

Federal Minimum Wage Should Be Indexed For Local Markets

By **Stephen Bronars** (May 11, 2021, 3:04 PM EDT)

A recent Law360 article explained that President Joe Biden's executive order increasing the minimum wage to \$15 per hour for federal contractors has an expected impact that is "likely to vary significantly by region, potentially making federal work less attractive for some companies in lower-wage areas."^[1]

This executive order substantially increases the contractor minimum wage from \$10.95 to \$15, and will have a widely different impact across cities and states because wage rates for the same occupation vary substantially across areas. In contrast, a wage mandate indexed to local area pay rates would not have a substantially different impact across areas.



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The executive order could have indexed the contractor minimum wage to local area wages to mitigate the potential distortions of the executive order in lower-wage areas. A precedent for indexing compensation rules to local pay rates is the federal government's salary system that adjusts pay for inter-area private sector pay differences in white collar occupations. In addition, prevailing wage rates — effective minimum wages — for the H-1B and H-2B visa programs are indexed to local area pay rates using similar methods and data to what is proposed in this article.

In this article I quantify the impact of the new \$15 minimum wage for three contractor jobs that were identified by the White House in its announcement of the executive order. I show that the impact of a \$15 minimum wage for janitors, cafeteria attendants and nursing assistants varies substantially by metropolitan area.

The \$15 minimum wage for federal contractors will have the most negative impact on businesses employing workers in these jobs in lower-wage labor markets outside of the northeast and pacific regions. I present an alternative indexed minimum wage for federal contractors calculated so that it has an expected impact that does not vary substantially across metro areas.

Federal Government Pays Different Salaries for Same Position Based on Geographic Area

Wages and salaries for workers in the same occupation can vary considerably across local labor markets due to many legitimate factors, including state and local tax rates and minimum wage laws, cost of living differences, and varying supply and demand conditions. For 27 years the federal government has paid different salaries to professional, administrative, technical and clerical workers in the same occupation because they work in areas with different average salaries in the private sector — as measured by Bureau of Labor Statistics pay surveys.

In January 1994, the federal government introduced a locality pay adjustment component to the general schedule salary structure for white collar personnel. The federal government has established 53 different localities so that employees in the same general schedule grade and step can be paid different salaries due to the location of their place of work.

Table 1 presents percentage salary adjustments for the 20 localities with the largest pay adjustments for federal employees.[2] For example, federal salaries for the same general schedule grade and step are about 22% higher in San Francisco-San Jose-Oakland, California, and about 15.6% higher in New York City compared to pay outside the 53 specified localities receiving pay adjustments.

In general, federal employees in the largest metro areas tend to receive higher salaries than employees in the same general schedule grade and step in smaller metro areas. The federal pay system results in regional pay differences among employees performing comparable work in the same general schedule grade and step.

Although not reported in Table 1, among areas with a locality pay adjustment, the areas with the smallest adjustments are Des Moines, Iowa; Birmingham, Alabama; and Omaha, Nebraska.

Locality Area	Pay Adjustment	Population
San Jose-San Francisco-Oakland, CA	21.98%	9,271,608
New York-Newark, NY-NJ-CT-PA	15.55%	23,445,868
Houston-The Woodlands, TX	14.98%	7,296,703
Los Angeles-Long Beach, CA	14.20%	20,522,464
Washington-Baltimore-Arlington, DC-MD-VA-WV-PA	12.53%	10,431,921
San Diego-Carlsbad, CA	11.92%	3,338,330
Alaska	11.83%	731,545
Hartford-West Hartford, CT-MA	11.68%	2,284,247
Boston-Worcester-Providence, MA-RI-NH-ME	11.35%	8,817,705
Chicago-Naperville, IL-IN-WI	10.90%	9,825,325
Detroit-Warren-Ann Arbor, MI	9.81%	5,341,994
Denver-Aurora, CO	9.64%	3,974,826
Seattle-Tacoma, WA	9.55%	5,132,922
Sacramento-Roseville, CA-NV	8.99%	2,743,945
Philadelphia-Reading-Camden, PA-NJ-DE-MD	8.70%	7,209,620
Dallas-Fort Worth, TX-OK	7.79%	8,109,339
Minneapolis-St. Paul, MN-WI	7.51%	4,006,077
Portland-Vancouver-Salem, OR-WA	6.72%	3,259,710
Miami-Fort Lauderdale-Port St. Lucie, FL	6.52%	6,932,104
Atlanta-Athens-Clarke County-Sandy Springs, GA-AL	5.36%	6,741,604

The Impact of the Executive Order on Three Occupations in the Service Sector

The White House announcement of the executive order mentioned that workers employed as janitors, cafeteria attendants and nursing assistants are likely to be affected by the \$15 minimum wage.[3] This is undoubtedly true because the median hourly wage rate, nationally, is below \$15 for each of these occupations. More than half of employees in these occupations earn less than \$15 and the cost of hiring

workers for these jobs will increase if they were to devote sufficient time to federal contractor work.

