

Bellarmino Law Society Review

Volume XV | Issue I

Article IV

An Analysis of the Legal History and Economic Impact of Federal Minimum Wage Policy in the United States

John Villa
Boston College, villaj@bc.edu

AN ANALYSIS OF THE LEGAL HISTORY AND ECONOMIC IMPACT OF FEDERAL MINIMUM WAGE POLICY IN THE UNITED STATES

JOHN VILLA ¹

Abstract: This paper examines the evolution of the political and economic dynamics behind federal minimum wage policy by describing its history in detail. From judicial decisions about the role of the federal government in wage regulation, to the expansive policies of the New Deal Era, to the Reagan era's rejection of such a vast role of the federal government, the history of federal minimum wage policy is far from linear. Evolving political dynamics, jurisprudence, and economic theories have prevented a clear opinion on the legitimacy of a federal minimum wage from emerging. Today, advocates for free market purity dominate the federal government's approach to wage regulation, with meager increases - or no increases at all - becoming commonplace for Congress. As the paper demonstrates, the wage of \$7.25 an hour is no longer able to ensure a decent quality of life for Americans. Its proposal to slowly raise the wage to \$17 is complemented by two tax credits aimed at minimizing the increased labor costs that small businesses will face, while also recognizing the need for increased buying and saving power for low-wage Americans.

Problem

Federal minimum wage policy impacts a more significant portion of the economy than is commonly understood. Today, most Americans support a strong minimum wage and increasing wages for the poorest Americans, but assume that the minimum wage concerns only the lowest earners in select industries. This reduces the conversation to a matter of principle rather than of practical urgency. And when facing the legitimate possibility of an increase to the minimum wage, both policymakers and the average American are either apathetic or outright antagonistic. When translated to policy, concerns about potential negative impacts on the wealthy often

¹ Jack Villa is a graduating senior studying Political Science with minors in Philosophy & Religion in American Public Life. He is interested in American public policy with a particular focus on clean energy investment, labor regulation, and health care reform. He will spend his next year in Detroit, serving as a Jesuit Volunteer at United Community Housing Coalition and representing tenants in eviction cases. After his time in Detroit, he intends to return to his hometown in northern Virginia to work in DC while preparing for law school.

outweigh the benefits of increased economic mobility for low-wage service workers. Business owners feel threatened by the possibility of losing bargaining power and having to dedicate more of their budget to their workers. Consumers feel uneasy at the prospect of increased wages translating into increased prices for essential items. This spirit of distaste has largely dominated the discussion of minimum wage policy in the United States in the 21st century.

The impacts of minimum wage policy and potential increases of the minimum wage affect the entire economy, not just the lowest earners. Workers making just above federal or state minimum wage would likely see their wages increase with minimum wage increases due to a “ripple effect.”² And despite the common belief that minimum wage workers are mostly teenagers from financially secure families, an analysis by Arin Dube, economist at the University of Massachusetts at Amherst, revealed that only about 25% of those earning the federal minimum wage — and just 12% of those earning \$10 an hour or less — are actually teenagers.³ That means that tens of millions of working adults will have more money to spend, returning it back into the economy, and to save, allowing them to eventually afford to buy a house and retire.

Evidence suggests that an increase in purchasing and saving power for America’s poorest workers is overdue. The minimum wage has not kept pace with the rising cost of living caused by inflation. The federal minimum wage of \$7.25 an hour has not changed since 2009 despite higher costs of living. According to Ben Zipperer at the Economic Policy Institute, the 2021 minimum wage was worth 21% less than it was in 2009.⁴ An individual who worked 40 hours a week, every week, and earned the federal minimum wage made \$20 more than the federal

² Ben Harris and Melissa S. Kearney. “The ‘Ripple Effect’ of a Minimum Wage Increase on American Workers.” Brookings. January 10, 2014.

<https://www.brookings.edu/articles/the-ripple-effect-of-a-minimum-wage-increase-on-american-workers/>.

³ Harris & Kearney, “The ‘Ripple Effect’ of a Minimum Wage Increase on American Workers.”

⁴ Ben Zipperer, “The Minimum Wage Has Lost 21% of Its Value since Congress Last Raised the Wage.” July 22, 2021. Economic Policy Institute. 2021. [Link](#).

government’s annual poverty line.⁵ When factoring in the increasing cost of living, the unsustainable expectation of working 40 hours a week every week, and unexpected expenses like medical emergencies, minimum and low-wage workers are struggling to keep themselves out of poverty. As a result, intergenerational economic mobility has fallen (as shown in Figure 1), meaning American workers are becoming less likely to make more money than their parents.

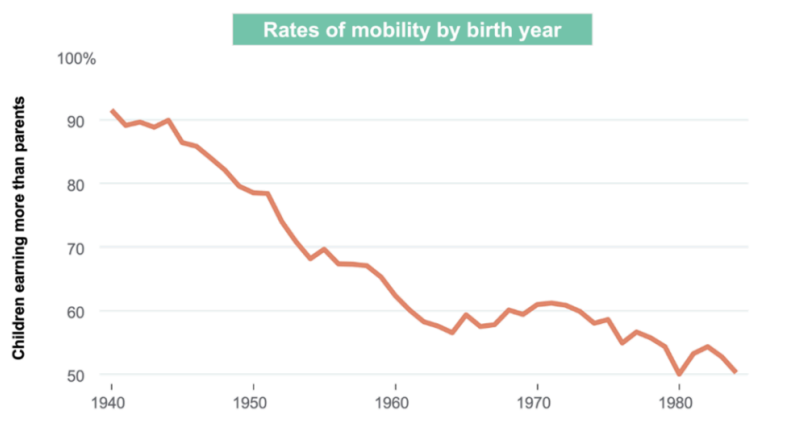


Figure One: Rates of mobility by birth year (1940-1985)⁶

Though the benefits to workers are both valid and impactful, so is the rise in production costs that deeply concerns business owners. When analyzing a potential increase from \$8 to \$15, Professor Thomas Winberry of the Wharton School of Business at the University of Pennsylvania found that while short-term effects on workers are positive, eventually firms either reduce their number of workers or suffer from increased production costs.⁷ This puts the employer in a difficult position and, according to Winberry, will likely harm the worker whom the increase was hoped to benefit. He believes that “the minimum wage is too blunt a redistributive instrument to support the labor income of workers earning the lowest wages” and

