

Minimum Wage and Socioeconomic Disparity

By Daniel Walters (University of South Carolina)

November, 2021



Executive Summary:

South Carolina has fallen behind the nation not only in education, but with racial disparity, child hunger, and extreme poverty. In order to combat these issues we must focus on the root of the problem, money. According to the National Conference of State Legislature, South Carolina is only one of five states that have not set a state minimum wage (Draeger, 2021). Additionally, as of 2019, all five of these states: Alabama, Louisiana, Mississippi, South Carolina and Tennessee, have poverty rates higher than the national average. A high poverty rate leads to a large population who requires governmental assistance and aid. Additionally, a high poverty rate often leads to a higher rate of crime. By raising the minimum wage we would lower: the poverty rate, the crime rate, the number of citizens on government assistance programs, child hunger, as well as address poverty on a socioeconomic level helping lower racial disparity within South Carolina. This could be accomplished by raising the state minimum wage above the state's poverty line. This would be executed in waves over the course of 3 years, until reaching the state's poverty line for a family of three¹ which is currently \$21,960 (South Carolina Average Household Size, 2021). This means that the State minimum wage would be raised to \$11². Counter policies include: no action, as well as a \$15 minimum wage, both of which present benefits to South Carolina.

¹ The average household size in South Carolina is 2.54 (South Carolina Average Household Size, 2021)

² This accounts for 2 weeks of leave per year: 40 hours a week for 50 weeks a year at \$11 equals \$22,000 gross income.

Defining Minimum Wage

The federal minimum wage was created by Congress under the Fair Labor Standards Act in 1938. According to Cornell Law, “the federal minimum wage was designed to set a minimum standard of living, which would protect the health and welfare of American citizens”. It is important to understand the federal minimum wage when addressing South Carolina’s minimum wage since South Carolina does not have a state minimum; this means that the federal minimum wage sets the precedent for South Carolina. Using this definition of minimum wage, a set standard of living, which would protect the health and welfare of American citizens, it could easily be interpreted that said minimum wage must be above the poverty line.

To establish a poverty line for South Carolina; we must first understand the demographics of a household in the state. According to The Post and Courier, 41% of children are being raised in a single parent household, this is significantly higher than the national average of 35%; it should be noted that single parent households are more likely to fall below the poverty line (Sausser, 2021). As of 2018, the average household size in South Carolina was recorded as 2.54 (South Carolina Average Household Size, 2021). Now we can define the target population for this policy as a single parent with two dependents. According to South Carolina Legal Services, the poverty line for a family of 3 was set at \$21,960. This means that the minimum wage, to be utilized as originally intended, must meet that standard of nearly \$22,000; i.e. the minimum wage must be \$11 per hour.

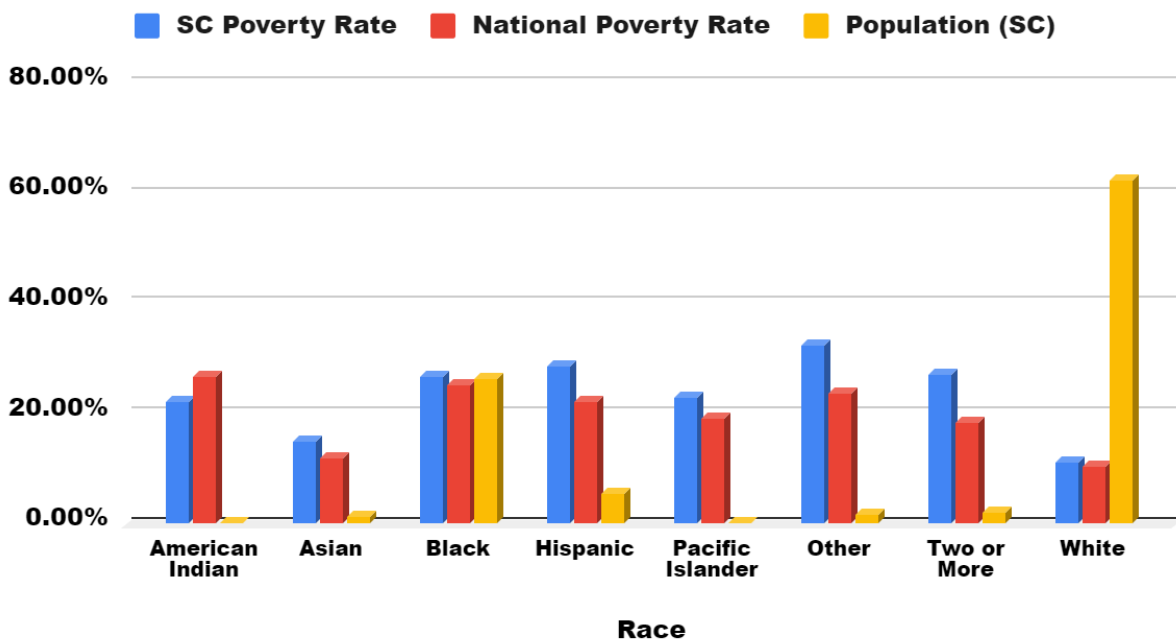
South Carolinian Households:

