

Issue: VA Economy

Minimum Wage in Virginia

The minimum wage in Virginia is finally going up, thanks to the 2019 elections, when Democrats attained the majority in the Virginia legislature. In 2020, the General Assembly enacted legislation to raise the minimum wage over time to \$15 per hour, and also eliminated many minimum wage exemptions. Effective May 1, 2021, Virginia's minimum wage rose from \$7.25 to \$9.50 an hour. It will rise to \$15 an hour by 2026. Virginia has now joined the 29 other states and Washington, D.C. that have a minimum wage above the \$7.25 federal minimum and will be one of the very few states (9 only) (and D.C.) that now have or will have a \$15 minimum wage.^{1, 2} However, maintaining Democratic control of the legislature is essential to protect and expand this long-overdue minimum wage increase for Virginia's lowest-paid and most vulnerable workers.

Democrats Finally Succeed in Raising the Minimum Wage

Virginia Democrats fought for years to increase the minimum wage for Virginia workers, which had been set at \$7.25/hour since 2009 when the federal rate was last increased. Republicans in the Virginia House of Delegates and Senate repeatedly blocked Democratic-sponsored legislation to achieve this milestone.³ The \$7.25 per hour minimum wage put many full-time workers—especially those with children—well below a living wage and even below the federal poverty wage.⁴

In 2020, Virginia Democrats finally prevailed in increasing the minimum wage. Voting along party lines, the Virginia legislature passed HB 395, which was signed by Governor Northam. The minimum wage increase will be gradual. It started with a jump to \$9.50 per hour on May 1, 2021, with additional increases scheduled for January 1, 2022 (\$11), January 1, 2023 (\$12), and January 1, 2025 (\$13.50), until it reaches \$15 on January 1, 2026. After 2026, the Virginia minimum wage will be adjusted annually to reflect increases in the Consumer Price Index (CPI). However, the increases for 2025 and 2026 are not guaranteed—they must be reenacted by the legislature by July 1, 2024. If these latter increases are not reenacted, then the CPI will be used for increases starting January 1, 2025.⁵

HB 395 also mandates that the minimum wage be paid to several categories of employees who were previously exempt from the \$7.25 per hour minimum: persons whose earning capacity is impaired by physical deficiency, mental illness, or intellectual disability; persons in domestic service; those working for employers with fewer than four employees; and persons normally paid based on the amount of work done.⁶ Those workers now must be paid at least the new Virginia minimum hourly wage.

Exclusions from the new minimum wage include workers under 16, workers at summer camps, foreign au pairs, caddies, and cab drivers. Farm workers and tipped employees, who under certain conditions are exempt from the federal minimum wage, are not covered by the new Virginia law.^{7, 8} But continued Democratic control of the Virginia legislature will give some of these employees a chance to be covered by the new minimum wage levels in the future.

Republican Refusal to Raise the Minimum Wage Leaves Many Virginians Mired in Poverty

When Republicans were in control of Virginia’s legislature, they spent years blocking Democrats’ attempts to raise Virginia’s minimum wage, ignoring the erosion of buying power and declining quality of life that Virginia’s lowest-paid employees have endured.

Although prior to the pandemic the Virginia economy was booming, many Virginians were still struggling.⁹ Data from the U.S. Census Bureau shows that 10.7 % of Virginians live in poverty.¹⁰ More than 20% of essential workers in Virginia have income levels that are at or near the poverty level.¹¹

Because of very low wages, many workers rely on public assistance for basic needs such as food. In 2019, eight percent of Virginians received benefits from SNAP (Supplemental Nutrition Assistance Program), formerly referred to as food stamps. Of those recipients, 39% were in a family where someone worked.¹² When their paychecks fail to cover basic living expenses, workers often use public assistance.¹³ In essence, Virginia taxpayers have been subsidizing businesses that do not pay their employees a living wage.

This poverty is not surprising in light of the decline in the value of the federal minimum wage. The wages of the vast majority of workers in the U.S. have declined in terms of purchasing power since the 1970s, when measured in constant 2018 dollars. From 2009—the last time the federal minimum wage was raised—to 2018, an increased cost of living eroded the value of the minimum wage by almost 15%.¹⁴ Yet despite that decline, worker productivity has steadily increased over time. As shown

in Figure 1, the minimum wage would be more than \$21 per hour had it kept pace with the increase in worker productivity.¹⁵

The economy can afford a much higher national minimum wage

Real and nominal values of the federal minimum wage, and its real value if it had risen with total economy productivity, 1938–2020, and projected values under the Raise the Wage Act of 2021, 2021–2025