⁵ Bonitatibus, Steve. “The Minimum Wage Is a Poverty Wage.” Center for American Progress. July 24, 2024. <https://www.americanprogress.org/article/the-minimum-wage-is-a-poverty-wage/>.

⁶ Raj Chetty. “Measuring Intergenerational Mobility” Opportunity Insights. 2018. <https://opportunityinsights.org/>

⁷ Shankar Parameshwaran. “Why Raising the Minimum Wage Has Short-Term Benefits but Long-Term Costs.” Knowledge at Wharton. June 20, 2023. [Link](#).

that tax reform and direct-transfer programs are much more effective at benefiting these workers.⁸

The price increases that follow from the rise in production costs, referred to as the “pass-through effect” of wage increases, are another concern for both producers and consumers. In the month following an increase to the minimum wage, prices often increase and then stabilize as the market re-adjusts. This increase in elasticity of prices relative to small minimum wage changes is 0.036, which is almost half of the 0.07 increase in elasticity that has been commonly accepted in earlier literature.⁹ This change, though unlikely to significantly disrupt consumer spending and contribute to inflation in the long term, remains a factor in the discussion of minimum wage increases due to the increased economic costs perceived by consumers. Both Zipperer and Winberry conclude that while a small increase to the minimum wage has a negligible impact on production costs and employment, a large increase is likely to result in either increases in production costs or a shrinking of the workforce.¹⁰

While opinions vary on how to address minimum wage policy, it is clear that such increases have economic impacts that reach far beyond just those who receive such wage increases. Minimum wage policy establishes the framework within which employers and workers structure modes of production, define work conditions, and strive to remain competitive. Its complex legal history, effects on the overall economy, and ideology informing the role of government in regulating the free market must be acknowledged by any attempt at reform to the federal minimum wage.

⁸ Parameshwaran. “Why Raising the Minimum Wage Has Short-Term Benefits but Long-Term Costs.”

⁹ Daniel Macdonald, Erik Nilsson. “The Effects of Increasing the Minimum Wage on Prices: Analyzing the Incidence of Policy Design and Context.” The Political Economy Research Institute at The University of Massachusetts Amherst. 2016. <https://doi.org/10.7275/28277246>.

¹⁰ Macdonald & Nilsson, “The Effects of Increasing the Minimum Wage on Prices: Analyzing the Incidence of Policy Design and Context.”

Legal History

The legal history of the American minimum wage begins at the state level, with Massachusetts passing the first such law in 1912. The law did not impose an actual minimum wage, but instead established regulatory boards which set a minimum wage for female workers based on the cost of living.¹¹ Women were the initial focus due to their limited bargaining power, frequent underpayment, and employment in exploitative industries like textile manufacturing. Within a year, eight additional states adopted similar legislation, empowering regulatory boards and protecting female laborers. In 1914, Oregon became the first state to implement an actual minimum wage, setting it at \$8.25 per week for women. This law was challenged in 1917 in *Stettler v. O'Hara*, where opponents argued it constituted an overreach of the state's "police power," its authority to regulate for public welfare. The district court upheld the law, and in a 4–4 decision, the Supreme Court stayed the ruling of the district court, affirming the constitutionality of minimum wage legislation and recognizing it as a legitimate exercise of state police power.

However, in 1923, the government's newfound authority to impose a minimum wage came under threat. *Adkins v. Children's Hospital of D.C.* was filed in response to a 1918 law passed by Congress (which then governed D.C.) that guaranteed a minimum wage to women and children working in D.C.¹² The Children's Hospital of D.C., which employed many women, sought an injunction against this law, which was denied by the trial court then granted by the appellate court. The case reached the U.S. Supreme Court, which ruled for the Hospital on the basis that the Due Process Clause of the Fifth Amendment guaranteed the right to "freedom of contract." The holding was inspired by the 1905 ruling of *Lochner v. New York*, in which the

¹¹ Clifford F. Thies. "The First Minimum Wage Laws." *Cato Journal* Vol. 10, No. 3 (Winter 1991). Cato Institute. <https://www.cato.org/sites/cato.org/files/serials/files/cato-journal/1991/1/cj10n3-7.pdf>

¹² "Adkins v. Children's Hospital of D. C." Oyez. [Link](#).

ability of the state to limit a baker's working hours was deemed unconstitutional under the same statute. According to the majority, the government-mandated minimum wage impaired the ability of employer and employee to freely agree to a contract.¹³ Though the Court recognized the legitimacy of Congress to impose regulations "suitable to protect health and safety and designed to insure wholesome conditions of work and freedom from oppression," a minimum wage did not fall within this authority.¹⁴ This ruling contradicted the precedent established by *Stettler* and enshrined the "freedom of contract" from *Lochner* as the rationale by which minimum wage mandates were deemed to be beyond the government's policing power.