While the executive order will affect businesses that employ janitors, cafeteria attendants or nursing assistants in all metro areas, the impact will be relatively inconsequential in high-wage areas. For example, San Francisco has the highest median wage for both nursing assistants (\$22.13) and janitors (\$18.57), while Honolulu has the highest median wage for cafeteria attendants (\$19.01).[4]

In these higher-wage metro areas, only about 10% of nursing assistants and 25% of cafeteria attendants and janitors earn less than \$15 per hour, so the executive order will have a relatively minor impact on wage rates. However, there are many low-wage areas where the \$15 minimum wage will have a substantial impact on government contractors.

For example, Jackson, Mississippi, has the lowest median wage for nursing assistants (\$11.46); Baton Rouge, Louisiana, has the lowest median wage for janitors (\$10.19); and McAllen, Texas, has the lowest median wage for cafeteria attendants (\$8.83). In these lower-wage metro areas about 90% of nursing assistants, and more than 90% of cafeteria attendants and janitors, earn less than \$15 per hour.

Table 2 presents the average wage for nursing assistants, janitors and cafeteria attendants in the 20 labor market areas with the highest average pay in these jobs.[5] San Francisco has the highest average wage rate, followed by Seattle, Honolulu, San Jose, and New York City. In these five metro areas the \$15 minimum wage is between 17.3% and 27.1% below the average wage in these three service sector jobs. While the minimum wage in these metro areas will affect the lowest paid workers in these occupations, the executive order will have substantially less impact on businesses in these areas because many employees in these occupations already earn more than the mandated \$15 wage.

Table 2: Highest Service Sector Wage Areas

BLS Labor Market Area	Average Wage Three Service Jobs	Minimum Wage Relative to Average Wage	Indexed Minimum Wage	Local Minimum Wage
San Francisco-Oakland-Hayward, CA	\$20.58	-27.10%	\$21.46	\$15.25
Seattle-Tacoma-Bellevue, WA	\$18.88	-20.56%	\$19.69	\$16.69
Urban Honolulu, HI	\$18.48	-18.85%	\$19.28	\$10.10
San Jose-Sunnyvale-Santa Clara, CA	\$18.40	-18.49%	\$19.19	\$15.45
New York-Newark-Jersey City, NY-NJ-PA	\$18.15	-17.34%	\$18.92	\$15.00
Boston-Cambridge-Nashua, MA-NH	\$17.47	-14.12%	\$18.22	\$13.50
Sacramento--Roseville--Arden-Arcade, CA	\$17.38	-13.71%	\$18.13	\$14.00
San Diego-Carlsbad, CA	\$17.16	-12.59%	\$17.90	\$14.00
Hartford-West Hartford-East Hartford, CT	\$17.09	-12.21%	\$17.82	\$12.00
Los Angeles-Long Beach-Anaheim, CA	\$16.88	-11.14%	\$17.60	\$15.00
Riverside-San Bernardino-Ontario, CA	\$16.65	-9.91%	\$17.36	\$14.00
Oxnard-Thousand Oaks-Ventura, CA	\$16.50	-9.11%	\$17.21	\$14.00
Springfield, MA-CT	\$16.40	-8.56%	\$17.11	\$13.50
Bridgeport-Stamford-Norwalk, CT	\$16.39	-8.46%	\$17.09	\$12.00
New Haven, CT	\$16.28	-7.84%	\$16.97	\$12.00
Portland-Vancouver-Hillsboro, OR-WA	\$16.10	-6.83%	\$16.79	\$13.25
Worcester, MA-CT	\$16.09	-6.79%	\$16.78	\$13.50
Minneapolis-St. Paul-Bloomington, MN-WI	\$15.95	-5.96%	\$16.63	\$13.25
Bakersfield, CA	\$15.75	-4.74%	\$16.42	\$14.00
Washington-Arlington-Alexandria, DC-VA-MD-WV	\$15.65	-4.13%	\$16.32	\$15.00

The fourth column in Table 2 presents an indexed minimum wage designed to have about the same impact across high-wage and low-wage areas. Because \$15 is 4.3% above the national average wage in these three service sector jobs, this indexed minimum wage is 4.3% above the average wage in each labor market area for these jobs. Consequently, the indexed minimum wage should have roughly the same impact on contractors in all metro areas.

Using this method, indexed minimum wages are \$21.26 in San Francisco, \$19.69 in Seattle and \$18.92 in New York. The final column in Table 2 presents the local minimum wage for businesses other than federal contractors. The current \$10.95 contractor minimum wage is below the local minimum wage in all areas except Honolulu. Over half of these areas have a minimum wage of at least \$14 so the \$15 wage mandate raises the effective minimum by no more than 7%.

Table 3 presents the average wage for nursing assistants, janitors and cafeteria attendants in the 20 areas with the lowest average pay in these jobs. Baton Rouge, Louisiana, has the lowest average wage rate, followed by McAllen, Texas; El Paso, Texas; Jackson, Mississippi; and New Orleans, Louisiana.

Average wages in these jobs are 90% higher, on average, in San Francisco than they are in Baton Rouge. In these five metro areas the \$15 minimum wage is between 32.7% and 38.5% above the average wage paid to workers in these three service sector jobs.

