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The Public Cost of a Low Federal Minimum Wage

By Ken Jacobs, Ian Eve Perry, and Jenifer MacGillvary

Summary: *The Raise the Wage Act, passed by the U.S. House of Representatives in 2019, proposes a national \$15 minimum wage to be fully implemented in 2025. This paper looks at the cost of five public safety net programs for families of workers who would receive a direct wage increase under this bill. We find that close to half of these families (47%) are enrolled in at least one program, at an annual cost of \$107 billion.*

Introduction

President-elect Joe Biden campaigned on raising the federal minimum wage to \$15 an hour. The minimum wage has been \$7.25 since 2009 – the longest-ever period without an increase. Eight states and the District of Columbia have already passed laws that will raise their wages to \$15 an hour, most recently Florida, with a ballot initiative this past November. There are 21 states with a minimum wage at the federal level of \$7.25, and 10 others with minimum wages under \$10.

In July 2019, the U.S. House of Representatives passed the Raise the Wage Act,¹ which would increase the federal minimum wage in steps to \$15 by 2025. Should the Raise the Wage Act become law, upwards of 23 million Americans would receive a *direct* boost in their pay, including over 9 million parents and 14 million persons over age 24.²

The increased income would materially improve the lives of these workers and their families. It would also reduce the burden placed on federally- and state-funded public safety net programs, which working families turn to when they do not earn enough to meet their basic needs.³ This mitigation of some of the public cost of low wages takes on added salience in the context of state budget shortfalls precipitated by the COVID crisis.

Building on our previous research, this report estimates the public cost to states and the federal government from the use of public safety net programs by low-wage working families who would be directly affected by an increase in the minimum wage to \$15 an hour by 2025.

Definitions and Data

As in our 2015 report,⁴ we are examining working families' utilization of the five largest means-tested safety net programs for which data is available: Medicaid; Children's Health Insurance Program (CHIP); basic household income assistance under Temporary Aid for Needy Families (TANF); Earned Income Tax Credit (EITC); and Supplemental Nutrition Assistance Program (SNAP). Responsibility for funding the health programs is shared by the states and the federal government. We include only the cash assistance portion of TANF, and this program too receives funding from both the states and the federal government. While there are state-level EITC programs, in this analysis we include only the federal EITC. The federal government alone funds SNAP.

This analysis focuses on the families of year-round workers who would receive a direct pay increase as a result of the Raise the Wage Act. "Working family" is defined as a family where at least one member worked year-round (at least 45 weeks during the year) for at least 10 hours a week. "Affected working family" is a family where at least one member worked year-round for at least 10 hours a week and earned less than \$13.49 per hour (in 2019 dollars).⁵ This wage is equivalent to \$15 in 2025 dollars.

To narrow the analysis to workers who would receive increases under the Raise the Wage Act, we exclude from our main analysis states with existing laws that will increase the minimum wage to \$15 an hour: California, Connecticut, Florida, Illinois, Maryland, Massachusetts, New Jersey, and New York. We also exclude the District of Columbia.

These exclusions will lead to conservative estimates of the cost of safety net programs for affected working families. Outside of New York City and surrounding areas, the rest of New York State will not reach a \$15 minimum wage by 2025, and Florida does not reach \$15 until 2026. In addition, we exclude from the analysis those who work only part of the year, as well as those who would receive indirect pay increases due to wage-push caused by the higher minimum wage.⁶ A smaller countervailing effect comes from our inclusion of several states that have cities with \$15 minimum wages.⁷

We calculate the cost to the states and federal government of affected working families' use of the five safety net programs using two sources of data: the March Supplement of the U.S. Bureau of Labor Statistics' Current Population Survey (CPS) from 2016 to 2020, and administrative data from the Medicaid, CHIP, TANF, EITC, and SNAP programs from 2015 to 2019. All amounts are adjusted to and reported as annual averages in 2019 dollars. Medicaid figures exclude aged, blind, and disabled enrollees. Our calculation method is described in Appendix 1. The analysis reflects pre-COVID labor market conditions.

Findings

Aggregate Findings

Table 1 shows the share of all working families enrolled in one or more public safety net program and enrollments by families with a worker who will receive an increase under the Raise the Wage Act. Almost half of the workers (47%) who will receive increases are in families with at least one member enrolled one or more safety net program. This compares to 28 percent of all working families in the 42 states included in this

analysis. Low family incomes that result in eligibility for, and utilization of, safety-net programs is not mainly an issue of low work hours. The results are similar (45%) if we restrict the analysis to families with a full-time low-wage worker.