A decade later, the Franklin D. Roosevelt administration ushered in an unprecedented series of legislation and judicial decisions that transformed the federal government's role in regulating labor and wages. In response to the Great Depression, President Franklin D. Roosevelt's New Deal Coalition passed major pieces of legislation to revitalize the economy through worker-focused reform. Laws like the National Industrial Recovery Act of 1933 and the National Labor Relations Act of 1935 established laws and regulations to protect workers from industrial collusion and malpractice and give workers the right to unionize and collectively bargain. Roosevelt strongly believed that the well-being of the worker was within the federal government's policing power and necessary to reconstruct the failing American economy.

The 1937 case of *West Coast Hotel Co. v. Parrish* was the key in affirming the federal government's role in wage regulation. The case concerned Elsie Parrish, who worked for the West Coast Hotel Company and, according to Washington state law, was entitled to \$14.50 for each work week of 48 hours. Parrish was receiving less than this amount and sued in order to be paid her lost earnings.¹⁵ The lower court ruled against her, using *Adkins* as justification, and upon

¹³ "Adkins v. Children's Hospital of D. C." Oyez.

¹⁴ "Liberty of Contract and *Lochner v. New York*." Constitution Annotated - Library of Congress. [Link](#).

¹⁵ "West Coast Hotel Company v. Parrish." Oyez. [Link](#).

appeal, the case made its way to the Supreme Court. Justice Owen Josephus Roberts, recognizing the achievements and moral conviction of Roosevelt and his New Deal Coalition, felt compelled to shift his stance on the *Lochner* precedent. Going against his history of conservative decisions, Roberts changed sides and voted for Parrish.¹⁶ In a 5-4 ruling, the majority ruled that the “freedom of contract” within the Due Process Clause only called for the state of Washington to comply with due process in the process and enforcement of the contract and did not rule out reasonable regulation of business.¹⁷ Due process was followed in their enforcement of \$14.50 a week, and thus, Washington’s minimum wage mandate was deemed reasonable, and West Coast Hotel Co. was mandated to pay Parrish her lost wages. Government at all levels was finally able to use its policing power to regulate business and enact protections for workers.

Finally free from the restraints of the *Lochner* era, the New Deal Coalition passed the Fair Labor Standards Act (FLSA) in 1938. The FLSA established standards for overtime pay, limited child labor, instituted a standard work week of 44 hours, and established a federal minimum wage of \$0.25 an hour.¹⁸ States were free to establish their own minimum wages, provided that they were above this value. The vast majority of the country’s workers were covered by the FLSA, but white-collar workers and workers covered by collective bargaining protections (at the request of union leaders) were exempt from the initial FLSA. Justified by the Commerce Clause in Article One of the Constitution, the FLSA prohibits the “shipping goods in interstate commerce that were manufactured by workmen whose employment did not comply with prescribed wages and hours.”¹⁹ This language and the FLSA are still the foundation of federal wage regulation. Its importance in the evolution of minimum wage policy cannot be

¹⁶ "West Coast Hotel Company v. Parrish." Oyez. [Link](#).

¹⁷ "West Coast Hotel Company v. Parrish." Oyez. [Link](#).

¹⁸ "The Fair Labor Standards Act (FLSA): An Overview." Congress.gov. [Link](#).

¹⁹ The Fair Labor Standards Act of 1938, ch. 676, 52 Stat. 1060 *et seq.*

understated; it gives nearly all workers the right to make claims on their employers for fair wages and has been the basis upon which fights for expanded rights have been grounded.

Major updates to federal minimum wage policy since the passage of the FLSA have largely come through amendments to the original law and appeals against them. Throughout World War II and the post-war economic boom that followed, few political or judicial fights disrupted the continued and substantive increase in the minimum wage. In addition to these increases, amendments to the FLSA have expanded its reach to include workers in previously neglected sectors, such as the retail and service industries, and the previously exempt union jobs.

Maryland v. Wirtz was the first notable resistance to such expansions. Maryland, along with 27 other states, sued Secretary of Labor W. Willard Wirtz over a 1961 amendment that removed state governments, their political subdivisions, and schools and hospitals run by state and local governments from the list of exempt enterprises.²⁰ The states argued that this expansion violated the Commerce Clause and interfered with the states' sovereign immunity, as established by the Eleventh Amendment. A district court upheld the expansion of the FLSA, finding that the newly included commercial enterprises and state institutions fell within Congress's authority under the Commerce Clause, but declined to address the claim of interference with states' sovereign immunity. *Maryland* appealed directly to the Supreme Court, which sided with the district court's finding regarding the Commerce Clause.²¹ The Court reasoned that the exempted status for these commercial enterprises was necessary to prevent the abuse of substandard wages and working conditions for the sake of a competitive advantage. The Court also rejected the states' argument that their sovereign immunity was violated by arguing that the states maintained their sovereignty insofar as they were allowed to perform medical and educational functions as

²⁰ E. John Raasch. "Constitutional Law Review: Fair Labor Standards Act: *Maryland v. Wirtz*." *Marquette Law Review* Vol. 52, Issue 4 (Winter 1969). [Link](#).

