

# A Regional Minimum Wage (2021 Update)



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## Takeaways

America's minimum wage is too low. For years, policymakers have evaluated different ways to raise the wage floor and, as part of that debate, Third Way released a regional minimum wage proposal in 2016, and then an updated version in 2019. Since then, there has been interest in revised estimates based on updated data. This memo includes updated data from our 2019 proposal containing five wage tiers, as well as new data from a simplified three-tiered regional minimum wage model.

In 2009, Barack Obama was inaugurated as the country's 44<sup>th</sup> president. If that feels like a lifetime ago, it's also the last time the federal minimum wage increased to a paltry \$7.25 per hour through

legislation signed by President George W. Bush in 2007. It's been 14 years since a minimum wage increase has reached the President's desk. Since then, many states and localities have opted to increase their minimum wages, but 21 states still abide by a woefully insufficient wage floor established over a decade ago. <sup>1</sup>

It's long been time to raise the federal minimum wage, and there are many ways to do so. Most famously, the Raise the Wage Act would increase the federal minimum wage to \$15 per hour by 2025, but it is a non-starter in the Senate where it received just 42 votes in March 2021. Years ago, Third Way proposed a different approach to raise the minimum wage: a regional minimum wage, accounting for local cost-of-living differences and ensuring that all workers are paid a fair wage in their local economy. As we noted, America may be one country, but with hundreds of different micro-economies. As many economists and editorials have since written, it makes sense to enact a different type of wage floor that reflects these differences and protects workers in states where wage increases have been impossible.

## **How a Regional Minimum Wage Works**

Different metro regions in different states have different costs of living. For example, renting an apartment, buying a hamburger, going to a movie, or getting a haircut cost far more in New York City than in Jonesboro, Arkansas. A regional minimum wage takes those measurable regional differences into account, creating different minimum wages depending on the cost of living in an area. Our original idea broke the country into five wage tiers, and our updated proposal simplifies that to three tiers.

A three-tiered regionally based minimum wage is modeled after Oregon's state minimum wage regime. In 2016, Oregon's state legislature established standard, nonurban, and metro county specific minimum wages including explicit annual increases, eventually phasing into yearly inflation adjustments in 2022. <sup>2</sup> By mid-2021, high-cost Portland will have a \$14 minimum wage, low-cost rural areas a \$12 minimum wage, and the medium-cost rest of the state will be at \$12.75.

Our national regional minimum wage proposal is similar:

- Each area in the country has a localized cost of living, called Regional Price Parities (RPPs), measured at the Metropolitan Statistical Area (MSA) level. These are calculated by the Bureau of Economic Analysis.
- Under the Third Way formula, MSAs are organized into tiers with the middle tier earning a base wage calculated at half of the average hourly earnings for nonfarm, nonsupervisory workers. This would be \$12.60 in 2021.
- Tiers below and above this base tier would earn 15% more or 15% less than the base wage.
- Wage floors would increase each year through annual inflation adjustments.

- States and localities could still set a higher minimum wage that would supersede the federal floor.

In 2019, our proposal included five tiers and a base wage of \$11.55. Our new proposal consolidates five tiers into three, depicted below.

## Regional Minimum Wage - 2025 Phase In

Tier	RPP Range	Number of MSAs	Share of MSAs	Share of Population	Base Wage Rate	Regional Minimum Wage
1	94.9 or lower	251	65%	34%	85%	\$11.60
2	95-104.9	96	25%	36%	100%	\$13.65
3	105 or higher	37	10%	30%	115%	\$15.70

**Source:** Third Way Calculations based on the Bureau of Economic Analysis' Regional Price Parties by Metropolitan Statistical Area in 2019, the Census Bureau's Metropolitan Statistical Area population in 2019, and the Bureau of Labor Statistics' average hourly earnings for total private, nonfarm workers in March 2021.



The new numbers show that the highest cost of living areas, capped off by the San Francisco-Oakland-Berkeley MSA, will move to a \$15.70 minimum wage in 2025 on a progressive phase-in schedule, with annual adjustments for inflation after 2025. Lower cost areas in tier 1, which have 27% lower cost of living on average than areas in tier 3, would move to a \$11.60/hour wage by 2025. Under this model, and assuming annual 2% inflation, the minimum wage will reach \$15 per hour in 2023 for tier 3, 2030 in tier 2, and 2038 in tier 3.

Our proposal advocates for workers in states left behind by the blue wave of state and local minimum wage increases of the past few years. States and localities can choose to raise their minimum wages above the floor set by this proposal, but workers in high-cost areas in states hostile towards wage increases will not be forgotten.

It's important to note several of the highest cost regions in the country exist in states with sorely outdated minimum wages and Republican controlled state legislatures or governorships, preventing workers in these states from getting the raise they deserve. Workers in the Manchester-Nashua MSA in New Hampshire still earn the \$7.25 per hour minimum wage set over a decade ago, despite living in the top 6% of MSAs in the country by cost of living. Under our plan, these workers would receive a badly needed wage adjustment, better aligning income and cost of living in that area.

Additionally, over seventeen million residents reside within five MSAs in Texas that fall within our second wage tier based on cost of living. Minimum wage workers in Midland, Odessa, Dallas, Houston, and Austin still earn \$7.25 per hour. Texas is also firmly under the control of a Republican trifecta at the state level, kneecapping attempts to raise the wage legislatively. The regional minimum wage proposal delivers a sorely deserved raise for workers, who are overwhelmingly Hispanic, in these high-cost areas in Texas.

There are many strengths to a regional minimum wage. If states and localities decide to increase their minimum wage via the legislative process, they can do so. The advantage to a regional minimum wage regime is that it prevents high-cost areas controlled by conservative legislatures from being left behind. Of the thirty-seven MSAs in the highest wage tier, fourteen reside in California. California, along with over a dozen of its localities, voted to raise its minimum wage on an annual basis in 2016.<sup>3</sup> Because of this, the regional minimum wage outlined above might not bind, a natural result of good state and local governance.

## Conclusion

We live in a country with twenty-nine different minimum wages and wide variation in local cost of living. We need a wage floor that incorporates regional differences and defends fair wages for workers in states across the political spectrum. Our plan creates appropriate wages and annually adjusts for inflation, preventing another decade of inaction harming low-wage workers across the country. It would also minimize reductions in employment and economic distortions in low-cost areas.

### TOPICS

**21ST CENTURY JOBS** 45

## ENDNOTES

1. “Minimum Wage Tracker.” *Economic Policy Institute*. [https://www.epi.org/minimum-wage-tracker/#/min\\_wage/Pennsylvania](https://www.epi.org/minimum-wage-tracker/#/min_wage/Pennsylvania). Accessed 22 Apr. 2021.
2. “New Oregon Minimum Wage Rate Summary.” *Oregon State University*. <https://hr.oregonstate.edu/employees/administrators-supervisors/classification-compensation/new-oregon-minimum-wage-rate>. Accessed 22 Apr. 2021.
3. Miller-O’Brien, Crystal et al. “California’s 2021 Minimum Wage Increase to Impact Exempt and Nonexempt Employees.” *Davis Wright Tremaine LLP*, Dec. 16, 2020. <https://www.dwt.com/blogs/employment-labor-and-benefits/2020/12/2021-california-state-local-minimum-wage>. Accessed 22 Apr. 2021.