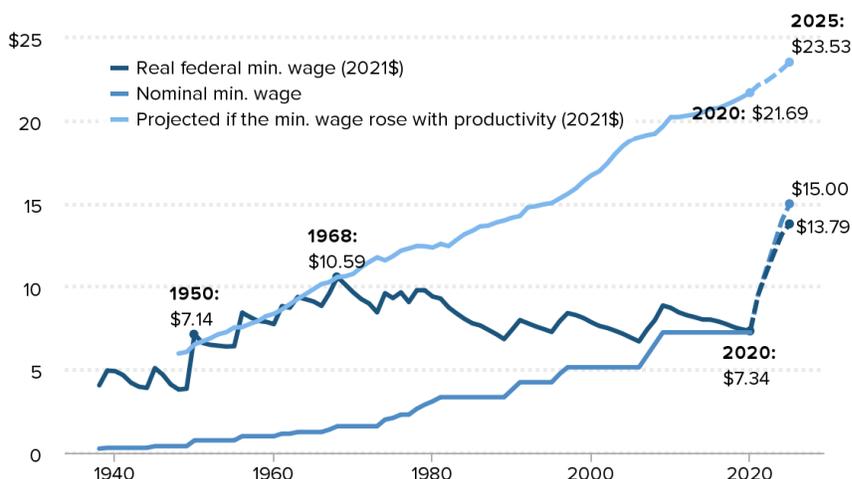


Figure 1: The Minimum Wage has not Kept up with Worker Productivity¹

Notes: Inflation measured using the CPI-U-RS. Productivity is measured as total economy productivity net depreciation.

Sources: EPI analysis of the Fair Labor Standards Act and amendments and the Raise the Wage Act of 2021. Total economy productivity data from the Bureau of Labor Statistics Labor Productivity and Costs program. Average hourly wages of production nonsupervisory workers from the Bureau of Labor Statistics Current Employment Statistics.

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While workers' purchasing power has decreased nearly 30% since 1968 and productivity has increased, the gap between average worker pay and executive pay has exploded. As of 2019, CEOs earned about 320 times the pay of the average worker. In comparison, in the mid-1960s, CEOs earned about 20 times the pay of the average worker.¹⁶

In addition to lifting people out of poverty, a higher minimum wage reduces racial and gender disparities in wages. Many of the workers who benefit the most are members of minority groups who are more likely to work in low wage jobs, thanks to a legacy of embedded racism.^{17, 18} Women—who disproportionately work at minimum wage jobs—also benefit from an increase in the minimum wage, as they still earn only 82 cents for every dollar an average man earns.^{19, 20} A higher minimum wage also boosts the local economy as workers spend locally for basic needs.²¹

Republican Arguments Against Raising the Minimum Wage Do Not Withstand Scrutiny

Higher Minimum Wages do not Kill Jobs or Reduce Job Growth

Conservative legislators have argued that an increase in the minimum wage will reduce employment, as businesses will cut back on staffing because of increased labor costs. Such claims have been debunked by many studies, including research done by the White House Council of Economic Advisors,²² the National Employment Law Project (NELP),²³ the Institute for Research on Labor and Employment,^{24, 25} and the Center for Economic and Policy Research.²⁶

One NELP report discusses the flaws in the work of economists who claim that raising the minimum wage stifles employment.²⁷ Methodology flaws include extrapolating trends in foreign labor markets to the U.S. and failing to account for regional economic differences when comparing states with different minimum wages.²⁸

More sophisticated studies use methods that control for factors unrelated to the minimum wage. A robust approach for studying the minimum wage is to examine adjacent counties with different minimum wages.²⁹ These types of comparisons have found that employment is essentially the same despite the difference in the minimum wage.³⁰ For example, one 2019 study compared the effects in counties along the New York/Pennsylvania border: the county in New York raised its minimum wage in 2013, while the Pennsylvania county did not. The study examined workers in two low wage industries: retail and leisure/hospitality and concluded that there was no discernible effect on New York employment levels.³¹

Businesses, Including Small Businesses, Can Absorb Higher Labor Costs

Another argument Republicans make against raising the minimum wage is that businesses will have to pass on their higher labor costs to consumers to avoid reducing headcount or going out of business. However, such arguments ignore the positive effects on local economies and on workers that help businesses offset increases in worker pay.³²

When low wage workers receive a pay increase, they are more likely than higher wage earners to spend it. Local economies benefit from this local consumer spending.³³ According to findings by the Economic Policy Institute (EPI) in 2019, raising the minimum wage to \$15 per hour by 2024 would give 29.4% of Virginia workers a raise.³⁴