²¹ Raasch. "Constitutional Law Review: Fair Labor Standards Act: *Maryland v. Wirtz*."

they pleased. The federal government was simply requiring the states to treat the workers executing these functions the same as other employers whose activities similarly affect commerce.²²

A similar case emerged in response to the 1974 FLSA expansions aimed at regulating minimum wage and overtime pay for state and local government workers, this time claiming a violation of the states' Tenth Amendment rights. In *National League of Cities v. Usery*, the Supreme Court actually ruled on behalf of the National League of Cities, holding that Congress' expansion of the FLSA did violate the states' "freedom to structure integral operations in areas of traditional government functions."²³ But in the 1985 case of *Garcia v. San Antonio Metro. Transit Authority*, the Court overturned this limitation to the FLSA, arguing that the language used to justify the ruling was too vague in its protection of state sovereignty and thus unworkable.²⁴

Following the challenges in the *Maryland* and *Usery* cases, no major obstacles have impeded the implementation of the federal minimum wage policy. Nonetheless, Congress has failed to continue making material increases in the federal minimum wage. Though raises continued, they were fewer and less substantial than in previous decades. Without a mechanism to automatically adjust the federal minimum wage to inflation, the lack of attention to this issue in Congress has led to stagnated wages despite rising costs.²⁵ The last increase to \$7.25 an hour was finalized in 2009, and in the 16 years since, many people have strongly advocated for an increase. Thirty-four states, territories, and districts have implemented minimum wages above \$7.25 in response to federal inaction. Though the Raise the Wage Act, which envisions an

²² Raasch. "Constitutional Law Review: Fair Labor Standards Act: Maryland v. Wirtz."

²³ "National League of Cities v. Usery." Oyez. <https://www.oyez.org/cases/1974/74-878>.

²⁴ "Garcia v. San Antonio Metro. Transit Authority." Oyez. Accessed May 2, 2025. [Link](#).

²⁵ Payne-Patterson, Maye, & Zipperer. "A History of the Federal Minimum Wage."

increase to \$15 an hour, has been proposed in the House in 2019, 2021, 2023, and 2025 and even passed the House in 2019, it has failed to pass both chambers of Congress.²⁶

Analysis

At its core, the initial debate over government-mandated minimum wages concerned the scope of government and its role in economic affairs. The “freedom of contract” principle that defined the *Lochner* era was consistent with the libertarian, laissez-faire style of governance toward economic activity. The *Lochner* case established the precedent that any regulation of the affairs between employers and workers was a violation of “economic substantive due process” and therefore unconstitutional.²⁷ The “substantive due process” jurisprudence has aged poorly and is seen as having allowed the Supreme Court to use the Due Process Clause to protect unenumerated rights and effectively legislate from the bench.²⁸ The “freedom of contract” was never explicitly guaranteed in the Constitution, yet the small-government approach to economic regulation that controlled the Supreme Court effectively guaranteed it as such.²⁹ Without a firm constitutional basis, the Court kept the scope of government policing power in regards to labor regulation narrow at all levels, invalidating any legislation that went beyond guaranteeing the health and safety of workers.³⁰ Case law in the following decades would continually affirm this narrow scope and the validity of “substantive due process” jurisprudence.³¹

The Progressive Era and the Women’s Suffrage Movement played the biggest role in advocating for government involvement in determining minimum wages for workers prior to the New Deal Era. In many cases, the fight for state and federal minimum wage laws came as a

²⁶ Payne-Patterson, Maye, & Zipperer. “A History of the Federal Minimum Wage.”

²⁷ Nathan S. Chapman & Kenji Yoshino. “Interpretation: The Fourteenth Amendment - Due Process Clause.” 2015. National Constitution Center. 2015. [Link](#).

²⁸ Chapman & Yoshino. “Interpretation: The Fourteenth Amendment - Due Process Clause.”

²⁹ Chapman & Yoshino. “Interpretation: The Fourteenth Amendment - Due Process Clause.”

³⁰ “Liberty of Contract and *Lochner v. New York*.” Constitution Annotated - Library of Congress. [Link](#).

³¹ Margaret Murphy. “The Constitutionality of Minimum Wage: The Legal Battles of Elsie Parrish and Frances Perkins for a Fair Day’s Pay.” Princeton Historical Review. 2023. [Link](#).

result of persistent Suffragette advocacy and Progressive politicians.³² The early minimum wage laws of the 1910s-1920s that survived in spite of *Lochner* did so because the women they applied to were seen as weak and in need of protection. While the laws were helpful, the paternalistic intent behind them not only validated the socially-constructed dependency of women on men but characterized all minimum wage policy as for those deserving of assistance rather than for those deserving of fair compensation. Recognizing the fragility of the *Lochner* precedent, the need for sufficient worker protections, and the paternalistic intent behind existing minimum wage laws, Progressives and Suffragettes sought to correct the perceived imbalance between the defense of the rights of businesses and the defense of the rights of workers. In their view, the “freedom of contract” was inherently unequal, favoring business owners and leaving workers with little bargaining power. Taking from then-Justice Louis Brandeis, who had argued in favor of the minimum wage law in the 1917 *Stettler* case, the Progressives and Suffragettes adopted the rationale that minimum wage laws were in the legitimate interest of the state because “socially, economically, and physically, the limitation of working hours was a good thing.”³³ Their momentum continued with the ratification of the Nineteenth Amendment in 1920, but was stalled by the *Adkins* ruling in 1923. Despite this, Suffragettes and Progressives managed to reframe the conversation surrounding the minimum wage from a wage of condescension to a wage of merit.

The Great Depression required a radical change in governance. The laissez-faire economic system that caused mass unemployment, inflation, and distrust of economic institutions was under increased scrutiny. Many sought to change this by revitalizing the regulatory attitude advocated for by Progressives and Suffragettes. Chief among these advocates

³² Murphy. “The Constitutionality of Minimum Wage: The Legal Battles of Elsie Parrish and Frances Perkins for a Fair Day’s Pay.”

