Economic Policy Institute

February 16th, 2017

The Honorable Virginia Foxx
Chairwoman
House Committee on Education and the Workforce

The Honorable Robert "Bobby" C. Scott
Ranking Member
House Committee on Education and the Workforce

The Honorable Bradley Byrne
Chairman
House Committee on Education and the Workforce, Subcommittee on Workforce Protections

The Honorable Mark Takano
Ranking Member
House Committee on Education and the Workforce, Subcommittee on Workforce Protections

Dear Representatives Foxx, Scott, Byrne, and Takano:

The Economic Policy Institute is pleased to submit this letter in regards to the February 16, 2017, Subcommittee on Workforce Protections hearing, "Federal Wage and Hour Policies in the Twenty-First Century Economy." The Economic Policy Institute, a nonprofit, nonpartisan organization, is this country's premier think tank that focuses on the economic condition of low- and middle-income workers and their families. We are deeply interested in any changes to wage and hour policies that protect workers. The components that must be a core part of any reform related to the minimum wage and to overtime protections are described below.

The Minimum Wage

The current federal minimum wage, $7.25, is roughly 25 percent below its historic value in real terms. A full-time worker with one child who earns the federal minimum wage is earning below the federal poverty line. There is an enormous amount of rigorous research on the economic impacts of minimum wage increases, and what the weight of that literature shows is that minimum wage increases have raised wages but have caused little to no negative effect on the employment of low-wage workers. The vast majority of those who would benefit from an increase in the minimum wage are adults in working families, they are disproportionately women, and their households depend on these earnings to make ends meet.

Any reform related to the minimum wage must do the following things:

1. Establish a wage floor that ensures a decent standard of living for all workers. The Raise the Wage Act of 2015 provides a blueprint for what a decent wage floor could be, along with reasonable steps to get there.
2. An increase of the minimum wage must be accompanied by gradual phasing out of a lower subminimum wage for tipped workers. Tipped workers experience dramatically

higher poverty rates in states where they can be paid a separate, lower minimum wage, and this practice must end.

3. To prevent future erosion of the minimum wage and to provide predictability for employers, the minimum wage should be indexed to growth in overall wages on an annual basis.

Overtime Protections

To help ensure the basic, family-friendly right to a limited workweek, the Fair Labor Standards Act (FLSA) requires that most workers—including both hourly and salaried workers—be paid at least 1.5 times their regular rate of pay when they work more than 40 hours a week. One narrow exception to this is for bona-fide executive, managerial, and professional workers. However, the way that exception is defined has become woefully out of date, and in May of 2016, the Department of Labor issued a rule to provide a much needed update. The rule is currently under a nationwide injunction, but that injunction will hopefully be short-lived, since the rule delivers better work-life balance and fairer pay to millions of workers.

The new rule updated the salary threshold below which most salaried workers are entitled to overtime pay if they work more than 40 hours a week. Before this rulemaking, the threshold had been updated only once since 1975, and had thus eroded dramatically—providing overtime protections to less than 10 percent of full-time salaried workers, compared with more than 60 percent in 1975. The current threshold of $455 per week ($23,660 annually for a full year) is well under the poverty threshold for a family of four.

The update includes two crucial components:

1. It increases the salary threshold from $455 per week ($23,660 annually) to $913 per week ($47,476 annually). This updated threshold is well within historical norms; if the 1975 threshold had simply kept up with inflation, it would now be around $57,000 annually.
2. It automatically updates the salary threshold every three years based on weekly wage growth of full-time salaried workers. Thus, as salaries rise over time, the threshold would rise with it, ensuring that the standard laid out in the new rule is preserved, instead of steadily weakening over time. This is good for workers and provides crucial predictability to employers.

These updates to the overtime rule mean that millions of workers, disproportionately women, would likely be asked to work fewer overtime hours, and would get the overtime pay they deserve when they do work more than 40 hours a week. This is good for families; close to 2.5 million children would see at least one parent gain overtime protections. And an increase in the threshold would be a job creator, with Goldman Sachs estimating that it would add around 100,000 jobs to the economy.

Since 1975, the top 5 percent of all households have seen their incomes grow by more than 90 percent, whereas the median (or "typical") household has seen its income grow by less than 20 percent. That means that the last quarter of the 20th century and the first 17 years of the 21st century have been marked by rising inequality. Reform for the 21st century should focus on reversing that rising inequality and building a fairer economy. Providing a strong minimum wage and overtime salary threshold, and then indexing them going forward so they don’t erode over time as prices and wages rise, are common sense steps towards creating an economy that works for everyone and should be at the center of any effort to “update” wage and hour policy for the 21st century.

Sincerely,

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