Also presented in Table 1 is data on safety net utilization among families of workers in specific low-wage industries. Fast-food workers, childcare workers, and homecare workers all have higher rates of enrollment in these programs than low-wage workers overall. Nearly three-quarters (74%) of the families of homecare workers who would receive an increase under the Act are enrolled in at least one safety net program, as are 71 percent of fast-food workers’ families and 55 percent of childcare workers’ families. As with low-wage workers overall, the results for fast-food and childcare workers change only slightly if we restrict our analysis to families with full-time workers. Among homecare workers, while utilization of safety net programs is lower for families of full-time workers compared to all workers, it is still extremely high (68%).

Table 1: Share of working families enrolled in one or more public safety net program, 2015-2019
(States without a \$15 minimum wage law in place)

Type of Worker	All	Full-time
All Workers	27%	24%
Affected Workers	47%	45%
Fast-Food Workers	65%	63%
Affected Fast-Food Workers	71%	72%
Childcare Workers	49%	47%
Affected Childcare Workers	55%	52%
Homecare Workers	62%	57%
Affected Homecare Workers	74%	68%

Note: “All” is defined as those who work at least 45 weeks/year and at least 10 hours/week; “full-time” is defined as those who work at least 45 weeks/year and at least 35 hours/week.

Source: Authors’ calculations based on the 2016–2020 March Current Population Survey and administrative data from Medicaid, CHIP, EITC, SNAP, and TANF programs. Full-time defined as usually working at least 35 hours a week.

Table 2 shows total annual enrollment as well as enrollment of low-wage working families directly affected by the Raise the Wage Act in the five public safety net programs between 2015 and 2019. Of the 32 million families enrolled in one or more of these programs in states that have not passed a \$15 minimum wage law, one-third (10.5 million) have a family member who would receive a direct increase under the Act. Over half of EITC participants (9.1 million) would receive increases. Among the two health safety net programs, around 40 percent of enrollees are in affected working families, with 5.3 million adults in Medicaid and 11.3 million children in Medicaid or the Children’s Health Insurance Program. Affected working families comprise around one-quarter SNAP recipients (26%) and one out of five TANF recipients (22%).

Table 2: Average annual enrollment in public safety net programs for families with a worker directly affected by the Raise the Wage Act, 2015-2019 (States without a \$15 minimum wage law in place)

Program	Total Enrollment (millions)	Enrollment from Affected Working Families (millions)	Affected Working Family Share of Total Enrollment
EITC	17.3	9.1	53%
Medicaid (adults)	13.2	5.3	40%
Medicaid/CHIP (children)	28.7	11.3	39%
Supplemental Nutrition Assistance Program	18.7	4.8	26%
Temporary Aid to Needy Families	0.8	0.2	22%
Any Program	32.3	10.5	32%

Note: Enrollment for Medicaid and CHIP reflects individual enrollees, while enrollment for EITC, SNAP, and TANF reflects family enrollment. EITC and Children's Medicaid/CHIP data are averaged over 2015–2018 only.

Source: Authors' calculations based on the 2016–2020 March Current Population Survey and administrative data from Medicaid, CHIP, EITC, SNAP, and TANF programs.

Table 3 provides an overview of the cost of each safety net program. The states and federal government spend a combined \$254 billion annually on all the programs in the non-\$15 wage states, with \$107 billion—42 percent—assisting working families that would receive a direct pay increase under the Act. These families account for 63 percent of the cost of EITC, at \$28.1 billion. For Medicaid adults, the cost from affected working families is \$31.3 billion and for CHIP it is \$35.3, representing 40 percent of the total in each case. For SNAP it is \$12.1 billion and 30 percent of the total, and for TANF affected low-wage working families account for 22 percent of the program cost (\$0.5 billion).

Table 3: Average annual cost for working families affected by the Raise the Wage Act (federal and states combined), 2015-2019, in 2019 dollars (billions) (States without a \$15 minimum wage law in place)

Program	Total Program Cost	Cost for Affected Working Families	Affected Working Family Share of Total Cost
EITC	45.0	28.1	63%
Medicaid (adults)	77.7	31.3	40%
Medicaid/CHIP (children)	88.6	35.3	40%
Supplemental Nutrition Assistance Program	40.2	12.1	30%
Temporary Aid to Needy Families	2.3	0.5	22%
Any Program	253.7	107.4	42%

Note: EITC data are averaged over 2015–2018 only. Medicaid/CHIP data are averaged over 2017–2018 only.