- 41% of Children are raised in Single Parent Households
- Average Household Size in South Carolina is 2.54
- \$21,960 yearly income is needed to be above poverty line

Poverty In South Carolina

South Carolina’s minimum wage is directly correlated with the state’s high poverty rate. This high rate of poverty is especially noticeable in specific minority groups. In South Carolina, every race, except American Indians who account for 0.3% of the population, experience higher poverty rates than the national average. Black, Hispanic, Mixed, and ‘Other’ Americans all have poverty rates above 25% in South Carolina (Poverty in South Carolina). Additionally, South Carolina has one of the highest poverty rates, in the United States, for children under the age of 6, currently standing at 27.4% (Poverty in South Carolina).

South Carolina Poverty By Race



Impacts of Poverty

Poverty is one of South Carolina’s most urgent issues. Historically high poverty rates among minorities has caused disparities, not only economically and socially but mentally as well. According to the American Psychology Association (2010), poverty not only impacts a

family financially but also directly impacts an individual's "educational attainment, occupational prestige, subjective perceptions of social status and social class". The psychological impacts of poverty perpetuate: the state's low rates of educational success, as well as high crime rate.

Specifically focusing on violent crime, South Carolina ranked 44th in the nation. With 511 acts of violent crime³ in 2020, South Carolina was well over the national average of 379 per 100,000 population (Explore Violent Crime in South Carolina, 2020).

Another major concern of high poverty is government spending. According to the Southern Legislative Conference (Moore, 2018), higher poverty rates have a direct correlation with "increased spending on healthcare and social safety nets, and adversely affect economic growth for decades". Increasing the minimum wage would mean a portion of individuals currently receiving assistance would no longer require said assistance; this would directly lower government spending as well as aid economic growth.

Policy Solutions

Option 1- No Minimum Wage

Historically, South Carolina has relied on the federal government to set the minimum wage. By doing so South Carolina has been able to avoid high rates of unemployment compensation caused by increases in minimum wage. According to the Congressional Budget Office (2021), spending on social programs such as unemployment, Medicaid, Medicare, as well as general congressional and state spending would increase; this is due to the inflation that would occur upon implementation of a minimum wage increase. If we increase the minimum wage inflation will occur. Additionally, companies and small businesses may not be able to meet the new minimum wage mandated by the state; thus causing higher unemployment rates and harming South Carolina's economy. The economic impact of this policy solution is low. By

³ Number of rapes, murders, assaults, and robberies per 100,000 capita.

allowing for no change we simply maintain the status quo until the federal government raises the minimum wage. There would be limited change socially, and do little to address socioeconomic barriers faced within the state.