³³ Murphy. “The Constitutionality of Minimum Wage: The Legal Battles of Elsie Parrish and Frances Perkins for a Fair Day’s Pay.”

was President Roosevelt's Secretary of Labor, Frances Perkins. Perkins, a suffrage advocate, longtime close advisor to Roosevelt, and the first female cabinet member, was key in convincing Roosevelt that a federal minimum wage was needed to revitalize the American economy.³⁴ However, the Roosevelt administration needed to overcome the legal precedent that prohibited such expansions. Their wish was granted with the *Parrish* ruling, which was largely due to the success of the economic reforms he had passed during his first term and rumors of his future attempt to pack the Court with progressive Justices.³⁵ With the *Lochner* precedent overturned, the Roosevelt administration was able to permanently enshrine a minimum wage within the federal government's policing power and embolden states to pass similar legislation. Within a year of *Lochner's* reversal, the Fair Labor Standards Act was signed into law and marked the beginning of a new era for wage regulation. Though business leaders, such as the National Association for Manufacturers, decried a minimum wage as "a step in the direction of communism, bolshevism, fascism, and Nazism" and a direct attack on the economic flexibility of business owners, the economic boom that followed the FLSA's passage silenced their criticisms for decades.³⁶

Led by Roosevelt and Secretary Perkins, the debate over the scope of government had been settled: it was now officially within the federal government's policing power to impose a minimum wage for nearly all American workers. This expansion of federal authority was a rejection of the free market philosophy that had undergirded the federal government's approach to labor regulation since the country's inception.³⁷ This rejection was an acknowledgement of the unfavorable conditions in which workers had to sell their labor and the necessity of a corrective force to rectify this imbalance. The devastation of the Great Depression had proved that the

³⁴ Murphy. "The Constitutionality of Minimum Wage: The Legal Battles of Elsie Parrish and Frances Perkins for a Fair Day's Pay."

³⁵ "West Coast Hotel Company v. Parrish." Oyez. [Link](#).

³⁶ Peter Cole. "The Law That Changed the American Workplace." TIME. June 24, 2016. [Link](#).

³⁷ Otto Nathan. "Favorable Economic Implications of the Fair Labor Standards Act." *Law and Contemporary Problems* 6 (3): 416-421. 1939. <https://doi.org/10.2307/1189602>.

system of free competition for labor was unable to salvage itself in times of economic crisis. The free market philosophy had been amended to a philosophy inspired by economist John Maynard Keynes, which gave the federal government the responsibility of regulating and rectifying the market at the margins in order to ensure consistent growth and a reliable workforce.³⁸

With a Keynesian philosophy now guiding the federal government's involvement in the labor market, the core legal issue shifted from one of the scope of government authority to one of delineation between federal and state authority. States viewed amendments that removed state and locally-run and funded institutions from the list of exempt employers as an attack on their ability to regulate their own economic affairs. In rejecting the states' arguments that their Tenth Amendment, Eleventh Amendment, and Commerce Clause rights were violated, the Supreme Court kept with the trend of centralizing power that had captured nearly every aspect of governance. Like the economy as a whole, the impact of the commerce of state-funded hospitals, schools, and other facilities was rarely contained within state lines or negatively affected other commercial entities bound by the federal minimum wage.³⁹ Thus, the competition between these state-funded commercial entities was no different than that of other commercial entities, and their activities were subject to federal law.

With the major issues concerning the scope and delineation of governmental policing power settled, the debate surrounding the minimum wage has shifted to a discussion of its limitations on economic freedom. In response to the stagflation of the 1970s and the recessions of 1961, 1970, and 1974 (as shown in Figure Two), many were growing skeptical of the ability of the federal minimum wage to coexist with consistently high economic growth and employment. President Ronald Reagan's new-era conservative movement had the opportunity to

³⁸ Nathan. "Favorable Economic Implications of the Fair Labor Standards Act."

³⁹ Raasch. "Constitutional Law Review: Fair Labor Standards Act: Maryland v. Wirtz."

revitalize the movement against the minimum wage. It did so by focusing on the harm done to workers, not businesses, by the minimum wage and increases to it.