Source: Authors' calculations based on the 2016–2020 March Current Population Survey and administrative data from Medicaid, CHIP, EITC, SNAP, and TANF programs.

Table 2 looked at the percent of enrollees in the safety net programs that are members of working families affected by the Act. In Table 4, we look at the percent of affected working families that participate in the five public safety net programs. We compare the affected working families (i.e., those working at least 10 hours per week year round) with families of full-time workers (i.e., those working at least 35 hours per week year round). Again, there is virtually no difference between these groups, indicating that low wages, more than part-time employment, are driving enrollment in public safety net programs for low-wage workers.

Overall, around half (47%) of families with an affected worker are enrolled in one or more public safety net programs. Forty percent of these families participate in EITC; 16 percent have at least one adult who participates in Medicaid; 16 percent have at least one child enrolled in Medicaid or CHIP; and 21 percent of the affected working families receive SNAP. Just 1 percent of these families receive cash assistance through TANF.

Table 4: Share of working families affected by the Raise the Wage Act enrolled in one or more public safety net programs, 2015-2019 (States without a \$15 minimum wage law in place)

Program	All	Full-time Workers
EITC	40%	32%
Medicaid (adults)	16%	12%
Medicaid/CHIP (children)	21%	13%
Supplemental Nutrition Assistance Program	21%	20%
Temporary Aid to Needy Families	1%	1%
Any Program	47%	45%

Notes: "All" is defined as those who work at least 45 weeks/year and at least 10 hours/week; "full-time" is defined as those who work at least 45 weeks/year and at least 35 hours/week.

EITC and Children's Medicaid/CHIP data are averaged over 2015–2018 only. Full-time is defined as 35 hours per week.

Source: Authors' calculations based on the 2016–2020 March Current

Population Survey and administrative data from Medicaid, CHIP, EITC, SNAP, and TANF programs.

State-by-State Findings

Thus far we have reported on overall enrollment of working families that would receive a pay boost from a \$15 an hour federal minimum wage in the five public safety net programs, along with the total cost paid by the states and federal government in the 42 states that have not passed \$15 minimum wages. In these last two tables we break apart these numbers to provide a state-by-state view.

Table 5 presents state-level enrollment data for Medicaid and CHIP combined, EITC, and SNAP. TANF data are not provided due to sample size constraints. The last column shows the share of affected working families in each state that are enrolled in one or more program.

Table 6 shows, for each state, the annual combined state and federal expenditures on all the public safety net programs together, the expenditures for affected working families only, and the share of the total expenditures that goes to affected working families.

Table 5. Annual enrollment from working families affected by the Raise the Wage Act by state, 2015-2019

State	Medicaid/ CHIP	EITC	SNAP	Percent of Affected Working Families Enrolled in One or More Program
Alabama	300,000	300,000	100,000	47%
Alaska	100,000	*	*	48%
Arizona	900,000	300,000	200,000	51%
Arkansas	400,000	200,000	100,000	47%
Colorado	500,000	200,000	100,000	40%
Delaware	100,000	*	*	51%
Georgia	800,000	600,000	300,000	51%
Hawaii	100,000	100,000	*	49%
Idaho	100,000	100,000	*	40%
Indiana	500,000	300,000	100,000	42%
Iowa	300,000	100,000	100,000	37%
Kansas	100,000	100,000	*	35%
Kentucky	500,000	200,000	100,000	45%
Louisiana	500,000	300,000	200,000	57%
Maine	100,000	100,000	*	35%
Michigan	900,000	400,000	300,000	51%
Minnesota	400,000	200,000	100,000	38%
Mississippi	300,000	200,000	100,000	53%
Missouri	300,000	200,000	100,000	44%
Montana	100,000	*	*	41%
Nebraska	100,000	100,000	*	34%
Nevada	300,000	100,000	100,000	51%
New Hampshire	100,000	*	*	33%
New Mexico	400,000	100,000	100,000	66%
North Carolina	600,000	500,000	300,000	47%
North Dakota	*	*	*	28%
Ohio	1,000,000	500,000	200,000	43%
Oklahoma	300,000	200,000	100,000	46%
Oregon	500,000	100,000	100,000	54%
Pennsylvania	1,000,000	500,000	300,000	46%
Rhode Island	100,000	*	*	50%