Option 2- \$11 Minimum Wage

By relying on a federal minimum wage we have committed a disservice to our fellow South Carolinians. The federal minimum wage does not reflect the demographics in South Carolina nor does it account for the historic racial disparities. By raising the minimum wage to match our state our citizens, specifically those less advantaged, will experience an influx in expendable income. This will directly impact our economy, as an influx of spending tends to lead to economic growth. Additionally, government spending on certain programs, such as nutritional programs, would decrease as more South Carolinians obtain a higher standard of living. In order to combat high unemployment due to a rapid increase of minimum wage; the minimum wage will be increased in increments over 3 years. The graph below compares the most recent federal minimum wage increase, while accounting for inflation⁴, with the proposed plan:

\$8.50 by Jan 1 2022, \$9.50 by Jan 1 2023, \$11.00 by Jan 1 2024

It should be noted that similar legislation, proposed by Senator Joe Manchin, is currently more popular than the \$15 option, the bill currently has massive bipartisan support with 86% of Democrats and 56% of Republicans supporting the proposed bill (Lemon, 2021).

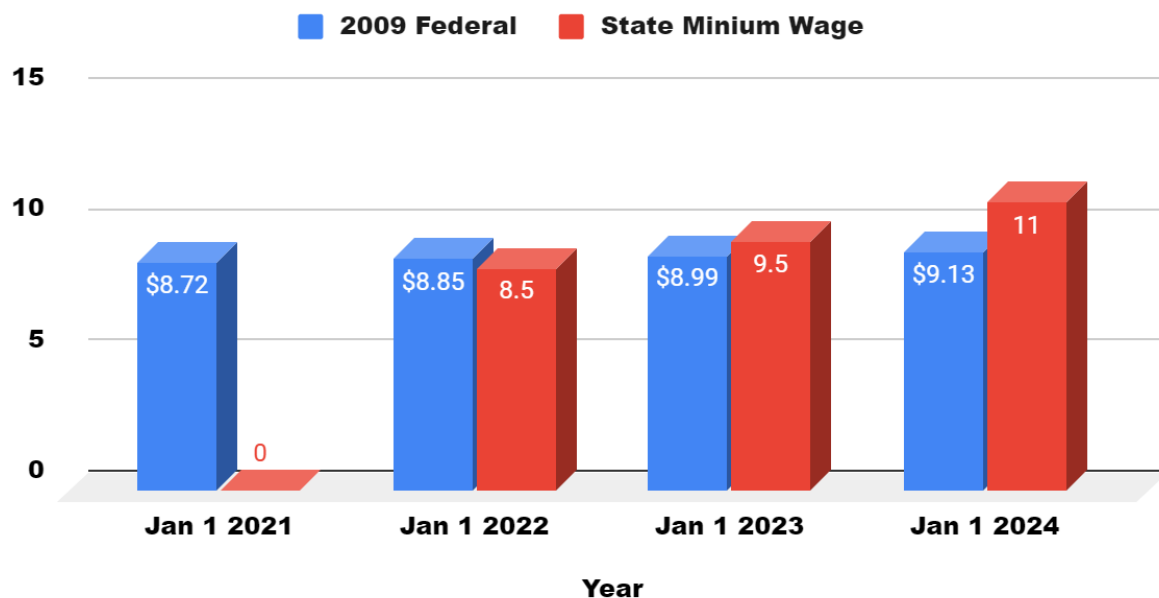
Additionally, in order to be proactive, South Carolina's minimum wage will go under an evaluation period every census, next evaluation period being 2030, to determine if the current minimum wage provides “a minimum standard of living, which would protect the health and welfare of American citizens” (Cornell Law). The economic impact of this bill would be noticeable; spending on nutritional programs would decrease. And according to the

⁴ The average rate of inflation between 2009-2021 is 1.55%

Congressional Budget office (2021), overall enrollment in programs such as Medicaid would decline as minimum wage increases.

One major concern many South Carolinians may have with this proposed plan is that the influx in labor cost may drive out companies such as BMW, Volvo and Boeing, who employ a large portion of skilled workers. This concern is unfounded. A majority of law makers in both parties support an \$11 federal minimum wage. This means that moving the company out of South Carolina may be extremely risky as every state in the United States may have the same minimum wage in a few years; i.e. it would be financially irresponsible and is overall extremely unlikely.