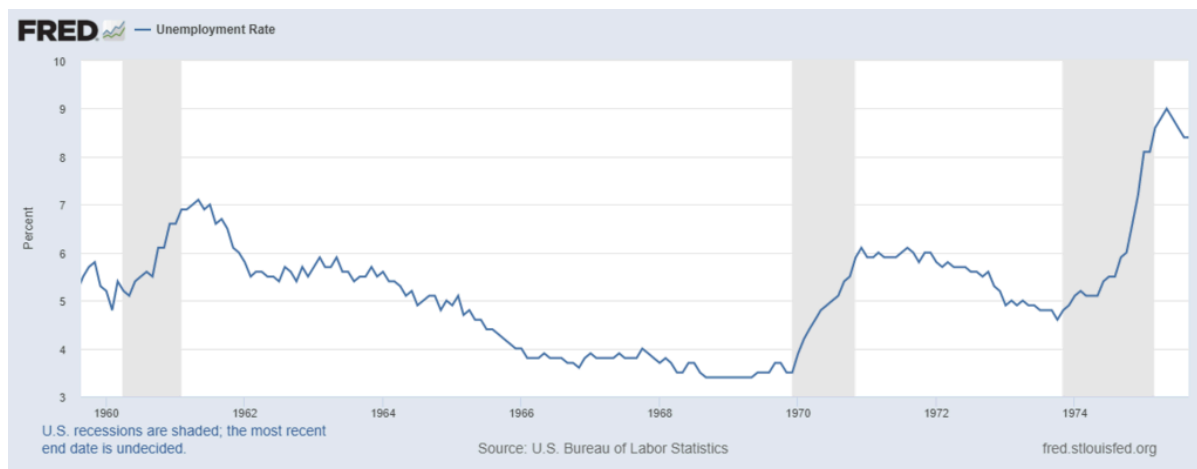


Figure Two: Unemployment Rate from September 1959 to August 1975⁴⁰

Using the insights of economists Milton Friedman, his wife Rose Friedman, and their 1980 book *Free to Choose*, conservatives argued that fewer low-skill workers are hired when employers are forced to pay them above the market rate.⁴¹ This creates significant barriers to entry for the poorest and least skilled workers and prevents them from gaining the initial experience needed to start on the path of upward mobility.⁴² At a time when low-skill workers were being put out of work in favor of cheaper production costs overseas, this new argument against the minimum wage became incredibly popular.⁴³ It made sense that the rapid increase in unemployment during the recessions of 1961, 1970, and 1974 and the stagflation of the 1970s was caused by artificially high production costs caused by an unfairly high minimum wage.⁴⁴ Republicans capitalized on this popularity, and the Friedmans’ views on the minimum wage became the dogma of Reagan’s revamped Republican Party.

⁴⁰ U.S. Bureau of Labor Statistics, Unemployment Rate [UNRATE], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/UNRATE>

⁴¹ Jennifer Graham. “From Reagan to Romney, a Brief History of Republican Thinking on the Minimum Wage.” Deseret News. February 26, 2021. [Link](#).

⁴² Graham. “From Reagan to Romney, a Brief History of Republican Thinking on the Minimum Wage.”

⁴³ Cole. “The Law That Changed the American Workplace.”

⁴⁴ Graham. “From Reagan to Romney, a Brief History of Republican Thinking on the Minimum Wage.”

Under Reagan, the federal government returned to viewing the minimum wage not as a tool for promoting economic mobility, but instead as an obstacle. The economic crises of the 1960s and 1970s convinced the public and policymakers that the minimum wage and the increase in production costs it caused were to blame for the loss of domestic manufacturing jobs and increased unemployment. As a result, the free market approach that Roosevelt had stifled was reintroduced as the dominant approach to the labor market. Though unable to repeal the FLSA, Reagan’s Republican Party had effectively demonstrated the negative effects of increasing the minimum wage on the employment of low-skill Americans. Consequently, a minimum wage increase was not approved during the eight years of his administration. Under both Republican and Democratic Presidents since Reagan, the pace and value at which the federal minimum wage has been raised have decreased dramatically. As Table One shows, minimum wage increases have become less frequent since the Reagan era, and the size of those increases has also diminished.⁴⁵

Despite the enduring legacy of the Reagan administration’s sluggish approach to federal minimum wage policy, momentum for increasing the minimum wage has resurged in the 21st century. The failure of the current federal rate to keep pace with inflation and the rising cost of living has sparked concerns about economic mobility, wage stagnation, and justice for low-income workers.

Compounding these pressures are the ongoing effects of globalization, which have continued to displace low-wage

Year Effective	Minimum Wage (nominal)	Inflation-Adjusted Value of Minimum Wage (2023\$)
1938	\$0.25	\$4.74
1939	\$0.30	\$5.69
1945	\$0.40	\$5.84
1950	\$0.75	\$8.47
1956	\$1.00	\$9.88
1961	\$1.15	\$10.19
1963	\$1.25	\$10.81
1967	\$1.40	\$11.27
1968	\$1.60	\$12.50
1974	\$2.00	\$11.30
1975	\$2.10	\$11.13
1976	\$2.30	\$11.45
1978	\$2.65	\$11.79
1979	\$2.90	\$11.94
1980	\$3.10	\$11.49
1981	\$3.35	\$11.23
1990	\$3.80	\$8.74
1991	\$4.25	\$9.38

⁴⁵ Payne-Patterson, Maye, & Zipperer. “A History of 2025. [Link](#).

jobs and erode domestic labor standards. As a result, advocates now face a renewed, though still contested, opportunity to reassert the government’s role in ensuring fair wage standards through actively and substantially increasing the federal minimum wage.

Analysis of the central legal and economic issues in the discussion of the federal minimum wage illustrates the federal government’s conflict over the level of involvement that it ought to have in the labor market. The shifts from a laissez-faire market philosophy to Keynesian interventionism and back again occurred because of shifts in political leadership but, more importantly, in response to changing economic conditions. The Great Depression, postwar growth, stagflation, and neoliberal globalization have continually reshaped the perceived costs and benefits of wage regulation and the federal government’s response to them. Ultimately, the story of the minimum wage is a legal and political poll of how the federal government conceives of its responsibility to balance market freedom with economic stability.

