Credit*

Permanently expanding and increasing the Child and Dependent Care Tax Credit (CDCTC) will be necessary to offset the potential increase in childcare cost for single parents and families. In 2020, it is estimated that 12% of families with children benefited from the CDCTC.<sup>75</sup> One of the reasons that more families don't benefit is because it is nonrefundable. Your proposal to make the CDCTC fully refundable will help low income single parents and families benefit from the CDCTC. If the CDCTC was not made permanently refundable, about 5% of single parents would no longer qualify for the CDCTC after this year. The American Rescue Plan provision to expand and increase the CDCTC, if made permanent, would cost the federal government \$800 million annually.<sup>76</sup>

One of the biggest barriers to working, especially for women, is cost of childcare. The CDCTC is intended to keep parents in the workforce by offsetting the cost of child care. According to the Center for American Progress, "average cost to provide center-based child care for an infant in the United States is \$1,230 per month. In a family child

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<sup>75</sup> "How Does the Tax System Subsidize Child Care Expenses?" Tax Policy Center, May 2020. <https://www.taxpolicycenter.org/briefing-book/how-does-tax-system-subsidize-child-care-expenses>.

<sup>76</sup> Pepin, Gabrielle. 2021. "How Would a Permanently Refundable Child and Dependent Care Credit Affect Eligibility, Benefits, and Incentives?" Upjohn Institute Working Paper 21-344. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research. <https://doi.org/10.17848/wp21-344>

care home, the average cost is \$800 per month.”<sup>77</sup> At the current federal minimum wage of \$7.25, childcare cost eat up the majority of an individual’s paycheck, and therefore discourages some people to not work.

The problem with the CDCTC is it is not indexed to inflation, therefore sometimes inadequate to cover the true cost of child care every year. Low income families struggle with child care cost because many can barely afford to pay for the child care upfront and can’t wait for their tax returns to help offset the cost of child care, forcing many to get into debt until they can use their tax return to pay it off. Due to the rising cost, some parents have turned to less formal home-based care but not these same opportunities are not available to low-income households.

There are various criticisms from both sides of the aisle on increasing the federal minimum wage to \$15 per hour and expanding and increasing targeted federal tax credits. It seems that your proposal will help address some of the criticisms but many of the conservative criticisms will not be addressed and therefore will face strong Republican opposition.

### **Political Analysis**

There is a consensus among lawmakers in Congress to raise the federal minimum wage but the debate is over the amount and how to raise the wages of those who earn minimum wage. During the campaign trail and prior to being inaugurated President Biden publicly expressed his support for raising the minimum wage to \$15 per hour and

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<sup>77</sup> Workman, Simon, and Steven Jessen-Howard. “Understanding the True Cost of Child Care for Infants and Toddlers.” Center for American Progress, November 15, 2018. <https://www.americanprogress.org/issues/early-childhood/reports/2018/11/15/460970/understanding-true-cost-child-care-infants-toddlers/>.

called on Congress to take action.<sup>78</sup> To push this proposal over the finish line, it is important to understand where key lawmakers and caucus in Congress stand on the issue.

### *Lawmakers*

The overwhelming majority of Democrats have been supportive of raising the minimum wage to \$15 per hour because an increase is long overdue. Biden's economic relief package, the ARP, included a provision for a \$15 minimum wage. Democratic lawmakers have called a \$7.25 minimum wage economically and morally indefensible. Rep. Ocasio Cortez has called a \$10 minimum wage increase "legislated poverty."<sup>79</sup> The House Progressive Caucus, chaired by Pramila Jayapal, have been more vocal about a \$15 minimum wage increase and have pressured President Biden to take action.<sup>80</sup> The overwhelming majority of Democrats believe raising the federal minimum wage would lift the lowest paid workers out of poverty, give workers more buying power and reduce the racial wage gap.

In the Senate there are two moderate democrats, Senator Joe Manchin of West Virginia and Senator Krysten Sinema of Arizona, who have both stated they oppose a \$15 minimum wage increase.<sup>81</sup> Both have said they support raising the federal minimum wage but have proposed a \$11 minimum wage increase. In addition, when Senator Bernie Sanders proposed an amendment to the Senate version of the ARP to include a \$15

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<sup>78</sup> Biden, Joseph. "COVID-19 Economic Recovery Plan." C-SPAN video, 26:05. Posted January 15, 2021. <https://www.c-span.org/video/?507983-1/president-elect-biden-unveils-19-trillion-covid-19-relief-proposal>

<sup>79</sup> Nicole Fallert, "AOC Calls \$10 an Hour 'Legislated Poverty'" in Minimum Wage Spat with GOP," Newsweek, February 23, 2021, <https://www.newsweek.com/aoc-calls-10-hour-legislated-poverty-minimum-wage-spat-gop-1571440>.