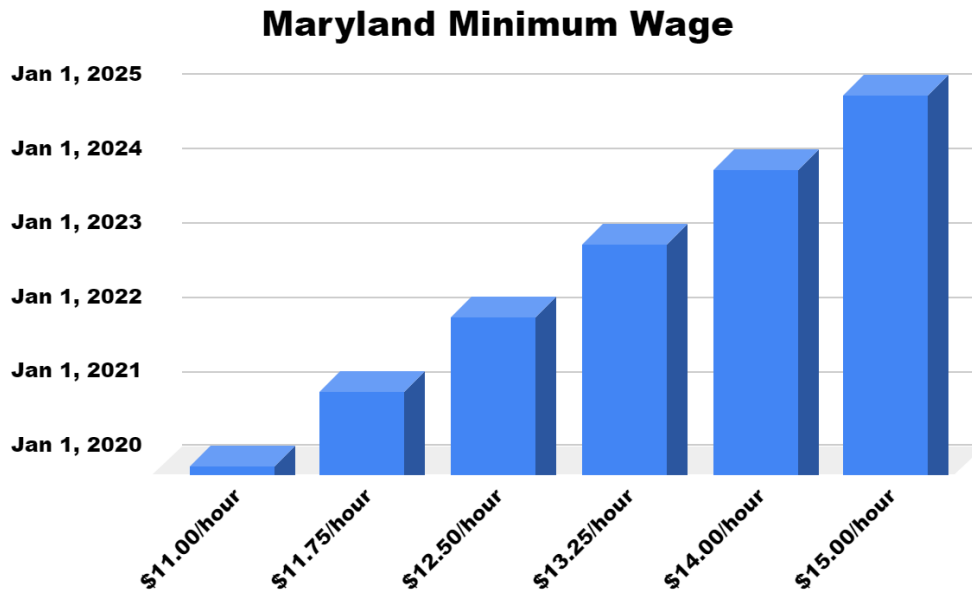
Minimum Wage Compared to Federal Minimum Wage (Adjusted for Inflation)



Option 3- \$15 Minimum Wage

Fight for \$15 has been an influential group in recent years, contributing to minimum wage increases in multiple states. This said it may be worthwhile to consider that an \$11 minimum wage may not be enough to tackle all of the issues. We can consider states such as

Maryland who have passed plans to increase their state's minimum wage to \$15. According to the People's Law Library of Maryland (2021), the States minimum wage will be increased to \$15 by Jan 1st 2025; this applies to businesses with more than 15 employees. The wage will increase \$0.75 annually until the final wage increase of \$1 in 2025, see chart below.



An argument against this wage increase is that it would harm small businesses. However, Maryland accounts for this by adding exemption policies; “establishments that have annual gross incomes of \$400,000 or less” are exempt to the state’s minimum wage (Wage Laws, 2021). Unfortunately, there are a few issues with this bill. Firstly, the number of exemptions to the state's minimum wage are high with over 12 demographics or occupations, ranging from outside-salespersons to food packing employees, who are excluded from the wage increase. Additionally, the state’s new minimum wage will supersede the state’s previous “Living Wage Law” which currently is set at \$10.93 in a majority of Maryland; this has caused confusion in the state regarding who is entitled to what compensation (Department of Legislative Services, 2008). There are, however, multiple takeaways from this bill. The steady and incremental increases in

minimum wage lessened the negative effect on local economies, adolescent workers may not require a livable wage, as well as the importance of keeping laws simple to understand and implement.

The economic impacts of this bill, if implemented in South Carolina, would be very noticeable. According to the U.S. Bureau of Labor Statistics (2021), “the highest percentages of hourly paid workers earning at or below the federal minimum wage were in South Carolina”. This means that South Carolinian workers would see the greatest influx of income when compared to any other state. This also means South Carolina would see the greatest rates of inflation and joblessness when compared to any other state enacting similar legislation.