Policy Recommendations

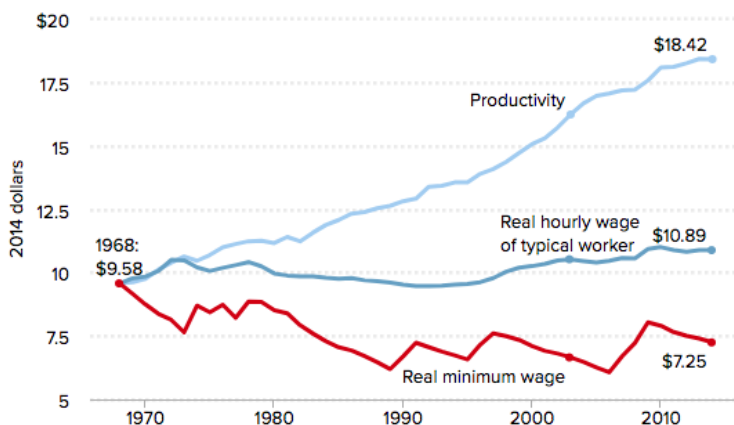


Figure Three: Real value of the federal minimum wage and real hourly wage of the typical worker compared with the value of the minimum wage had it grown at the rate of productivity, 1968–2014.⁴⁶

The minimum wage must be raised if policymakers hope to combat increasing economic inequality and decreasing social mobility. A wage of \$7.25 an hour is outdated and fails to

⁴⁶ Lawrence Mishel, Elise Gould, & Josh Bivens. “Wage Stagnation in Nine Charts.” January 6, 2015. Economic Policy Institute. <https://www.epi.org/publication/charting-wage-stagnation/>.

accurately present the minimum income needed to avoid poverty. Figure Three shows how the real value of the minimum wage has failed to keep pace with productivity and how workers are not only undervalued, but also unable to climb the socioeconomic ladder at increasingly higher rates.⁴⁷ To enhance the economic mobility of the American working class, Congress must end the longest period without a federal minimum wage increase in American history.

To address the growing concerns of low-wage American workers, policymakers must introduce an amended version of the Raise the Wage Act that was proposed to the 119th Congress in April 2025. The Raise the Wage Act has changed throughout its several iterations; the most recent proposal of the Raise the Wage Act, H.R. 2743 in the House and S. 1332 in the Senate, is not only most reflective of the wage generated by the median levels of production shown in Figure Three, but also provides the most detailed description of how wages will change. The Act will raise the minimum wage in the FLSA to \$17 an hour for non-tipped and tipped workers over the course of six and seven years, respectively.⁴⁸ The Act also raises the minimum wage for underage workers and 14(c) workers – those with disabilities – to \$16.50 and \$15.50, respectively.⁴⁹ Eventually, these subminimum wages will be phased out, and all workers covered by the FLSA will be paid \$17 an hour.⁵⁰ Once raised to the levels set forth in the Act, wages will be indexed to median wages annually to ensure that the wage of low-income Americans increases with rising costs, regardless of the salience of the matter in Congress. Table Two shows the rates at which these sets of wages will increase annually.

⁴⁷ Jimmy Narang, et al. “The Fading American Dream: Trends in Absolute Income Mobility since 1940.” 2017. CEPR. May 5, 2017. <https://cepr.org/voxeu/columns/fading-american-dream-trends-absolute-income-mobility-1940>.

⁴⁸ Congress.gov. "Text - H.R.2743 - 119th Congress (2025-2026): Raise the Wage Act of 2025." Sec. 2 (a) & Sec 3 (a). April 8, 2025. <https://www.congress.gov/bill/119th-congress/house-bill/2743/text>.

⁴⁹ Congress.gov. "Text - H.R.2743 - 119th Congress (2025-2026): Raise the Wage Act of 2025." Sec. 4 (a). April 8, 2025. <https://www.congress.gov/bill/119th-congress/house-bill/2743/text>.

⁵⁰ Congress.gov. "Text - H.R.2743 - 119th Congress (2025-2026): Raise the Wage Act of 2025." Sec. 6 (a). April 8, 2025. <https://www.congress.gov/bill/119th-congress/house-bill/2743/text>.

Scheduled Minimum Wages Increases Under the Raise the Wage Act of 2025				
Year	Minimum Wage	Tipped Wage	Youth Wage	14(c) Wage
Current	\$7.25	\$2.13	\$4.25	Subminimum Wages
2025	\$9.50	\$6.00	\$6.00	\$5.00
2026	\$11.00	\$8.00	\$7.75	\$7.50
2027	\$12.50	\$10.00	\$9.50	\$10.00
2028	\$14.00	\$12.00	\$11.25	\$12.50
2029	\$15.50	\$13.50	\$13.00	\$15.50
2030	\$17.00	\$15.00	\$14.75	Standard Minimum Wage & Index Moving Forward
2031	Index to Median Wages	\$17.00	\$16.50	
2032		Standard Minimum Wage & Index Moving Forward	Standard Minimum Wage & Index Moving Forward	
2033		Standard Minimum Wage & Index Moving Forward	Standard Minimum Wage & Index Moving Forward	

Table Two: Scheduled minimum wage increases under the Raise the Wage Act of 2025⁵¹

According to analysis from the Economic Policy Institute, this act would increase the wages of over 22 million workers (15% of the American workforce), add \$70 billion in wages annually, and increase the average worker’s income by \$3,200.⁵² 10.3 million minimum workers would be directly affected by this increase while nearly 12 million low but not minimum wage workers would see their wages rise as a result of the “ripple effect” of the wage floor being elevated.⁵³ Among those most benefiting from this increase would be workers earning less than \$25,000 (20.5% of total group positively affected), those earning between \$25,000 and \$50,000 (21.6%), and those with a high school degree or less than a high school education (35.2% and 17.2% respectively).⁵⁴ The sectors with the most positively affected workforce are the retail trade sector (17.2%), the restaurant sector (19.5%), and the healthcare and social assistance sector (12.2%)⁵⁵

Group	Total workforce	Directly affected	Share directly affected	Indirectly affected	Share indirectly affected	Total affected	Share of group who are affected	Group's share of total affected
-------	-----------------	-------------------	-------------------------	---------------------	---------------------------	----------------	---------------------------------	---------------------------------

⁵¹ “Raise the Wage Act Fact Sheet.” Democrats of the Committee on Education & the Workforce. [Link](#).