<sup>80</sup> Ari Shapiro, "Progressives Show Patience With Biden, At Least Until Relief Bill Passes," NPR, March 3, 2021, <https://www.npr.org/transcripts/973120107>.

<sup>81</sup> Matthew Impelli, "Progressives' Push for \$15 Minimum Wage Not Enough for Senate Passage, Experts Say," Newsweek, February 23, 2021, <https://www.newsweek.com/progressives-push-15-minimum-wage-not-enough-senate-passage-experts-say-1571442>.

minimum wage increase, eight Democratic Senators voted against the amendment. Besides Sen. Manchin and Sinema, the other six who voted against the amendment were: Sen. Shaheen (D-NH), Sen. Hassan (D-NH), Sen. Tester (D-Mont.), Sen. Coons (D-Del), Sen. Carper (D-Del), and Sen. King (I-Maine).<sup>82</sup> Given the current make-up of the Senate, all Democrats and 10 Republicans will need to support your policy proposal for it to make it to President Bidens' desk.

There is opposition to a \$15 minimum wage increase from Republicans in both chambers citing evidence that the drastic increase in labor cost will cost us jobs. There is consensus from some Republicans that we do need to increase the federal minimum wage. Sen. Cotton & Romney have proposed legislation to raise the minimum wage to \$10 per hour by 2025 with a slower phased in approach for small businesses.<sup>83</sup> The bill would only apply to all legal workers and require employers to use the E-Verify program. One of the more conservative Senators, Sen. Josh Hawley (R-MO), has introduced legislation that would create a tax credit for those making less than \$16.50 per hour based on the number of hours worked and only for legal workers.<sup>84</sup> Under the proposal a worker could receive up to \$4,680 in tax credits a year.<sup>85</sup> There is support for the idea of raising the minimum wage in the Senate but there are fundamental differences in how to go about it.

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<sup>82</sup> Alexander Bolton, "The Eight Democrats Who Voted 'No' on \$15 Minimum Wage," TheHill (The Hill, March 6, 2021), <https://thehill.com/homenews/senate/541860-the-eight-democrats-who-voted-no-on-15-minimum-wage?rl=1>.

<sup>83</sup> Romney, Cotton Plan Would Raise Minimum Wage, Protect Jobs for Legal Workers." Senator Mitt Romney, February 23, 2021. <https://www.romney.senate.gov/romney-cotton-plan-would-raise-minimum-wage-protect-jobs-legal-workers>.

<sup>84</sup> Dan Primack and Alayna Treene, "First Look: Hawley to Introduce Alternative to Minimum Wage Hike," Axios, February 24, 2021, <https://www.axios.com/hawley-minimum-wage-tax-credits-2087ac1e-a007-4095-b2b8-c0aa6d202dc2.html>.

<sup>85</sup> Dan Primack and Alayna Treene, "First Look: Hawley to Introduce Alternative to Minimum Wage Hike," Axios, February 24, 2021,

There has been bi-partisan support for targeted federal tax credits such as the EITC, CTC and CDCTC. Former House Budget Chairman Paul Ryan expressed his support for the EITC as an effective way to reward work and lift individuals out of poverty. In 2016, Speaker Ryan unveiled the Republicans Anti-Poverty Plan titled “A Better Way”, which included provisions to expand and increase the EITC.<sup>86</sup> Greg Mankiw, former Chairman of the Council of Economic Advisers under President George W. Bush, expressed his support for the EITC publicly in a New York Times Op-Ed.<sup>87</sup> Mankiw felt the EITC was a better way to raise wages for working Americans. While there is bi-partisan support, there has been some partisanship around not allowing illegal immigrants to be eligible for the EITC and debates on how far the EITC goes.

Republican Senator Mitt Romney, filed the American Security Act earlier this year. The proposal would eliminate other federal benefits and replace with a modernizing the CTC into a monthly cash benefit of \$350 for each young child and \$250 for each school-aged child.<sup>88</sup> In addition, his legislation would reform the EITC to ensure the benefits do not depend on the number of children you have. If Republicans like Senator Romney are going to support increasing or expanding federal tax credits, they are going to want to cut other federal welfare programs.