Preferred Course of Action

Once more, a lack of action would be a disservice to our fellow South Carolinians, as we have a responsibility to address racial disparities whenever given the chance. Additionally, an irresponsible \$15 hike would cause massive inflation and joblessness, costing the state more in the future than no action at all. While obtaining the highest support across party lines and accounting for future minimum wage increases, the \$11 minimum wage is the best option for South Carolina. By increasing the minimum wage over a 3 year time span, South Carolina allows for small businesses to adapt to the change in labor cost. Additionally, by not allowing for an excessive amount of exemptions, the bill remains simple and easy to enforce. Granted, it is beneficial for certain jobs, such as unskilled labor, to allow adolescent workers to work for a reduced wage. By doing so South Carolina will lessen the number of adolescents who are out of school and unemployed, as employers would be incentivized to higher the more affordable work force for jobs such as: baggers, gas station attendants, food services, etc. An acceptable reduced wage would be set at 90% of the state’s minimum wage for these workers. Finally, by raising the

minimum wage, we can directly address the disparities faced by minorities in South Carolina. As wages increase: poverty, the number of citizens on government assistance, as well as crime, all decrease; leading to a decrease in socioeconomic disparities. This policy allows South Carolina to take one more step towards equality.

Bibliography

- “The Budgetary Effects of the Raise the Wage Act of 2021.” *Congressional Budget Office*, Congressional Budget Office, Feb. 2021, <https://www.cbo.gov/system/files/2021-02/56975-Minimum-Wage.pdf>.
- “Characteristics of Minimum Wage Workers, 2020.” *U.S. Bureau of Labor Statistics*, U.S. Bureau of Labor Statistics, 1 Feb. 2021, <https://www.bls.gov/opub/reports/minimum-wage/2020/home.htm>.
- “Children, Youth, Families and Socioeconomic Status.” *American Psychological Association*, American Psychological Association, 2010, <https://www.apa.org/pi/ses/resources/publications/children-families>.
- Department of Legislative Services 2008. “Impact of the Maryland Living Wage.” *Maryland State Archives*, Department of Legislative Services, Dec. 2008, <https://msa.maryland.gov/megafile/msa/speccol/sc5300/sc5339/000113/011000/011487/unrestricted/20090376e.pdf>.
- Draeger, Saige. *State Minimum Wages*, National Conference of State Legislatures, 4 Apr. 2021, <https://www.ncsl.org/research/labor-and-employment/state-minimum-wage-chart.aspx>.
- “Explore Violent Crime in South Carolina | 2020 Annual Report | Ahr.” *America's Health Rankings*, <https://www.americashealthrankings.org/explore/annual/measure/Crime/state/SC>.
- “Income Guidelines.” *South Carolina Legal Services*, South Carolina Legal Services, <https://sclegal.org/income-guidelines/>.
- Lemon, Jason. “Joe Manchin's \$11 Minimum Wage More Popular than Biden's \$15-among Democrats and Republicans.” *Newsweek*, Newsweek, 3 Mar. 2021, <https://www.newsweek.com/joe-manchins-11-minimum-wage-more-popular-bidens-15among-democrats-republicans-1573489>.
- “Minimum Wage.” *Cornell Law*, Legal Information Institute, http://www.law.cornell.edu/wex/minimum_wage.
- Moore, Roger. “SLC Research - Poverty Statistics for Southern States.” *Southern Legislative Conference*, Southern Legislative Conference, Sept. 2018, <https://www.slcatlanta.org/research/index.php?pub=580>.
- “Poverty in South Carolina.” *South Carolina Poverty Rate*, Welfare Info, <https://www.welfareinfo.org/poverty-rate/south-carolina/>.
- Sausser, Lauren Sausser. “SC Children More Likely Raised by Single Parents than in Nearly Any Other State.” *The Post and Courier*, The Post and Courier, 13 May 2021, <https://www.postandcourier.com/health/covid19/sc-children-more-likely-raised-by-single>

-parents-than-in-nearly-any-other-state/article_bdc503a8-cb78-11ea-ba8b-ff2f42d3fccc.html.

“South Carolina Average Household Size by County.” *South Carolina Average Household Size by County*, Index Mundi, 2021, <https://www.indexmundi.com/facts/united-states/quick-facts/south-carolina/average-household-size#map>.

“Wage Laws.” *The Peoples Law Library of Maryland*, The Peoples Law Library of Maryland, 10 Oct. 2021, <https://www.peoples-law.org/wage-laws>.