



Living Wage vs. Minimum Wage

- **Minimum Wage:**
 - The lowest amount that an employer can pay by law.
 - The MW is set first at the federal level, then it may be set at the state, and even municipal level.
 - Example:
 - The federal minimum wage is \$7.25, but the State of California has set their MW to reach \$15 by 1/1/23. A city or variation of a municipality also has the option to set their own MW
 - The MW is used to ensure that all people are able to achieve at least a certain standard of living
 - The MW is usually set to reflect the cost of living of a given area
 - The Federal Government periodically assesses the MW to make sure it keeps up with the rate of inflation
 - The MW is similar to setting a price floor
 - It has no effect if a worker's marginal productivity is worth more than the MW
 - The need for low-skilled labor is highly elastic.
 - When the MW is raised even a little it could cause there to be far fewer jobs offered

- **Living Wage:**
 - The LW is the amount of income needed to provide a decent standard of living
 - This is not the general case for the federal MW which applies to all US States and converts a wide variety of economic situations
 - A mortgage or rent payment in Southern California may cost \$2,000 while in Texas a comparable living situation may cost \$900
 - A LW is used to ensure that a full-time worker is able to live above the federal poverty level
 - As of 2018, the Department of Health and Human Services set the federal poverty level at \$11.83 an hour for a full-time worker
 - This means that both parents would have to have at least a minimum wage paying job to support their family

- **The main difference between the minimum wage and the living wage is that the MW is set by the government while the LW is determined by the costs of living**

ALCHANATI CAMPBELL & ASSOCIATES LLC