Congressman Kevin Brady (R-TX) and Congressman Mike Kelly (R-PA) sent a letter to the Biden Administration expressing their concern for the expansion of the CTC

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<sup>86</sup> Kyle Parrott and Kate Skochdopole , “Republican Anti-Poverty Plan Shows EITC Continues to Be Middle Ground for a Divided Congress,” Tax Credits for Workers and Families, June 8, 2016, <https://www.taxcreditsforworkersandfamilies.org/tcwf-news/republican-anti-poverty-plan-shows-eitc-continues-to-be-middle-ground-for-a-divided-congress/>.

<sup>87</sup> Gregory Mankiw, “Help the Working Poor, but Share the Burden,” The New York Times, January 4, 2014, [https://www.nytimes.com/2014/01/05/business/help-the-working-poor-but-share-the-burden.html?\\_r=0](https://www.nytimes.com/2014/01/05/business/help-the-working-poor-but-share-the-burden.html?_r=0).

<sup>88</sup> “Romney.Senate.Gov,” *Romney.Senate.Gov*, February 4, 2021, <https://www.romney.senate.gov/romney-offers-path-provide-greater-financial-security-american-families>.

and other federal tax credits in the American Rescue Plan.<sup>89</sup> Brady is the ranking member of the House Ways & Means Committee and Kelly is the top Republican on the House Oversight Committee. Both are raising the alarm about improper and fraudulent payments because the tax credits aren't targeted to pandemic relief. There is already a history of error and fraud but they feel advance payments will lead to an increase in improper payments.

Democrats have supported expanding and increasing targeted tax credits for many years but as a compliment to increasing the minimum wage and maintaining existing federal welfare programs. In May of 2020, the House passed the HEROES Act, which included provisions to expand and increase the CTC, CDCTC and EITC. Various Democratic lawmakers have proposed similar legislation, in 2019 Chairman Richard Neal filed the Economic Mobility Act of 2019 to expand and increase these federal tax credits.

### *Stakeholders*

To understand the key stakeholders view on a \$15 minimum wage increase, we look at small business associations, trade associations, unions, and the U.S. Chamber of Commerce. The largest small business associations, National Federation of Independent Businesses (NFIB), has come out in opposition to a \$15 minimum wage increase. NFIB is opposed to a \$15 federal minimum wage because their small business members are unable to absorb the increase in labor cost and would provide a competitive advantage to corporations who can absorb the labor cost. Corporations like Wal-Mart, Amazon, Target

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<sup>89</sup> Naomi Jagoda, "GOP Lawmakers Raise Concerns about Child Tax Credit Expansion," TheHill (The Hill, April 12, 2021), <https://thehill.com/policy/finance/547750-gop-lawmakers-raise-concerns-about-child-tax-credit-expansion?rl=1>.

and Costco have all committed or already raised their minimum wage to \$15 per hour. According to a recent NFIB survey, 92% of respondents' states that \$15 minimum wage would be harmful to main street businesses.<sup>90</sup>

Other large trade associations such as the National Restaurant Association (NRA), National Retail Federation (NRF), and National Association of Manufacturers (NAM) have all issued statements in opposition at the “Raise the Wage Act” which would raise the federal minimum wage to \$15 per hour. All three trade associations oppose the minimum wage for similar reasons – increased labor cost and unintended economic consequences.

On January 26 of this year the NRA EVP of Public Affairs, Sean Kennedy, issued a statement state their opposition. Kennedy stated that “Our industry runs on a 3-5% pre-tax profit margin in a good year – during a pandemic is not the time to impose a triple-digit increase in labor costs.”<sup>91</sup> The NRA is committed to having a balanced conversation on how to increase wages in the restaurant industry. The NRF SVP of government relations, David French, issued the following statement about a \$15 minimum wage increase, “This unprecedented proposal to increase the minimum wage by 107% is a one-size-fits all approach that would lead to unintended consequences for American workers and the businesses that employ them.”<sup>92</sup> The NAM Vice President, Patrick Hedren, issued the following statement about the Raise the Wage Act, “H.R. 582 creates new

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<sup>90</sup> “NFIB Opposes Dramatic Minimum Wage Hike,” NFIB, February 10, 2021, <https://www.nfib.com/content/analysis/economy/nfib-opposes-dramatic-minimum-wage-hike/>.