⁵² Zipperer, “The Impact of the Raise the Wage Act of 2025.” Economic Policy Institute. April 8, 2025. [Link](#).

⁵³ Ben Harris and Melissa S. Kearney. “The ‘Ripple Effect’ of a Minimum Wage Increase on American Workers.”

⁵⁴ Zipperer, “The Impact of the Raise the Wage Act of 2025.”

⁵⁵ Zipperer, “The Impact of the Raise the Wage Act of 2025.”

Family income-to-poverty ratio								
In Poverty	8,220,000	2,764,000	33.6%	1,470,000	17.9%	4,235,000	51.5%	19.0%
100 – 199% poverty	16,355,000	2,482,000	15.2%	3,123,000	19.1%	5,604,000	34.3%	25.2%
200-399% poverty	44,863,000	3,070,000	6.8%	4,274,000	9.5%	7,344,000	16.4%	33.0%
400%+ poverty	79,755,000	2,023,000	2.5%	3,041,000	3.8%	5,064,000	6.4%	22.8%

Table Three: Family income-to-poverty ratio of United States workers who would benefit if the federal minimum wage was raised to \$17 by 2030⁵⁶

Most importantly, however, is the Act’s impact on economic mobility for low-income workers. As Table Three shows, the Act most benefits workers earning just above the poverty line, but it least benefits workers currently below the poverty line. Such a substantial change to federal minimum wage policy must not result in the lowest-earning workers seeing the least direct benefits. To help generate a direct benefit for the lowest earners, the Work Opportunity Tax Credit (WOTC) will be expanded to cover more workers. The WOTC, available to employers of all sizes, credits employers who employ individuals from certain “targeted groups” that face significant barriers to employment.⁵⁷ The process of the WOTC itself will not change, but a new targeted group – citizens earning under the poverty line as of their last tax filing – will be created to direct the positive benefits of the increased federal minimum wage towards Americans working to lift themselves out of poverty.

A major issue with the current iteration of the Raise the Wage Act is its minimal impact on sectors that employ huge numbers of poor and working-class Americans. Construction, manufacturing, and educational services employ a combined 39.8 million Americans yet an average of 6.6% of the workers across these three sectors will see a positive impact from this new federal minimum wage. To increase the number of workers in these industries benefiting from the increased federal minimum wage, employers within these industries will be allowed to file for the WOTC under an expanded definition of the new targeted group. Instead of only

⁵⁶ Zipperer, “The Impact of the Raise the Wage Act of 2025.”

⁵⁷ “Work Opportunity Tax Credit” The Internal Revenue Service. Last Reviewed November 11, 2024. [Link](#).

including workers living under the poverty line, employers with North American Industry Classification System (NAICS) numbers beginning with 23 (construction), 31-33 (manufacturing), and 61 (educational services) will be able to include workers making up to 300% of the minimum wage. This will drastically expand their ability to pay low-wage workers by allowing them to receive a greater tax credit in exchange for increased wages.⁵⁸

Finally, a new Wage Assistance Tax Credit (WATC) should be created to assist small businesses most negatively impacted by the increase in labor costs. Small businesses – as defined by the Small Business Administration in Title 13, Part 121 of the Code of Federal Regulations – will be given the opportunity to apply for the WATC in order to refrain from firing workers because of an increasing federal minimum wage.⁵⁹ This tax credit will reimburse small businesses with half of the additional labor costs that arise as a result of the increased minimum wage. The WATC will last through 2031 and will not apply for the minimum wage increases due to annual indexing relative to median wages. Preference will be given to employers in states whose minimum wage as of 2025 is at the federal rate or up to two dollars above it. Only employers who employ workers full-time can qualify for the new WATC. Protecting the small businesses that drive the American economy is just as essential as protecting American workers. By utilizing these two tax credits, the federal government can work to reduce inequalities in the distribution of wages for both employers and workers without having to appropriate funds from the federal budget.

It is hard to ignore the increasingly visible reality that those at or near a minimum wage income are struggling to sustain a decent quality of life. In recent decades, wealth inequality has increased and economic mobility has decreased at alarming rates, giving rise to a growing

⁵⁸ “Industries at a Glance: NAICS Code Index.” Bureau of Labor Statistics. October 5, 2022. [Link](#).

⁵⁹ 13 CFR Part 121. <https://www.ecfr.gov/current/title-13/chapter-I/part-121>

movement dedicated to economic justice for low and working-class Americans.⁶⁰ At the same time, policymakers cannot force businesses to adopt a policy that will impede growth, especially if small businesses are those most obstructed by the increase in labor costs. This combination of the Raise the Wage Act, an expanded WOTC, and the new WATC will “nudge” businesses to accept these changes in wage regulation so that market freedom, as much as is currently allowed, is maintained while enhancements to workers’ wages are enacted.⁶¹ By softening the impact of the increase for America’s most vulnerable businesses, these policies will feel like a smaller shift in behavior rather than a forceful suppression of economic freedom. If a substantive increase in the federal minimum wage is not agreed to in the coming years, policymakers can expect trends of inequality to continue, for workers to be left behind, and economic justice advocates to become increasingly disillusioned with the federal government’s ability to aid its citizens.

⁶⁰ Mishel, Gould, & Bivens. “Wage Stagnation in Nine Charts.”

⁶¹ Richard H. Thaler, Cass R. Sunstein. “The Cafeteria.” *Nudge, Improving Decisions about Health, Wealth, and Happiness*. Revised & Expanded Edition. Penguin Random House Publishing. 2009.