State	Medicaid/ CHIP	EITC	SNAP	Percent of Affected Working Families Enrolled in One or More Program
South Carolina	300,000	300,000	100,000	49%
South Dakota	*	*	*	32%
Tennessee	500,000	300,000	200,000	48%
Texas	2,100,000	1,500,000	700,000	50%
Utah	100,000	100,000	*	37%
Vermont	100,000	*	*	42%
Virginia	400,000	300,000	100,000	43%
Washington	600,000	200,000	200,000	52%
West Virginia	200,000	100,000	*	51%
Wisconsin	400,000	200,000	100,000	45%
Wyoming	*	*	*	29%

* indicates enrollment was less than 100,000

Note: Enrollment for Medicaid and CHIP reflects individual enrollees, while enrollment for EITC and SNAP reflects family enrollment. EITC and Children's Medicaid/CHIP data are averaged over 2015–2018 only.

Source: Authors' calculations based on the 2016 – 2020 March Current Population Survey and administrative data from Medicaid, CHIP, EITC, and SNAP programs.

Table 6. Annual federal and state dollars spent on all programs combined for working families affected by the Raise the Wage Act by state, 2015-2019 (millions, 2019 dollars)

State	Cost of all programs	Affected Working Families' Cost	Affected Working Families' Share of Cost
Alabama	4,600	2,000	43%
Alaska	1,500	600	37%
Arizona	10,500	5,100	48%
Arkansas	4,700	1,900	40%
Colorado	5,800	2,200	38%
Delaware	1,700	700	40%
Georgia	9,700	4,700	49%
Hawaii	2,300	900	40%
Idaho	1,400	600	45%
Indiana	11,100	4,700	42%
Iowa	3,600	1,600	46%
Kansas	1,800	800	42%

State	Cost of all programs	Affected Working Families' Cost	Affected Working Families' Share of Cost
Kentucky	9,200	3,800	42%
Louisiana	9,100	3,900	43%
Maine	1,400	500	36%
Michigan	13,900	5,600	40%
Minnesota	6,300	2,600	42%
Mississippi	4,300	2,100	48%
Missouri	5,600	2,400	42%
Montana	1,700	700	41%
Nebraska	2,100	900	41%
Nevada	4,400	1,800	41%
New Hampshire	1,300	500	39%
New Mexico	5,100	2,200	44%
North Carolina	9,100	4,000	44%
North Dakota	600	200	32%
Ohio	18,100	6,800	38%
Oklahoma	4,500	1,900	43%
Oregon	11,800	4,300	36%
Pennsylvania	13,900	5,600	40%
Rhode Island	1,800	700	38%
South Carolina	4,800	2,100	44%
South Dakota	700	300	42%
Tennessee	7,500	3,300	44%
Texas	30,800	14,500	47%
Utah	2,100	900	41%
Vermont	900	400	43%
Virginia	5,600	2,400	43%
Washington	10,200	3,500	34%
West Virginia	2,900	1,000	36%
Wisconsin	4,900	2,400	50%
Wyoming	400	100	41%

Source: Authors' calculations based on the 2016–2020 March Current Population Survey and administrative data from Medicaid, CHIP, EITC, SNAP, and TANF programs.

Conclusion

America's public safety net programs provide a lifeline to families that need help to meet their basic needs. When firms pay workers too little to make ends meet on their own, they rely on these programs to help make up the difference.

The Raise the Wage Act would more than double the federal minimum wage—which has languished at \$7.25 per hour for a record-setting 11 years and counting. Millions of workers would see significant increases in their pay as a direct result. We estimate that close to half of the workers who would be directly affected have a family member or are themselves currently enrolled in at least one safety net program. This is at a cost to the federal and state governments of \$107 billion per year. Passage of the Raise the Wage Act would move these working families in the direction of self-sufficiency and reduce their utilization of safety net programs. A \$15 federal minimum wage would release some of the pressure on the safety net caused by low-wage industries, and allow state and federal dollars to be more effectively targeted.