<sup>91</sup> “Restaurant.org,” *Restaurant.org*, January 26, 2021, <https://restaurant.org/news/pressroom/press-releases/raise-the-wage-act-of-2021>.

<sup>92</sup> Marc Rod, “Business Groups Slam House for Passing \$15 Minimum Wage Bill,” CNBC (CNBC, July 19, 2019), <https://www.cnbc.com/2019/07/18/business-groups-slam-house-for-passing-15-minimum-wage-bill.html>.

economic headwinds for manufacturers—ignoring the sector’s investments in skills training, competitive compensation, and generous benefits—all at the expense of millions of American workers.”<sup>93</sup> The U.S. Chamber of Commerce is not opposed to raising the minimum wage but believes \$15 per hour is too high and driven by politics not economics. At a U.S. House hearing about a \$15 minimum wage increase, the U.S. Chamber stated they were opposed to a “\$15 minimum wage hike because the mandate does not reflect a data-driven approach that incorporates wage-rate differences between business sectors and business locations.”<sup>94</sup> While the U.S. Chamber seems to be supportive of a modest increase to the minimum wage, there is still push back from other business trade associations on raising the minimum wage due to unintended consequences and increased labor cost.

Unions on the other hand are very supportive of raising the minimum wage to \$15 per hour. The Service Employees International Union (SEIU), United Food and Commercial Workers, AFLCIO and Communication Workers of America (CWA) are all supportive of a \$15 minimum wage increase. The AFLCIO has issued an open letter to Congress in support of raising the federal minimum wage.<sup>95</sup> They believe that raising the minimum wage is key to an equitable economic recovery and will save taxpayers money. The CWA has held a series of rallies with other labor organizations outside the U.S.

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<sup>93</sup> Marc Rod, “Business Groups Slam House for Passing \$15 Minimum Wage Bill,” CNBC,

<sup>94</sup> “Perspectives from Main Street: Raising the Wage,” 2021.

<sup>95</sup> “Open Letter to Congress in Support of Raising the Federal Minimum Wage: AFL-CIO,” AFLCIO, February 12, 2021, <https://aflcio.org/statements/open-letter-congress-support-raising-federal-minimum-wage>.

Capitol in support of raising the federal minimum wage, citing the need to ensure our frontline workers can put food on the table for their families.<sup>96</sup>

### *Public Opinion*

There is overwhelming support from the public to raise the minimum wage, the debate is over the amount of the increase. In recent Reuters/Ipsos poll, 59% of respondents said they support raising the federal minimum wage to \$15 per hour, with 34% opposing it.<sup>97</sup> A Morning Consult & Politico poll was a little more in depth and took into account voters and their registered political party. The results of the poll show that 7 out of 10 voters support raising the federal minimum wage, but more support raising it to \$15 than \$11 per hour. Of registered Republicans 51% support raising the federal minimum wage, 35% support a \$11 per hour and 16% support \$15 per hour.<sup>98</sup> Of respondents who are registered Democrats 87% support raising the federal minimum wage, 63% support \$15 per hour and 24% support raising it to \$11 per hour.<sup>99</sup> For those respondents who are registered independents, 31% support \$11 per hour and 35% support \$15 per hour.<sup>100</sup>

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<sup>96</sup> “Workers Hold Rallies Fighting for \$15 Minimum Wage, Union Rights for All, Full and Just COVID-19 Relief,” Communications Workers of America, February 25, 2021, <https://cwa-union.org/news/workers-hold-rallies-fighting-for-15-minimum-wage-union-rights-for-all-full-and-just-covid-19>.

<sup>97</sup> Reuters Staff, “Majority of Americans Support \$15 Minimum Wage, Reuters/Ipsos Poll Shows,” Reuters (Thomson Reuters, February 25, 2021), <https://www.reuters.com/article/us-usa-minimum-wage/majority-of-americans-support-15-minimum-wage-reuters-ipsos-poll-shows-idUSKBN2AP2B9>.

<sup>98</sup> Cameron Easley and Matt Bracken, “Broad, Bipartisan Support for \$1.9 Trillion Stimulus Package Persists as Senate Gears Up to Tackle Bill,” Morning Consult, March 3, 2021, <https://morningconsult.com/2021/03/03/coronavirus-stimulus-voter-support-bipartisan/>.