Small businesses that pay a living wage also benefit from a more productive workforce.³⁵ Employees who make a living wage experience less economic anxiety, allowing them to focus more on their jobs. These workers are less likely to be late, miss a shift, have other disciplinary problems, and they require less employer monitoring.^{36, 37} Increases in the minimum wage have been linked to better mental health and lower suicide rates in low-wage workers.^{38, 39} The increases in worker health, productivity, and performance in turn result in business improvement. For example, a study of nursing home staff showed a significant increase in the quality of resident care following a minimum wage increase.⁴⁰

Businesses paying a living wage also benefit from lower staff turnover.^{41, 42} It is expensive for businesses to replace workers; costs include recruiting, interviewing, and training. Some estimates show that it costs about 16% of a worker's annual salary to replace them.⁴³

The Work is not Yet Done: Looking to the Future

Additional Workers need to be Protected by the Minimum Wage

Many Virginia workers will now have a living wage instead of a poverty wage. However, work remains to be done as farm workers and tipped workers are not covered by the new law.

Even though in 2021 the House of Delegates passed HB 1786, which would have eliminated the exemption of “any farm laborer or farm employee” or “temporary foreign worker” from the Virginia minimum wage, the bill failed in a Senate committee. Jeion Ward (HD-92, Hampton), the bill's chief sponsor, pointed out that one out of every five farmworkers in Virginia makes less than the minimum wage. When the federal Fair Labor Standards Act was passed in 1938, farmworkers were excluded from minimum wage provisions. This exemption was a result of discrimination—most farmworkers were black—and has carried over into Virginia law.^{44, 45}

The new Virginia law also does not cover tipped employees.⁴⁶ In Virginia, tipped employees are still subject to the federal minimum cash wage, which is \$2.13 per hour. Technically, employers must make up the difference if a tipped employee does not receive enough money in tips to make the regular minimum wage.⁴⁷ However, tipped employees must ask their employers for the difference, making the obligation difficult to enforce.⁴⁸

According to the Economic Policy Institute, “research indicates that having a separate, lower minimum wage for tipped workers perpetuates racial and gender inequities, and results in worse economic outcomes for tipped workers. Forcing service workers to rely on tips for their wages creates tremendous instability in income, making it more difficult to budget or absorb financial shocks.”⁴⁹ Tipped workers are generally low wage workers and experience poverty at higher rates than non-tipped workers.⁵⁰ Black tipped worker are often tipped less than white workers for the same quality of service.⁵¹

Democrats Will Safeguard Future Annual Minimum Wage Increases

The final increases in the minimum wage to \$15 per hour will not occur unless the Virginia General Assembly reenacts the increases scheduled for 2025 and 2026. If not reenacted, then the minimum wage will be modified to reflect increases in the Consumer Price Index beginning January 1, 2025 but starting from a lower rate.

If Republicans regain the majority in either the Senate or the House of Delegates, Virginia workers likely will not see an increase in the minimum wage once it reaches \$12 other than pursuant to the CPI. In that case, the increase to \$15 per hour might not come for years.