Appendix: Methods

To calculate the cost to federal and state governments of public safety net programs for low-wage working families (defined as having at least one family member who works 45 or more weeks per year and 10 or more hours per week, and earns less than \$13.49 per hour in 2019 dollars), we mainly rely on two sources of data: the March Supplement of the U.S. Bureau of Labor Statistics' Current Population Survey (CPS), and administrative data from the Medicaid, CHIP, TANF, EITC, and SNAP programs. Medicaid figures exclude aged, blind, and disabled enrollees. The March Supplement, also known as the Annual Social and Economic Supplement, asks respondents about receipts of cash and non-cash transfer payments during the past year and includes questions about the programs we examined in this analysis.

To create the enrollment estimates for each program and the cost estimates for EITC, TANF, SNAP, and CHIP, we re-weight the CPS so that its cost and enrollment totals match the administrative data. To create the Medicaid (for both adults and children) cost estimates we use the state-level per enrollee spending figures published by the Centers for Medicare and Medicaid Services (CMS) multiplied by the enrollment totals from the administrative data. We then sum the number of enrolled families (defined as having at least one family member participating in a program) and the cost of their benefits to obtain the total program enrollment and cost. We then repeat this process using only low-wage working families (defined as above) to obtain our total enrollment and cost for working families. For further detail see the earlier report *Fast Food, Poverty Wages: The Public Cost of Low-Wage Jobs in the Fast-Food Industry*.⁸

Endnotes

¹ Bobby Scott, "Text - H.R.582 - 116th Congress (2019-2020): Raise the Wage Act," Pub. L. No. H.R.582 (2019), <https://www.congress.gov/bill/116th-congress/house-bill/582/text>.

² David Cooper, "Raising the Federal Minimum Wage to \$15 by 2025 Would Lift Wages for over 33 Million Workers" (Economic Policy Institute, July 17, 2019), <https://www.epi.org/publication/minimum-wage-15-by-2025/>.

³ Michael Reich and Rachel West, "The Effects of Minimum Wages on Food Stamp Enrollment and Expenditures," *Industrial Relations: A Journal of Economy and Society* 54, no. 4 (2015): 668–94, <https://doi.org/10.1111/irel.12110>; Rachel West and Michael Reich, "A Win-Win for Working Families and State Budgets" (Center for American Progress; UC Berkeley Institute for Research on Labor and Employment, October 1, 2014), <https://irle.berkeley.edu/a-win-win-for-working-families-and-state-budgets/>.

⁴ Ken Jacobs, Ian Eve Perry, and Jenifer MacGillvary, "The High Public Cost of Low Wages" (UC Berkeley Labor Center, April 13, 2015), <https://laborcenter.berkeley.edu/the-high-public-cost-of-low-wages/>.

⁵ While this report is an update of our 2015 report *The High Public Cost of Low Wages*, there are significant methodological differences. In the 2015 report we analyzed utilization of public safety net programs among all working families, while in this report we are limiting it to low-wage working families defined as those with at least one member earning the equivalent of \$15 in 2025. Also, in the earlier report we defined "working families" as those with a family member working at least 27 weeks per year for at least 10 hours per week, while in the current analysis we include those working at least 45 weeks per year for at least 10 hours per week. Finally, 2015 we used data that reported number of hours worked in the week prior to the survey response and excluded workers with variable hours, while here we use data reporting the number of hours per week usually worked during the past year (because it best represents the worker's experience over the whole year).

⁶ Jeanette Wicks-Lim, "Mandated Wage Floors and the Wage Structure: New Estimates of the Ripple Effects of Minimum Wage Laws," Political Economy Research Institute, University of Massachusetts Amherst, PERI Working Paper Series, 116 (2006), http://scholarworks.umass.edu/peri_workingpapers/94/.

⁷ These cities with \$15 minimum wages are Seattle, Minneapolis, St. Paul, Denver, Portland and Rockland Maine, and Flagstaff Arizona. In Washington, Minnesota, and Colorado, workers in \$15 cities represent around 20 percent of the states' workers. In Maine, they represent around 13 percent, and in Flagstaff they are around 1 percent of the state's workers (2018 U.S. Census).

⁸ Sylvia Allegretto et al., "Fast Food, Poverty Wages: The Public Cost of Low-Wage Jobs in the Fast-Food Industry" (UC Berkeley Labor Center), accessed December 8, 2020, <https://laborcenter.berkeley.edu/fast-food-poverty-wages-the-public-cost-of-low-wage-jobs-in-the-fast-food-industry/>.

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