The executive order will have an enormous potential impact on businesses in these lower-wage metro areas that employ workers in these occupations and choose to bid for work on federal contracts. Mandated wage increases of this magnitude are likely to be a substantial deterrent to businesses bidding for federal contract work in lower-wage areas.

BLS Labor Market Area	Average Wage Three Service Jobs	Minimum Wage Relative to Average Wage	Indexed Minimum Wage	Local Minimum Wage
Baton Rouge, LA	\$10.83	38.46%	\$11.30	\$7.25
McAllen-Edinburg-Mission, TX	\$10.98	36.61%	\$11.45	\$7.25
El Paso, TX	\$11.12	34.85%	\$11.60	\$7.25
Jackson, MS	\$11.26	33.21%	\$11.74	\$7.25
New Orleans-Metairie, LA	\$11.31	32.67%	\$11.79	\$7.25
Birmingham-Hoover, AL	\$11.48	30.70%	\$11.97	\$7.25
Tulsa, OK	\$11.73	27.91%	\$12.23	\$7.25
Oklahoma City, OK	\$11.76	27.55%	\$12.26	\$7.25
Greenville-Anderson-Mauldin, SC	\$11.81	27.05%	\$12.31	\$7.25
Greensboro-High Point, NC	\$11.84	26.69%	\$12.35	\$7.25
Winston-Salem, NC	\$11.99	25.14%	\$12.50	\$7.25
Knoxville, TN	\$12.00	25.00%	\$12.51	\$7.25
Columbia, SC	\$12.19	23.09%	\$12.71	\$7.25
Richmond, VA	\$12.19	23.09%	\$12.71	\$9.50
Jacksonville, FL	\$12.28	22.18%	\$12.80	\$8.65
Charlotte-Concord-Gastonia, NC-SC	\$12.28	22.12%	\$12.81	\$7.25
Little Rock-North Little Rock-Conway, AR	\$12.29	22.05%	\$12.82	\$11.00
Virginia Beach-Norfolk-Newport News, VA-NC	\$12.29	22.02%	\$12.82	\$9.50
Ogden-Clearfield, UT	\$12.32	21.79%	\$12.84	\$7.25
San Antonio-New Braunfels, TX	\$12.32	21.75%	\$12.85	\$7.25

The fourth column in Table 3 presents the alternative indexed minimum wage that is designed to have a similar impact across low-wage and high-wage areas. As before, the indexed minimum wage is set at 4.3% above the average wage for these service sector jobs in each metro area. Using this method, the indexed minimum wage is \$11.30 in Baton Rouge, \$11.60 in El Paso and \$11.79 in New Orleans.

Because of the vastly different average wage rates across metro areas, a \$15 national wage — on average — for federal contractors is equivalent to a \$21.46 minimum wage in San Francisco and an \$11 to \$13 minimum wage in many metro areas in Southern states.

The final column in Table 3 presents the current local minimum wage, for businesses other than federal contractors, in each area. More than half of the areas have a minimum wage of \$7.25. In addition, the indexed minimum wage for federal contractors slightly increases above the current \$10.95 wage mandate for contractors.

Summary

The Biden administration announced an executive order increasing the minimum wage for federal contractors from \$10.95 to \$15 per hour. The executive order imposes a one-size-fits-all wage mandate even though the federal government pays different salaries to federal employees in the same general schedule grade and step because some work in a high-pay locality and others work in a low-pay locality.

The \$15 wage mandate for federal contractors will have little impact in high-wage areas and impose the greatest burden on businesses employing janitors, nursing assistants and cafeteria attendants in lower-wage areas. This article demonstrates that average wage rates for service sector jobs are widely different across metro areas; the average wage in San Francisco is 90% higher than in Baton Rouge.

By imposing the same minimum wage for federal contractors in all metro areas, the executive order could grossly distort the wages of service sector workers in lower-wage areas. As a result, it is unlikely that businesses in lower-wage areas will choose to bid for federal contract work if it involves the employment of service sector workers.

It may not make business sense to compete for a federal contract if it is accompanied by a mandated wage increase of more than 30% for service sector jobs. A possible solution to this problem is to instead implement an indexed minimum wage that is based on the average wages in each local labor market.

In most areas an indexed minimum wage could modestly increase the mandated minimum wage for contractors relative to either the local minimum wage or the current \$10.95 minimum wage for contractors.

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[1] Wilson, Daniel, Low-Wage States to Feel Pinch of Contractor Wage Increase, Law360, April 29, 2021.

[2] <https://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/salary-tables/pdf/2021/saltbl.pdf>.

[3] <https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/27/fact-sheet-biden-harris-administration-issues-an-executive-order-to-raise-the-minimum-wage-to-15-for-federal-contractors/>.

[4] The analyses presented in this article are limited to "larger" labor market areas which I define to be areas with total employment of at least 250,000 workers in 2020, according to the Bureau of Labor Statistics.

[5] The average wage calculations in Tables 2 and 3 give equal weight to each occupation and are based on the Occupational Employment Statistics survey (<https://www.bls.gov/oes/current/oesrcma.htm>). Local minimum wages are from <https://www.minimum-wage.org/>.