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- ² <https://www.ncsl.org/research/labor-and-employment/state-minimum-wage-chart.aspx>
- ³ https://richmond.com/news/local/government-politics/va-senate-republicans-take-up-15-minimum-wage-and-kill-it-seeking-to-send-message/article_12ef9ec9-349a-5050-8188-c9ccb2299ede.html
- ⁴ <https://livingwage.mit.edu/states/51>
- ⁵ <https://lis.virginia.gov/cgi-bin/legp604.exe?201+sum+HB395#:~:text=HB%20395%20Minimum%20wage%3B%20increases,hour%20effective%20May%201%2C%202021.>
- ⁶ <https://lis.virginia.gov/cgi-bin/legp604.exe?201+sum+HB395>
- ⁷ <https://www.dol.gov/sites/dolgov/files/WHD/legacy/files/whdfs12.pdf>
- ⁸ <https://justfacts.votesmart.org/bill/27945/72299/176355/kelly-convirs-fowler-did-not-vote-hb-395-increases-the-minimum-wage>
- ⁹ [https://therepublicanstandard.com/virginia-economy-booming-adding-over-75000-jobs-in-12-months/;](https://therepublicanstandard.com/virginia-economy-booming-adding-over-75000-jobs-in-12-months/)
<https://www08.wellsfargomedia.com/assets/pdf/commercial/insights/economics/regional-reports/va-economic-outlook-20200310.pdf>
- ¹⁰ <https://www.indexmundi.com/facts/united-states/quick-facts/virginia>
- ¹¹ <http://epi.org/blog/now-is-still-a-good-time-to-raise-the-minimum-wage/>
- ¹² <https://www.cbpp.org/research/food-assistance/a-closer-look-at-who-benefits-from-snap-state-by-state-fact-sheets#Virginia>
- ¹³ <https://www.nytimes.com/2015/04/13/business/economy/working-but-needing-public-assistance-anyway.html>
- ¹⁴ David Cooper, “Raising the federal minimum wage to \$15 by 2024 would lift pay for nearly 40 million workers” (Washington: Economic Policy Institute, 2019) available at <https://www.epi.org/publication/raising-the-federal-minimum-wage-to-15-by-2024-would-lift-pay-for-nearly-40-million-workers/>
- ¹⁵ <https://www.epi.org/publication/epi-testimony-on-increasing-the-minimum-wage-to-15-per-hour/>
- ¹⁶ <https://www.epi.org/publication/ceo-compensation-surged-14-in-2019-to-21-3-million-ceos-now-earn-320-times-as-much-as-a-typical-worker/>
- ¹⁷ <https://equitablegrowth.org/why-minimum-wages-are-a-critical-tool-for-achieving-racial-justice-in-the-u-s-labor-market/>
- ¹⁸ <https://irle.berkeley.edu/racial-inequality-and-minimum-wages-in-frictional-labor-markets/>
- ¹⁹ <https://nwlc.org/wp-content/uploads/2017/08/Low-Wage-Jobs-are-Womens-Jobs.pdf>
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- ²¹ <https://www.americanprogress.org/issues/economy/reports/2021/02/25/496355/small-businesses-get-boost-15-minimum-wage/#:~:text=Increased%20demand%20is%20good%20for%20local%20economies&text=The%20Economic%20Policy%20Institute%20found,likely%20go%20toward%20daily%20necessities>
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- ²³ <https://www.nelp.org/wp-content/uploads/NELP-Data-Brief-Raise-Wages-Kill-Jobs-No-Correlation.pdf>
- ²⁴ <https://irle.berkeley.edu/minimum-wage-effects-across-state-borders-estimates-using-contiguous-counties/>
- ²⁵ <https://irle.berkeley.edu/files/2011/Do-Minimum-Wages-Really-Reduce-Teen-Employment.pdf>
- ²⁶ <https://cepr.net/documents/publications/min-wage-2013-02.pdf>
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- ²⁸ <https://s27147.pcdn.co/wp-content/uploads/Minimum-Wage-Basics-Business-Effects.pdf>
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³³ <https://www.americanprogress.org/issues/economy/reports/2021/02/25/496355/small-businesses-get-boost-15-minimum-wage/>

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³⁷ Peterson Institute for International Economics, “Raising Lower-Level Wages: When and Why It Makes Economic Sense” (Washington: 2015), available at <https://piie.com/publications/briefings/piieb-15-2.pdf>

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⁴¹ <https://s27147.pcdn.co/wp-content/uploads/Minimum-Wage-Basics-Business-Effects.pdf>

⁴² <http://blogs.wsj.com/atwork/2015/02/19/one-reason-wal-mart-is-raising-pay-turnover/>

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⁴⁴ <https://apnews.com/article/race-and-ethnicity-minimum-wage-virginia-bills-laws-a470b54a0fd6fb2c130d17c02d708079>

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⁴⁶ <https://justfacts.votesmart.org/bill/27945/72299/176355/kelly-convirs-fowler-did-not-vote-hb-395-increases-the-minimum-wage>

⁴⁷ <https://www.legalconsumer.com/wageandhourlaw/topic.php?TopicID=5&ST=VA>

⁴⁸ Sylvia Allegretto and David Cooper, “Twenty-Three Years and Still Waiting for Change: Why It’s Time to Give Tipped Workers the Regular Minimum Wage” (Washington: Economic Policy Institute, 2014), available at <https://www.epi.org/publication/waiting-for-change-tipped-minimum-wage/>

⁴⁹ <https://www.epi.org/blog/seven-facts-about-tipped-workers-and-the-tipped-minimum-wage/>

⁵⁰ <https://www.epi.org/blog/seven-facts-about-tipped-workers-and-the-tipped-minimum-wage/>

⁵¹ <https://www.epi.org/blog/seven-facts-about-tipped-workers-and-the-tipped-minimum-wage/>