<sup>99</sup> Cameron Easley and Matt Bracken, “Broad, Bipartisan Support for \$1.9 Trillion Stimulus Package Persists as Senate Gears Up to Tackle Bill,”

<sup>100</sup> Broad, Bipartisan Support for \$1.9 Trillion Stimulus Package Persists as Senate Gears Up to Tackle Bill,”

## *Summary*

There is support from both parties and U.S. Chamber of Commerce to raise the minimum wage. A few Republican lawmakers prefer a modest increase or tax credits, while Democrats and more progressive lawmakers support a \$15 minimum wage increase. The pro worker organizations and unions are in favor of a \$15 minimum wage while the major pro-business associations are against it. The NRA that has stated they are willing to address the wage issue in the restaurant industry but likely would not support an increase to \$15 per hour. Most importantly voters are supportive of some sort of increase in the minimum wage. There are shifts in public opinion and that could change by the time your policy proposal is brought up for a vote. While your proposal will pass the House, it is the Senate where the bill will not receive the necessary 60 votes. You will need all Democrats to support your proposal and 10 more Republicans, but there are not any who are supportive of a \$15 minimum wage increase.

## **Recommendation**

Over the last four decades, wages have been stagnant for the working class but productivity is at an all-time high. Since reaching its peak value in 1968, the real value of the minimum wage has steadily declined and not kept up with inflation. This is your opportunity to fix the one of the biggest problems facing low- and middle-income Americans – stagnate wages. Raising the minimum wage to \$15 per hour has been a top priority for Progressives and Labor Unions for years. The minimum wage has not been raised in over a decade, the longest period in history without a minimum wage increase. You have stated that “We will persist with the minimum wage” and when asked about the

House version of the American Rescue Plan including a \$15 minimum wage increase you said “We’re proud of that”.<sup>101</sup>

Now is the time to deliver a legislative victory for working class of America. I recommend you introduce the American Economic Mobility Act immediately to give millions of workers a much-needed raise and alleviate poverty. Minimum wage was intended to be a living wage and that is no longer the case in 2021. Most importantly, your proposal will go one step further and provide targeted federal tax credits to help lift individuals of poverty and provide upward economic mobility to working families

While you will face strong opposition from conservatives and the business community, your proposal will benefit the working class of America. As I previously noted, the two most common arguments against your proposal will be ideological differences and reduction in employment due to increased labor cost. Your proposal might cause some small businesses to reduce their workforce or cut hours for employees because of the increase in labor cost. While your proposal might cost jobs, the increase in purchasing power of 27 million workers will outweigh the reduction in employment in my opinion. There is also evidence that a \$15 minimum wage increase would not cost jobs, a CNBC survey in January 2021 found that the majority of small businesses can absorb the rise in labor costs resulting from increases in state and local minimum wages.

There will be opposition from the business community largely because of ideological differences but it will come mainly from the small business community, who have been adversely affected by the Pandemic. It is important to note that opposition

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<sup>101</sup> Billy House and Erik Wasson, “Pelosi Commits to Minimum Wage Hike, but Without Timetable ,” Bloomberg.com (Bloomberg, March 11, 2021), <https://www.bloomberg.com/news/articles/2021-03-11/pelosi-committs-to-minimum-wage-hike-but-without-a-timetable>.

come from small business owners and NFIB, not the workers of the small businesses. In my opinion, the opposition from small business owners will not outweigh the support of the workers of small businesses. To help address the opposition from the small business owners, your tax credit for small businesses with less than 50 employees will help cover the increased cost of labor until 2025. This small subsidy will go a long way for micro and small businesses and will help minimize the impact of the increased cost of labor.

Even with the tax credit, you will still face opposition from small business owners that will be rooted in ideological differences. There is evidence to argue for or against your policy proposal but it's important you focus on how it will benefit the American worker. While your policy proposal will pass the House, it will likely fail in the Senate but it is important that you still pass the legislation in the House. Passing the legislation in the House would be symbolic and send a statement that you are fighting for the American worker.

## **Curriculum Vitae**

Martin C. Gutierrez Jr was born and raised in San Antonio, Texas. He graduated from the University of Texas at Austin with his Bachelor's of Arts in Government and Minor in Communications in 2016. Martin has four and half years of experience in the government relations industry. His career has largely focused on advocating for policies that foster economic development and job creation in San Antonio. Most recently, his advocacy has focused on growing micro and small businesses in San Antonio. Outside of work he serves on the Board of the San Antonio Texas Exes Chapter and mentors seniors from a local high school.